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Chad: 2003 Article IV Consultation; and Ex Post Assessment of Performance Under ESAF/PRGF Programs—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Chad

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Chad; and ex post assessment under ESAF/PRGF programs, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation; and ex post assessment of performance under ESAF/PRGF programs, prepared by a staff team of the IMF, following discussions that ended on **December 23, 2003,** with the officials of Chad on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on February 19, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of March 19, 2004 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its March 19, 2004 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Chad.

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

Statistical Appendix

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CHAD

Staff Report for the 2003 Article IV Consultation; and Ex Post Assessment of Performance Under ESAF/PRGF Programs

Prepared by the Staff Representatives for the 2003 Consultation with Chad

Approved by Amor Tahari and Michael Hadjimichael

February 19, 2004

- Discussions for the 2003 Article IV consultation and the sixth and final review under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement were held in N'Djaména during October 29–November 11, 2003 and continued through the Resident Representative in N'Djamena on November 17 and 21 and on December 8 and 23, 2003. The authorities included the Minister of Economy and Finance, the Minister-Delegate for the Budget, the Minister of Petroleum, the Minister of State for Agriculture, the National Director of the Bank of Central African States (Banque des Etats d'Afrique Centrale, BEAC), and other senior officials. At the end of the mission, there were discussions with the High Interministerial Committee, which was chaired by the Prime Minister. The team also had meetings with representatives of the private sector, the labor unions, civil society, and the donor community.

- The mission consisted of Mr. Georgiou (head), Ms. Allain (Resident Representative), Mr. Anne, Mr. Ellyne, Ms. Strauss, Mr. Tsangarides, and Ms. John (Assistant) (all AFR) and was assisted by Mr. Yambaye, Economic Assistant at the Resident Representative's office. The staff worked closely with a parallel World Bank mission.

- The discussions covered recent economic developments, the outlook for the remainder of 2003, the need for remedial measures in various areas, and the draft budget for 2004. The staff also reviewed performance under Fund-supported programs since 1995 and updated the medium- and long-term macroeconomic framework. Given Chad's performance under the PRGF arrangement in the first part of 2003, and as there was not enough time for measures to be taken to present a sufficiently strong case for completing the sixth review, the latter could not be completed in the short time remaining before the PRGF arrangement expired on January 6, 2004.

- Chad's PRGF arrangement was approved on January 7, 2000 and, after two augmentations, amounted to SDR 47.6 million (85 percent of quota). After two extensions, the arrangement expired on January 6, 2004.

- Summaries of Chad's relations with the Fund and the World Bank are presented in Appendices I and II; an ex post assessment of Chad's long-term use of Fund resources is presented in Appendix III; statistical issues are discussed in Appendix IV; an assessment of debt sustainability is in Appendix V; and the implementation status of the HIPC completion point triggers is provided in Appendix VI. Appendix VII provides information on steps needed to improve public expenditure management and the financial system and on the status of the banking system and microfinance.

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EXECUTIVE SUMMARY

- Economic growth is estimated to have been around 10 percent annually in 2002 and 2003 reflecting the oil pipeline construction. After a higher-than-targeted inflation rate in 2002, a significant appreciation contributed to deflation in 2002. Higher imports led to a larger-than-anticipated external current account deficit in 2003. Following high growth rates in 2001 and 2002, broad money growth dropped dramatically in 2003. As in 2002, in the first nine months of 2003, the fiscal deficit target was achieved, but the composition of expenditure did not improve as hoped, and external arrears reemerged, including to the Fund. Moreover, savings from HIPC Initiative relief stopped being fully transferred to the HIPC account.

- In 2004, real GDP growth is anticipated to reach 37.9 percent and the inflation rate to be around 3 percent. The current account deficit is expected to narrow sharply. According to the staff's updated medium- and long-term macroeconomic framework, the growth rates of both oil and non-oil GDP will be somewhat lower than expected in the PRSP. The balance of payments and fiscal projections imply that there will be on average an annual need for foreign budgetary support of CFAF 40 billion in the period 2004–06.

- On the structural front, performance was uneven. Progress was made during 2003 on the remaining modalities for the use of Doba oil resources, but the work was not completed by the time the first oil receipts became available to Chad. The Council of Ministers has not yet adopted the principles of the use of revenues from potential new oil fields in the spirit of the legislation now applicable to the Doba fields. In other areas of governance, weaknesses have persisted. The reforms of the cotton sector and the civil service have experienced delays.

- Performance under the PRGF-supported program during 2003 remained weak. Chad did not meet four quantitative performance criteria and the structural performance criterion for the sixth review. The three structural benchmarks were also not met on time. In view of this overall weak performance, and given that there was not enough time for measures to be taken to present a sufficiently strong case for completing the review, the latter could not be completed in the short time remaining before the PRGF arrangement expired on January 6, 2004.

- The authorities' 2004 budget proposal to parliament envisages a strong increase in non-oil fiscal revenue and large increases in nonpriority and priority expenditures, the latter of which are financed by earmarked oil revenues. The authorities' budget would save less of the earmarked oil revenue under the stabilization mechanism than advised by the staff. The additionality constraint regarding priority sector spending, as specified in the modalities of use of oil revenue, would also not be met.

- The government has committed itself to implementing measures in the period ahead to improve revenue mobilization, expenditure management, governance, and domestic energy policy, and to advance cotton sector and civil service reforms.

- An ex post assessment by the staff of Chad's Fund-supported programs since 1995 concludes that, while some progress has been made on macroeconomic stabilization and some structural reforms, weaknesses still remain in the areas of public administration, governance, public expenditure management, fiscal revenue mobilization, reform of the cotton, energy, and financial sectors, and statistics.

- The authorities have expressed their wish for a successor PRGF arrangement. Assuming that sufficiently strong policies are implemented, the staff supports this desire and is of the view that further programs prepared with the assistance of Fund staff are likely to be needed.

- The staff appraisal stresses the following points: (i) the need to finish putting in place the modalities for the use of oil revenues; (ii) the need to implement corrective measures in the governance and structural areas to compensate for the weak performance in 2003 under the PRGF-supported program; (iii) the importance of pursuing appropriate fiscal policies; and (iv) the need for Chad to remain current in its external obligations.

I. Introduction

1. The last Article IV consultation with Chad was concluded on January 16, 2002 (IMF Country Report No. 02/29). On that occasion, Executive Directors welcomed the authorities' improved transparency and governance record, as well as their commitment to prudent fiscal policies. However, they urged them to improve revenue performance, expenditure management, and the statistical database, as well as make further progress in governance. In the Board discussion of July 23, 2003, when the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement was concluded, Directors repeated their views on the above areas of weaknesses. In addition, they expressed concern about the timely fulfillment of completion point conditions for the Heavily Indebted Poor Countries (HIPC) Initiative. However, Directors also strongly commended the authorities on the adoption of important legislation on the modalities of use of oil revenue.

2. Chad was in arrears to the Fund with respect to PRGF payment obligations at end-2003 and early 2004. On February 17, 2004, the government paid SDR 597,892 and cleared all arrears to the Fund. In compliance with the Board decision of June 21, 2003, Chad repaid the Fund in two tranches the noncomplying disbursement of SDR 5.4 million arising from the misreporting in 2002.

3. The current government was formed in June 2002, and has been headed since June 2003 by a Northener as a prime minister, thus putting an end to the sharing of power between the Moslem north and Christian south that had existed since President Deby's ascent to power in 1990. The security situation was affected by problems in the border regions, first in the south in the months leading up to the coup in the Central African Republic, and then in the east, with the unfolding of the rebellion in the Sudanese region of Darfour. The latter developments could have important repercussions, notably humanitarian, as it is estimated that over 100,000 Sudanese refugees have crossed the border into Chad.

II. Recent Developments

4. **Economic developments in 2002 and 2003 to a large extent reflected the acceleration and completion of the oil pipeline construction**. After reaching 9.9 percent in 2002, economic growth is estimated to have remained at about 10 percent in 2003, somewhat lower than anticipated, owing to the effects on non-oil sectors of the winding up of the oil pipeline construction (Table 1). Oil exports began in October 2003, and the first fiscal oil receipts arrived on November 24, 2003. A higher-than-anticipated annual average inflation rate of 5.2 percent in 2002 was followed by deflation in 2003. A significant nominal appreciation of the CFA franc (euro) and, recently, a good harvest have contributed to the faster-than-projected decline in the inflation rate in 2003. After growing by more than 20 percent in both 2001 and 2002, fueled by unsterilized capital inflows related to the oil pipeline construction, broad money growth dropped dramatically in 2003 despite a strong increase in credit to the economy (Table 6). The real effective exchange rate (REER) appreciated by 7.1 percent in the 12 months to November 2003, thus reaching 97 percent of

its level before the 1994 CFA franc devaluation (Figure 1 and Box 2, which provides a discussion of competitiveness).

5. **As in 2002, the fiscal deficit target was achieved in the first nine months of 2003, but external arrears also reemerged.** As in 2002, the primary base deficit target[1] was met, thanks to a low rate of implementation of expenditure and somewhat higher-than-programmed revenues (Table 2). Following the elimination of arrears that had been incurred at end-2002 and early 2003, external arrears reemerged in September 2003 and continued to be incurred (including toward the Fund) through December 31, 2003, when they amounted to CFAF 1 billion (0.06 percent of GDP). In addition, the savings realized from HIPC Initiative debt relief and earmarked for priority sector spending were not fully transferred to the HIPC account in recent months. The account was short by CFAF 4.5 billion as of December 31, 2003. These arrears and shortfalls in transfers have been incurred at a time of higher-than-programmed repayment of domestic arrears, strong implementation of nonpriority sector spending, and shortfalls in privatization receipts and external financing.

6. **While total fiscal revenue increased in 2002 and in the first nine months of 2003, its composition remained a problem.** The somewhat stronger than programmed revenue performance continued to be attributable to buoyant returns of profit taxes from companies that had benefited from activity related to the Doba project. This outcome more than offset weak collections of all other tax and nontax revenues, which were mostly due to delays in the implementation of revenue measures.[2] Regarding measures slated for 2003, the implementation of the customs action plan started with a delay, and the action plan for the taxation of the livestock sector was not finalized. Moreover, the value-added tax credit due for reimbursement accumulated again in 2003. However, the short-term action plan for strengthening the collection of income and indirect taxes began to be implemented, and progress was made toward promulgating the tax procedure handbook.

7. **Overall spending rose by 26.2 percent in 2002 and 1.6 percent in the first nine months of 2003, lower than programmed. However, the composition of fiscal expenditure did not improve, as hoped, in favor of priority sector spending.** While nonpriority expenditures continued to exceed their targets, mainly in defense, priority outlays

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[1] It is the overall fiscal deficit, excluding foreign-financed investment and debt service.

[2] The mission discovered that, up to 2003, a part of the excise tax was directly transferred to the CNRT (Centre National des Retraites du Tchad), the civil service retirement fund, and was not recorded as tax receipts in the fiscal accounts. To enhance transparency, the mission recommended that all fiscal receipts and expenditures be recorded in gross terms.

were lower than programmed in 2002 and the first nine months of 2003.[3] The effect on the antipoverty effort of the low rate of implementation of priority sector spending has been compounded by the unsatisfactory improvement in the quality of service delivery. The persistence of problems in the composition of spending in 2003 are attributable to not only weaknesses in capacity, but also a lack of focus by the authorities on putting in place the measures envisaged under the PRGF-supported program to improve execution of priority sector spending.[4]

8. **At the time of the November 2003 mission, the fiscal outlook for 2003 was revised in light of shortfalls in foreign financing and privatization receipts.** There was also a need for additional spending to address the electricity problems in N'Djamena. In response to the shortfall in resources, the authorities intended to cut budgeted nonpriority expenditures, postpone some priority sector expenditures,[5] carry out a smaller than originally envisaged net reduction in domestic arrears, and not accumulate the envisaged amounts of government deposits. A gap, however, remained to be filled. The overall deficit for 2003 was expected to reach 12.3 percent of GNP, but the actual outcome is not yet available.

9. **While preparations have been made toward putting in place the modalities for the use of oil resources, there have been delays.** The first oil resources became available to Chad on November 24, 2003 and have been kept in an offshore escrow account. Three decrees specifying the modalities for the use of oil resources were promulgated on July 1, 2003,[6] but two decrees—on the Fund for Future Generations (FFG) and on the use of

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[3] In 2003, there were also some extrabudgetary expenditures (CFAF 1.9 billion) in connection with subsidized on-lending to parliamentarians to purchase vehicles. Neither the expenditure nor the accounts associated with it had been part of the fiscal program.

[4] Regarding measures envisaged to be taken in 2003, the table monitoring the four stages of budget execution and the updates of the cash-flow plan were prepared with a delay of several months, instead of a delay of three weeks as envisaged under the program. The production of these tables also did not become biweekly, as targeted under the program. The monthly reports on public investment execution and their incorporation in the four-stage table did not materialize. The envisaged rolling three-month expenditure and commitment plans in the priority sectors have been prepared only once (instead of monthly) since July 2003.

[5] The postponed priority expenditures would be realized in the event that resources (excluding oil revenues) additional to those already envisaged accrue to the budget over the medium term.

[6] The July 2003 decrees were on the stabilization and sterilization mechanisms, the additionality of spending in the priority sectors financed by oil revenue, and the functioning of

(continued…)

oil revenue by the oil-producing region—remain to be signed by the President. Moreover, the arrangements required by these five decrees are still being put in place.[7] A medium-term expenditure framework (MTEF) for 2004–06 and program budgets in priority sectors were prepared, and the World Bank staff found that some of them were satisfactory while others were in need of improvement. While the corresponding benchmark was not met at end-October 2003, the MTEF was finalized in time to inform the draft 2004 budget law. The CCSRP—the joint government/civil society body monitoring the use of oil revenues—was further strengthened with resources and training in 2003 and participated in the preparation of the 2004 budget, as envisaged in the adopted modalities of use of oil revenues. The Council of Ministers did not adopt the principles of the use of revenues from the possible exploitation of new oil fields in the spirit of the Law on Petroleum Revenue Management (benchmark for end-September 2003).[8]

10. **In other areas of governance, there has been mixed performance.** Some gains were made in transparency in 2002 and 2003. However, recently the yearly report by the General Inspectorate of the Ministry of Finance and the audit of the HIPC Initiative-financed expenditures in the second half of 2002, as well as that of the five large contracts in 2002, pointed to continuing widespread problems in procurement. The 2001 budget settlement law was not considered by parliament, as envisaged under the program. In addition, the awarding of the contract for the refining rights of the Sédigui oil in mid-2003 does not appear to have followed open bidding procedures. More positively, the new procurement code was adopted by the Council of Ministers. However, it remains to be signed by the President, and its implementing decrees need to be finalized and adopted.

11. **The government has not yet finalized the rules for the pricing and taxation of oil products from the Sédigui field** (benchmark for end-September 2003). In the context of awarding the refining rights to the oil for the Sédigui field in August 2003, the authorities agreed to adopt pricing rules for oil products from the Sédigui field inconsistent with the

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of the Oil Revenue Control and Monitoring Board (Collège de Contrôle et de Surveillance des Revenus Pétroliers, CCSRP).

[7] These include the selection of the bank for the special account to receive the direct oil revenues and the opening of the account; and the finalization of the contracts between the government and the BEAC regarding the revenue repartition, stabilization, the FFG, and oil-producing region accounts and the opening of the accounts.

[8] Instead, the Prime Minister sent a letter to the Fund addressing the issue. Moreover, in the letter there was no mention of the additionality of priority sector spending financed with oil revenue, the sterilization of unspent revenue, the use of specific transparency-enhancing mechanisms, and the objectives of the stabilization mechanism.

principles the government had adopted in 2002. Subsequently, in the course of the discussions with the mission, the authorities committed themselves to postponing the adoption of the rules for the pricing and taxation of Sédigui products and to working out these rules in the context of a road map that would address all major aspects of domestic energy policy and that would be prepared in early 2004 with the assistance of the World Bank.

12. **The reform of the cotton sector experienced delays in 2002 and 2003, and the privatization of Cotontchad, the state cotton company, is now expected at the earliest in late 2005.** Recent delays concerned the presentation of privatization scenarios for Cotontchad to cotton farmers and investors and the second phase of the qualitative poverty and social impact analysis (PSIA) of the cotton sector reform, both of which were envisaged for mid-2003. Cost-cutting measures for the 2002/03 campaign were not carried out, and the subsidy budgeted for Cotontchad was not disbursed in full by September 2003. Cotontchad's financial situation remains difficult, characterized by deficits and a negative net worth.

13. **Civil service reform has lagged.** While the audit of nine pilot ministries provided a candid view of the need for deep and wide-ranging reforms, there has been a lack of focus on the part of the authorities on undertaking the reforms envisaged under the program. Specifically, the computerization and update of the payroll did not take place, as the results of the 2000 census of civil servants and government contractual employees are now outdated. Hence, the payroll has not been harmonized with the updated census results. There were also delays in adopting the implementation decrees of the Civil Service Code.

14. **As regards performance under the PRGF-supported program, Chad did not meet three out of eight quantitative performance criteria at end-June 2003**—the test date for the quantitative performance criteria for the ninth loan (Table 10). They include the floors on health and education spending and the ceiling on net credit to government. **Moreover, the continuous performance criterion on the nonaccumulation of new external payments arrears was not observed between September 2003 and the end of the arrangement.** The **structural performance criterion** involving the adoption by the Council of Ministers of the draft decree on the FFG by end-July 2003 was not met due to the need for extensive consultations (Table 11). In the context of the overall weak performance under the program, and given that there was not enough time for corrective measures to be taken to present a sufficiently strong case for completing the sixth and final review under the PRGF arrangement, the review could not be completed in the short time remaining before the arrangement expired on January 6, 2004. Corrective measures would aim to improve governance and public expenditure management, particularly in priority sectors; finalize the modalities of the Doba oil resources; credibly and effectively establish the stabilization mechanism; adopt the principles of management of future oil resources; replenish the HIPC account; and clear external arrears and remain current on external debt obligations. During the discussions, the authorities committed themselves to taking steps in the period ahead in a number of these areas, as discussed below.

III. Policy Discussions

15. The discussions focused on Article IV consultation issues and the ex post assessment of the long-term involvement of the Fund in Chad (1995–2003). The issues covered included (i) an updated macroeconomic outlook for the medium and long term, reflecting, inter alia, the latest information on the oil sector and the policy challenges that are posed; (ii) performance under the program in 2003; (iii) the revision of the macroeconomic projections for 2003 and 2004 and the reaching of understandings on a draft budget law and needed structural reforms for 2004; (iv) progress made toward implementing the PRSP and reaching the HIPC Initiative completion point; and (v) the possible future role of the Fund vis-à-vis Chad.

A. Assessment of Performance Under Past Fund-Supported Programs

16. **The ex post assessment of Chad's programs since 1995 (for details, see Appendix III) shows that Chad made a successful transition from a "war economy" to macroeconomic stability with growth, benefiting in particular from the massive pipeline construction project in recent years.** Real per capita GDP, which contracted in 1990–93, grew by 3.4 percent per year in 2000-02. Inflation remained broadly under control after the 1994 CFA franc devaluation, although it was consistently higher than the regional average. Savings have risen somewhat since the mid-1990s, but investment has increased several fold in recent years owing to the effect of the pipeline project. As traditional exports of cotton have been subject to the vagaries of sharp international price movements and significant borrowing has continued, the net present value of the debt-to-exports ratio reached 222 percent in 2002 (Table 5). Notwithstanding the progress made in some areas, Chad has remained one of the poorest countries in the world, with a GNP per capita of about US$250 in 2002. Most social indicators continue to point to a very unfavorable situation of the population (Table 12).

17. **Fiscal balance targets were not always achieved (especially under the recent PRGF-supported program), but deviations were usually small.** There was less progress in improving fiscal revenue performance and in adhering to a composition of spending favorable to the social sectors identified as priority sectors for poverty reduction. Public expenditure management improved somewhat from the early 1990s, but progress in this area was significantly slower than envisaged under the programs.

18. **The environment for private sector activity improved, especially in the early part of the period covered by the assessment,** as a result of the government's withdrawal from some productive areas, improved market access, a streamlined regulatory environment, and trade liberalization. However, the persisting weaknesses in the quality of labor supply, governance, infrastructure, and the financial sector, as well as the slow process of reform in the cotton sector and the loss of competitiveness in recent years, were among the factors that kept the private non-oil sectors from achieving their potential growth and diversification.

19. **Ownership of programs by the government has been persistently insufficient** and resulted in slower-than-hoped-for improvements in governance, as exemplified by the

regularly surfacing of cases of abuse of public resources. Policy implementation and public administration capacities have also remained weak. Civil service reform has lagged significantly, and this has been both a cause and an effect of the weaknesses in ownership, capacity, and governance.

20. **Overall, despite some delays, the programs have been quite successful in preparing the legal framework for the use of oil resources to benefit the priority sectors in the antipoverty effort,** which will also benefit from the implementation of the national poverty reduction strategy presented in the recently completed PRSP.

21. **Compliance with program conditionality under the recent ESAF and PRGF arrangements has been weak.** Multiple waivers have been required to complete each of the programs' reviews. While the margins by which quantitative targets have been missed have generally been small, the shortfalls in meeting the structural targets have tended to be more significant.

22. **Program design and conditionality have been adjusted on various occasions since 1995 in response to shifting priorities in economic policy, as well as the need to improve implementation of policies.** For example, the difficulty in monitoring domestic arrears led to the dropping of the corresponding performance criterion, even though targets in this area continued to be set. Also, in response to the need for improving the timeliness and degree of implementation of reforms in governance and other areas, a number of appropriate prior actions were required for the completion of PRGF reviews, and quarterly monitoring was carried out for a limited period in 2001–02.

23. **While progress has been made up to now on macroeconomic stabilization and some structural reforms, major weaknesses still remain** in the areas of public administration, governance, public expenditure management, fiscal revenue mobilization, reform of the cotton, energy, and financial sectors, and statistics. Some lessons learned from Chad's performance under Fund-supported programs, as well as the challenges ahead, are outlined in Box 1.

24. **In discussions, the authorities have broadly indicated that they agree with the identified areas where weaknesses still remain, but have emphasized the fact that capacity problems stem from the very weak economic, social, and institutional starting points of the reform effort in the mid-1990s.** The authorities have been of the view that the progress made in improving governance in recent years was significant, as evidenced by the gains in transparency and the adoption of modalities for the use of oil revenue. Regarding the mixed record in complying with program conditionality, the authorities have observed that the timetables of reforms could have given greater regard to existing implementation capacity. The authorities have also noted that donor financial assistance could have been better targeted, and more timely, so as to advance specific reforms and policies.

B. The Medium- and Long-Term Macroeconomic Outlook and Strategy

25. **The staff prepared an updated medium- and long-term macroeconomic framework,** based on the existing model that the consortium had provided to the World Bank, as well as the latest projections on oil prices, debt service, transportation, and intermediate costs (see Table 7).[9] In particular, it has recently become clear that the cost of transporting the oil through the pipeline would be higher than initially anticipated, although this is still a matter of negotiation between the government and the consortium. In addition, intermediate costs are likely to be greater than originally envisaged. Oil prices, which are taken from the World Economic Outlook, are slightly higher in the near term but overall lower in the medium term than under the PRSP scenario. Under the current scenario, oil production would reach its maximum level of around 83.5 million barrels in 2005 and would remain at about that level until 2008, after which production would begin its long decline.[10] Under the conservative assumption that no new oil fields will be brought into production, about 80 percent of the currently identified oil reserves will already have been extracted by 2016. The revisions regarding the oil sector imply a somewhat lower rate of growth of both oil and non-oil GDP. Non-oil GDP is now expected to grow by 5.4 percent a year on average in 2004–20. Under this revised scenario, national disposable income per capita is expected to rise from US$251 in 2002 to about US$780 in 2020.

26. **The main effects from the sector on the domestic economy would come through the spending of oil revenues accruing (Figure 2) to the budget** (royalties, dividends, and income taxes), which are currently expected to average US$140 million per year (about 17 percent of the gross value of oil exports). The majority of direct oil revenues (royalties and dividends) are earmarked by law to be spent on the priority sectors and would directly alleviate the effects of poverty. Nonearmarked oil revenues in the budget would also help reduce poverty and sustainably increase incomes, including of the poor, if they support appropriate policies (see para. 32 below).

27. **Growth in the non-oil sector will be spearheaded by construction and services, but agriculture will remain the most important sector (Table 8).** Primary sector output is projected to grow by 4.3 percent annually in 2004–20. This is predicated on implementing fully the strategy in the PRSP, which envisages improvements in infrastructure and services,

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[9] The authorities' latest long-term macroeconomic framework was included in their June 2003 PRSP and will be updated in early 2004 on the basis of a revised oil production and revenue model that is being prepared by the oil consortium.

[10] The updated macroeconomic framework assumes no change in the proven oil reserves of 1 billion barrels. This could be revised in the coming years as the results of continuing exploration by the consortium and at least one other private oil company become known.

the introduction of new crops, better access to inputs, and positive effects from the cotton sector reform. Secondary sector GDP, excluding the oil export sector, is projected to increase annually by 5.9 percent, mainly on account of high growth in the construction sector. The sustained growth of the other sectors, important productivity gains, and the "catch-up" of the currently underdeveloped financial sector will drive tertiary sector GDP growth, which is projected at 5.8 percent per year over 2004–20.

28. **The macroeconomic framework projects an inflation rate of 3 percent per year in 2003–20.** This is consistent with the objective of avoiding further deterioration in external competitiveness (see Box 2 and Figure 1), especially given the projected increases in productivity, but it will require that increases in government spending and credit to the private sector not be excessive.

29. **The profile of oil revenues accruing to the budget is expected to be uneven (Figure 2).** In the first years of oil production, until 2008, there will effectively be only direct oil revenues (royalties and dividends) accruing to the budget. These revenues are expected to peak in 2005 and to decline monotonically thereafter. The indirect oil revenues, which are the taxes imposed on the oil consortium, are not earmarked to be spent in a specific way; they are expected to begin accruing in 2007 but will come in a "lumpy" manner around 2009 before declining in the years that follow.

30. **The decrees on the modalities of the use of oil revenues, adopted in the context of the PRGF-supported program, envisage a stabilization mechanism aimed at addressing the uneven profile of earmarked direct oil revenues, as well as the unpredictability of oil price movements.** To achieve a smooth and rising level of priority sector spending in the period up to 2009, when indirect oil revenues start accruing to the budget in large amounts, it is important that the government save part of the earmarked direct oil resources in the period 2004–06, so that it can spend these savings in the period 2007–09. At the same time, under this stabilization mechanism, there would be at all times, starting in 2004, some additional amount in reserve, equivalent to 20 percent of the annual flow of earmarked oil revenue, so as to absorb shocks that are not big enough to trigger—as specified in the stabilization decree of July 1, 2003—a revision of the budget.

31. **During the discussions with the mission, the authorities indicated their reluctance to save under the stabilization mechanism, notwithstanding the adopted modalities of the use of oil revenues.** They initially opposed any savings under that mechanism in 2004, and the staff's suggestion to save CFAF 10 billion in that year was rejected. The authorities felt that Chad's large needs justified spending all resources as they came in, and that it was difficult to defend any saving in the face of very large political pressures. The staff pointed to the need to credibly and effectively establish the stabilization mechanism for smoothing priority expenditures over time. It also noted that the absorptive

capacity was very low and governance weak, with the attendant potential for wastage of resources.[11]

32. **The arrival of initially very large nonearmarked oil revenues around 2009 and the subsequent diminishing of earmarked oil revenues have important implications for both government savings and the sources of financing of priority sector spending.** The staff recommended that the government save significant amounts of the lumpy nonearmarked (indirect) oil revenues in the period 2009–12 in order to support the growth of spending in subsequent years, including priority sector spending, since the amount of direct oil revenues earmarked for the latter type of spending would by then be quite small.[12]

33. **The external accounts are expected to improve over the period 2004-20 (Figure 2).** Imports are projected to increase over time, but at a somewhat slower pace than non-oil GDP in the outer years of the scenario, assuming gradual import substitution. At the same time, addressing successfully the issues raised in Boxes 1 and 2 would facilitate the emergence of new non-oil exports as well. Thus, the current account deficit (excluding official transfers) would narrow from 45 percent of GNP in 2003 to 19 percent of GNP in 2004 and then to 11 percent by 2005. The balance of payments and fiscal projections imply an annual average need for foreign budgetary support of about CFAF 40 billion in the period 2004–06 (2.2 percent of GNP).[13] Following a much smaller amount of needed budgetary support in 2007, the scenario does not envisage further need for such support up to 2020. It is envisaged that the current account deficit would fall to about 7 percent of GNP in the period 2007–20. Project loans and project grants to cover fiscal expenditures would account for a large part of the financing of the deficit. Foreign direct investment would also play a

[11] After the mission left, the authorities proposed to save no more than CFAF 5 billion in 2004 and to save the difference of CFAF 5 billion in 2005 and 2006. The staff noted that in that case the mechanism would imply saving CFAF 26 billion in 2005.

[12] Specifically, the government would have to spend on the priority sectors out of nonearmarked resources more than the minimum envisaged in the modalities for the use of oil revenue. These modalities specify that priority "baseline" expenditures would have to amount to at least 42.6 percent of total baseline expenditures, defined as expenditures financed by budget resources other than earmarked oil revenue.

[13] As explained earlier, foreign budgetary support would continue to be needed over the medium term, even in the presence of oil receipts, as most oil revenue in the early years of oil production is by law earmarked to finance spending in priority sectors that is additional to "baseline" priority sector spending (see footnote 12 above) and nonearmarked domestic budget sources are insufficient to cover nonpriority and baseline priority sector spending in 2004–07.

role. Around 2015, it is expected that some foreign exchange reserves may need to be used to supplement the financing of the deficit (Figure 2 and Table 7).

34. **The macroeconomic framework shows Chad's external debt-to-GNP ratio declining sharply over the period 2003–08.** This is due to the large increases in overall GNP on account of oil production, HIPC Initiative debt relief (Table 9), and the reduced need of the government for foreign budgetary support. The external debt-to-GNP ratio is projected to fall from 75 percent in 2001 to about 37 percent in 2008. In the same period, the net present value of the debt-to-exports ratio is expected to fall from 226 percent to 42 percent. The analysis in Appendix V shows that the debt sustainability implied by the macroeconomic framework is robust to a series of the more plausible shocks. Under the macroeconomic framework, after 2010 debt indicators would begin to deteriorate before stabilizing by 2020, thanks to projected adequate fiscal management.

C. Macroeconomic Outlook and Policies for 2004

35. Real GDP growth is projected to reach 37.9 percent in 2004 (Table 1), corresponding to a growth rate of 5.6 percent in the non-oil sector, which would be supported by strong growth in credit to the private sector (Table 6). The inflation rate is expected to reach around 3 percent in 2004, as government spending increases significantly, but monetary developments remain consistent with the objective of avoiding a resurgence of excess liquidity. The current account deficit is projected to narrow sharply in 2004, owing to the reduction of oil project imports and the surge in oil exports (see Table 5).

36. **The 2004 budget submitted by the government to parliament (Table 2) reflects some understandings reached with the mission but it also differs from the recommendations of the mission in certain respects.** The budget submitted to parliament implies an overall fiscal deficit of 12.4 percent of GNP, based on projections of a strong increase in non-oil fiscal revenue, which the staff sees as feasible provided only that a number of measures are fully implemented.[14] Wage bill growth would be contained at 12.6 percent, in line with the authorities' commitment in the June 2003 MEFP. There would also be desirable outlays to address the electricity and water supply problems in N'Djaména, as well as the need to subsidize Cotontchad. The authorities' budget proposal to parliament differs from what was advised by the staff mainly in two areas. It envisages saving only CFAF 5 billion of the earmarked oil revenue to feed the stabilization mechanism, instead of the CFAF 10.1 billion proposed by the staff. Moreover, in the authorities' budget proposal, nonpriority expenditures

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[14] These include, inter alia, the implementation of the action plan for customs, the Tax Directorate, and the livestock sector; additional measures for preventing the abuse of the Doba tax exemptions system; and improvements in the communications among the Tax Directorate, customs, other fiscal revenue departments, and the Procurement Directorate.

are higher than proposed by staff, and thus the additionality constraint regarding priority sector spending financed by earmarked oil revenue, as specified in the adopted modalities for use of oil resources, would not be met. Given the hitherto-identified foreign budgetary financing, a financing gap of CFAF 22.1 billion (1.4 percent of GNP) would remain.

D. Structural Reforms

37. **During the discussions, the government committed itself to fully implementing in the coming months the measures aimed at improving expenditure management that were envisaged in its last MEFP and needed to complete the PRGF review, as well as some new ones (Appendix VII).** This is essential for improving absorptive capacity, so as to achieve the very strong increases in priority sector spending targeted for 2004 and beyond. Over the medium term, civil service reform, ownership of economic policies, and governance reforms will be critical in order to continue to improve public expenditure management. To assist in fiscal planning, it will be important to address the issues of the social security agencies (the CNPS (Centre National de Prévoyance Sociale) and the CNRT) and Cotontchad.[15]

38. **In order to address persisting weaknesses in procurement and governance more generally, during the discussions the authorities committed themselves to implementing measures aimed at improving accountability in the use of public resources.** In this vein, the government indicated that, by early 2004, all the recommendations of the recent audits of HIPC Initiative-financed contracts and of the five large contracts awarded in 2003 would be fully implemented. The government will take action against officials and companies implicated in irregularities identified by the recent audits. A Budget Discipline Court will be set up, and its work will be linked with a strengthening of the controls of the inspectorates in various ministries. The government intends to finalize soon an action plan to reform the justice system and initiate its implementation. It also intends to review existing anticorruption legislation and the degree of its effectiveness; study the possibility of creating an anticorruption body; and promulgate the new procurement code and make it effective by adopting its implementation decrees.

39. **The mission discussed with the authorities the need to move rapidly regarding the outstanding modalities for the use of Doba oil** (para. 9 above). The government also committed itself to moving quickly in the coming months to set up the Investment Committee for the FFG; defining the guidelines for the operation of that committee and the broad investment strategy that will be applied regarding FFG resources; selecting the asset management company to manage FFG resources; and adopting the permanent decree for the

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[15] The potential costs of addressing the needs of these institutions are not known yet and are not included in the medium-term fiscal projections.

management company to manage FFG resources; and adopting the permanent decree for the oil-producing region. It will also be very important that the CCSRP monitor and control as envisaged in the adopted decrees the accounting and use of oil revenues earmarked for priority sector spending.

40. **To strengthen the financial sector, the authorities and the mission discussed a number of steps to be taken in 2004 (Appendix VII).** These steps would aim to further improve bank supervision and the legal and regulatory framework. They also include the carrying out of studies on ways to improve the workings of the money market and reduce vulnerabilities in the banking system.

41. **In the reform of the cotton sector and civil service, where the World Bank takes the lead, the government has made a number of commitments.** In the cotton sector, the emphasis will be on pushing through the optimal privatization of Cotontchad. In this context, a cotton sector reform road map for 2004-06 is being finalized with the assistance of the World Bank. The government also intends to pursue the reform of the civil service and is preparing, with the assistance of the World Bank, a revised action plan.

E. PRSP Implementation and HIPC Initiative Completion Point

42. **The full PRSP was adopted in June 2003, and the national poverty reduction strategy has started to be implemented.** Nevertheless, despite some preparatory steps, the monitoring mechanism of the PRSP has yet to be finalized and adopted by the government, and financing for it identified. Some progress has been made toward meeting the triggers for attaining the HIPC Initiative completion point, but weaknesses remain in a number of areas, such as governance, health, education, and rural development (Appendix VI). Therefore, there will likely be a delay in reaching the HIPC Initiative completion point, which was scheduled for mid-2004, the one-year implementation point of the PRSP.

F. Regional Integration, and Exchange and Trade System

43. **Chad's record of macroeconomic policy convergence within the CEMAC has been mixed in recent years, but it is expected to improve significantly.** At end-2002, Chad had complied with two of the four convergence indicators established by the Central African Economic and Monetary Community (CEMAC). The criterion on not exceeding consumer price inflation of 3 percent is estimated to have been met in 2003, and the criterion on the zero base primary fiscal balance is projected to be met by about 2004–05. Regarding regional integration, Chad's situation is characteristic of the member countries of the CEMAC (IMF Country Report No. 03/398). However, Chad is also participating actively in the Doha Round trade negotiations. In May 2003, Chad—together with Benin, Burkina Faso, and Mali—submitted a proposal aimed at eliminating cotton subsidies worldwide and, until this goal is accomplished, to secure financial compensation to less developed countries (LDCs) for the income these countries are losing.

44. **There have been no changes in the trade and exchange system** since the last Article IV consultation in early 2001. Chad rates a 4 on the Fund's overall 10-point restrictiveness index (with 10 being the most restrictive), and with a simple average tariff of 18 percent and a statistical tax on both imports and exports of 2 percent. There are no known nontariff barriers. Chad is a member of CEMAC and its exchange system is free of restrictions on payments and transfers for current international transactions. Chad accepted the obligations under Article VIII on June 1, 1996.

G. Technical Assistance and Statistical Issues

45. **Chad has received substantial amounts of technical assistance from the Fund (Appendices I and III), the World Bank (Appendix II), and other multilateral and bilateral sources.** Achieving the objectives of the full PRSP will depend on the continuation and expansion of adequate short-and-long-term technical and financial assistance in a wide range of areas where there are weaknesses, as identified in this report and in Appendix III.

46. **Chad's statistical base is barely sufficient for the conduct of economic policy and the monitoring of the poverty reduction strategy.** The statistics institute, INSEED, has recently made some improvements in real sector statistics, resulting from ongoing external technical assistance and the hiring of new staff. However, weaknesses remain in virtually all areas. It is particularly urgent to revise the consumer price index with regard to geographic coverage and weights, improve the collection of foreign trade data, complete the household consumption survey, and improve the turnaround in central bank monetary statistics. The government has indicated that it will support these efforts.

IV. Future Role for the Fund

47. **The authorities have expressed their wish for a successor PRGF arrangement.** Chad is facing capacity constraints in macroeconomic management, the need to reach the HIPC Initiative completion point in order to continue to benefit from debt relief, and a projected dependence on donor resources to finance an adequate level of investment over the long term. In recognition of these constraints, and in view of the fact that financing gaps will persist in 2004–06, a PRGF arrangement would best fit the needs of Chad for this period. A new PRGF-supported program would focus on poverty reduction by increasing priority sector expenditures in a sustainable manner, improving governance and public expenditure management, and enhancing domestic revenue mobilization to ensure adequate resources for the antipoverty effort over time. A close working relationship with Fund staff could also assist the authorities in the implementation of the modalities for the use of oil revenues, which are explicitly aimed to support poverty reduction efforts. Fund support would be conditional on sufficiently strong policies being adopted and implemented.

V. Staff Appraisal

48. Chad has succeeded in recent years in broadly maintaining macroeconomic stability and a high growth rate of economic activity that has benefited from the oil pipeline

construction. It has also made progress in certain areas of structural reform, but important weaknesses remain in the areas of public administration, governance, public expenditure management, fiscal revenue mobilization, reform of the cotton, energy, and financial sectors, and statistics. Performance under the PRGF-supported program was weak in 2003 and the staff urges the authorities to implement the corrective measures discussed with the recent mission.

49. There has been a significant effort to formulate the detailed **modalities for the use of oil revenues** so as to ensure that oil revenues are used transparently and efficiently in the fight against poverty. The staff urges the authorities to complete this effort by promulgating the remaining two decrees. It is also of great importance that these decrees, along with the decrees promulgated in July 2003, are implemented fully and promptly, and that pressures for diversion from this framework are avoided.

50. The authorities have begun to consider the ways of **using revenues from the new oil fields** that may be discovered, and in this it is being inspired by the existing modalities of use of revenues from the Doba fields. The staff urges the government to work toward concretizing further its commitment in this area, in line with the existing oil modalities, and to adopt these principles by a government decision.

51. It is essential to maintain an appropriate **fiscal expenditure policy** from the very beginning of the oil era in 2004, not only in order to forestall the onset of "Dutch" disease but also to avoid the wastage of scarce resources, given the currently low absorptive capacity in priority areas. It is equally important to avoid spending all of the oil revenue in the period 2004–06 and credibly launch the stabilization mechanism as envisaged by the modalities of use of oil revenues, which would enable the government to maintain strong increases in priority sector spending over the longer term. In this context, the staff urges the authorities to save a larger amount of earmarked oil revenues in 2004 than envisaged in their budget proposal to parliament. The budget also needs to respect the additionality constraint as specified in the modalities adopted for the use of oil resources.

52. Recent performance in achieving a **composition of spending** favorable to health, education, and other priority sectors has been disappointing. Moreover, there has been consistently low quality of service delivery in these priority areas. In this context, the staff urges the authorities to sustainably improve **public expenditure management**. This can be achieved by implementing in the short run the steps committed to by the authorities in discussions with the staff and by significantly improving over the medium term the civil service and governance, and strengthening the ownership of economic programs. The staff hopes that the incident of extrabudgetary spending in 2003 will not be repeated.

53. Improving **non-oil fiscal revenue performance** is essential for eventually attaining fiscal sustainability, after the oil revenues have dried up. In addition, quick improvements in this area will be important for financing those nonpriority and priority expenditures that by law cannot be financed with earmarked oil resources. The staff, therefore, urges the authorities to

put their efforts into achieving a sustained improvement of non-oil fiscal revenue performance by steadfastly implementing the measures discussed with the staff, and, in particular, the action plans in the areas of customs administration, the Tax Directorate, and the livestock sector.

54. At the onset of the oil era, and given the need to manage carefully macroeconomic conditions and to advance crucial reforms in the period ahead, the authorities need to emphasize the reinforcement of **public administration capacity**. To do so, the authorities should pursue more rigorously than they have up to now the **reforms in the civil service** that they have committed themselves to, including the implementation of the recommendations of the audits of the nine pilot ministries and the training of public officials.

55. The authorities have made progress in recent years in increasing transparency in the use of public resources and in raising the awareness of public officials of proper procedures. However, accountability in the use of public resources has not improved significantly, and **governance** as a whole remains a weakness, as clearly shown by the results of recent audits. The staff urges the authorities to implement quickly and fully all the governance measures discussed with the staff, which are aimed at creating or amplifying checks and balances and improving accountability. Carrying out the needed civil service reforms would also be instrumental in improving governance over the medium and long term.

56. **To develop and diversify the non-oil sectors** in the period ahead, when oil will tend to be a dominant economic force in Chad, the authorities should tailor fiscal policy to forestall any further loss of competitiveness and quickly carry out a number of other important structural reforms and policies. These include the elaboration and implementation of a coherent road map of actions in the domestic energy sector; the well-thought-out privatization of Cotontchad; the quick implementation of reforms in the justice system and in other areas affecting governance; and the strengthening and development of the financial system, including microfinance. These reforms would complement the envisaged high and increasing spending on education and health, which is aimed at improving, inter alia, human capital and the labor supply.

57. The staff regrets the reemergence of **external payments arrears, including to the Fund,** as well as the **lack of necessary transfers to the HIPC account** on account of interim HIPC Initiative relief. While the arrears to the Fund have been regularized, the staff strongly urges the government to avoid incurring new such arrears. It also urges the authorities to make more effective use of the cash-flow plan of the treasury and ensure that adjustments are made in nonpriority expenditures as needed, in order to avoid the reemergence of such shortfalls.

58. Notwithstanding the progress made in meeting some of the **HIPC Initiative completion point** triggers, the authorities need to redouble their efforts in the coming months in a number of areas to minimize the delays in reaching the HIPC Initiative completion point.

59. Chad's **statistical base** needs significant strengthening in all areas in order to improve the monitorability and design of programs, including the monitoring and updating of the poverty reduction strategy.

60. The staff believes that a **follow-up PRGF arrangement** would be important to help close the financing gaps envisaged for 2004-06 and support Chad in the implementation of the needed economic policies and reforms in this period.

61. It is proposed that the next Article IV consultation discussions take place on the standard 12-month cycle.

Box 1. Chad: Ex Post Assessment of Fund-Supported Programs, 1995–2003:

Lessons Learned and Remaining Challenges

The authorities' **ownership of economic programs** and their **administration capacity** are interrelated, and both are paramount to the success of economic programs, especially at this stage of deeper reforms.

Fostering ownership would hinge on the incentives provided by the economic and political environment, as well as the authorities' driving the design and implementation of their economic policies. Forums for acquainting civil servants with the reforms, and high-level discussion groups for senior officials, could be used in this effort.

In order to **strengthen public administration**, including policy formulation and implementation capacity, a sharper focus on civil service reform will be essential, along with increased program ownership by the authorities. In addition, training for both senior and mid-level officials needs to be stepped up. External resources and technical assistance will be needed.

Governance remains in need of improvement, by carrying out the civil service reform and creating or amplifying checks and balances to improve accountability.

It will be very important that the authorities fully implement—with or without donor assistance—the modalities they have adopted regarding the **use of oil revenue**, as this framework has been one of the clearly positive achievements of recent programs.

There is a need to look closely at fully identifying and establishing the **conditions for the development and diversification of the non-oil sectors**, such as rapid and appropriate reforms in the cotton and financial sectors, and better governance. In this context, a durable solution to the **domestic energy** problem (of unreliable supply and very high price) is indispensable.

It is essential to maintain a prudent **fiscal policy** to forestall the onset of Dutch disease, ensure sustainable increases in spending over time, and attain fiscal sustainability. The latter calls for a continuous improvement of **non-oil fiscal revenue performance**, which would depend on enhancement of governance and ownership, as well as on higher levels of technical and financial assistance. A lasting improvement in **public expenditure management** is needed, which will require, among other things, progress in civil service reform and improvements in ownership and governance.

The statistical base needs strengthening in all areas in order to improve the monitorability and design of economic programs. More financial and technical resources may be needed in this area.

While it may be difficult to prove the counterfactual, the **changes in conditionality** in the past do not appear to have been very successful in strengthening ownership and improving performance under the program. In the future, **setting the timetables of policies/reforms** could give greater regard to existing implementation capacity and the need for, and timing of, complementary technical assistance. At the same time, a firmer stance may need to be taken on **compliance with conditionality,** and the latter could focus more **on implementation of measures.**

Structural conditionality under Fund-supported programs could be expanded to cover some key structural reforms (for example, civil service reform).

Box 2. Chad: External Competitiveness and Business Environment

The 1994 CFA franc devaluation, combined with the structural adjustment programs supported by the Fund and the World Bank and prudent monetary policies, was successful for a while in substantially strengthening the competitiveness of Chad. However, more recently, on the basis of traditional exchange rate indicators, a large part of these competitiveness gains appears to have been eroded. This is thought to have had a negative effect on export growth and diversification, as well as on Chad's capacity to attract foreign direct investment outside the oil sector. In addition, import growth (apart from oil pipeline-related imports) has been quite robust, and local import-substituting industries have not developed.

The loss in competitiveness can be attributed in part to changes in the international economic environment, including the appreciation of the CFA franc (euro) vis-à-vis the U.S. dollar (amounting to 21 percent during 2002) and the additional depreciation of competitor countries' currencies. Price level differentials with trading partners have also been a factor, reflecting to some extent the strongly increasing aggregate demand conditions in Chad since 2000, when the oil pipeline project accelerated. As a result, the REER for Chad (CEMAC) appreciated by 4.2 (5.9) percent in 2001, 8.4 (5.9) percent in 2002, and 9 (4.3) percent in the first eleven months of 2003. In the last three years, the REER appreciated from a level equal to 67 percent of its predevaluation level to one equal to 97 percent.

Structural factors affecting competitiveness and the business environment in general in Chad include the unfavorable conditions in transportation, electricity supply, and telecommunications. Another factor is the underdeveloped state of the financial system, which is characterized by high-cost bank credit and a dearth of bank lending for small and medium businesses, especially under medium- and long-term maturities. Other important elements are the low quality of services provided by the state, the unreliability of the justice system, corruption, and weak governance in general. Finally, due to the weak state of education and training, there are shortages of even minimally qualified workers.

Chad will benefit in the months to come from a diagnostic trade integration study that will be carried out by a number of international organizations. The conclusions of the study could be used to inform the policies regarding trade development and competitiveness enhancement in the authorities' PRSP.

Figure1a. Chad: Exchange Rate and Relative Price
Index, 1990=100

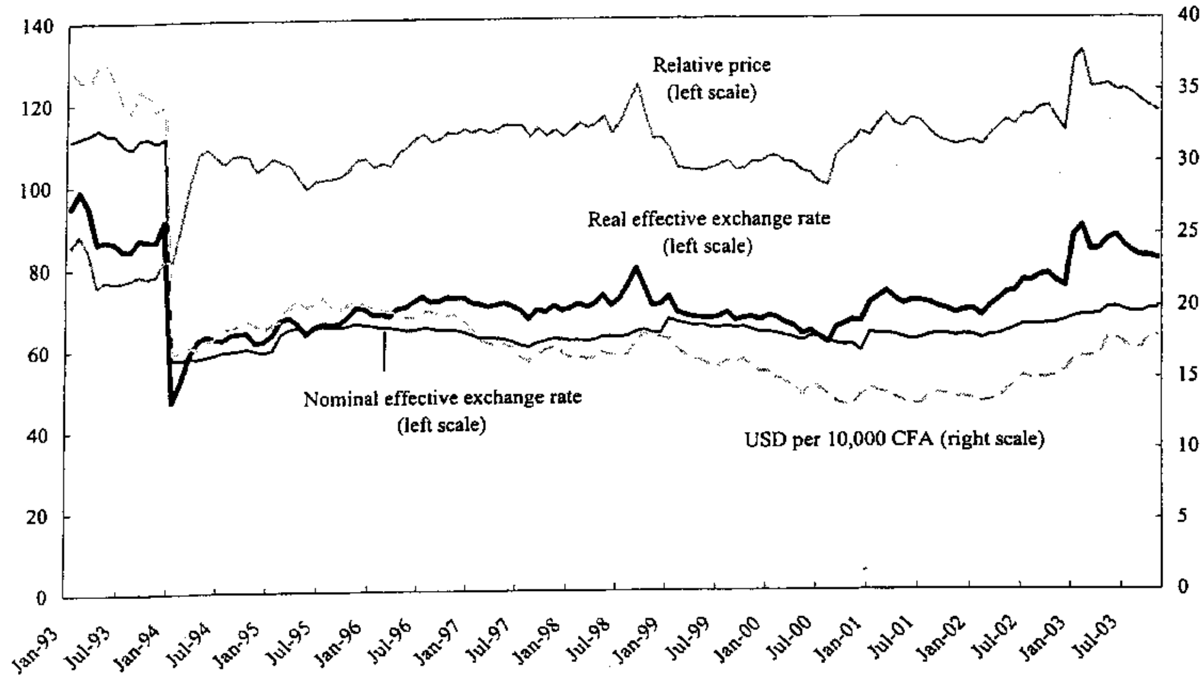
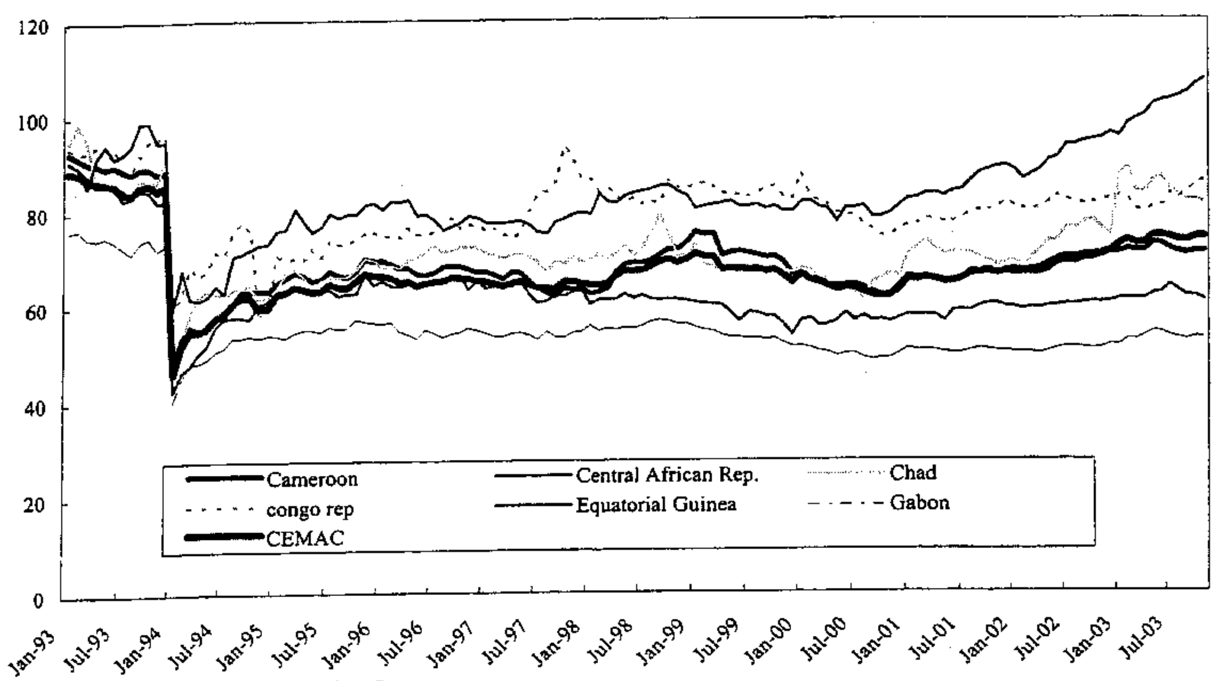
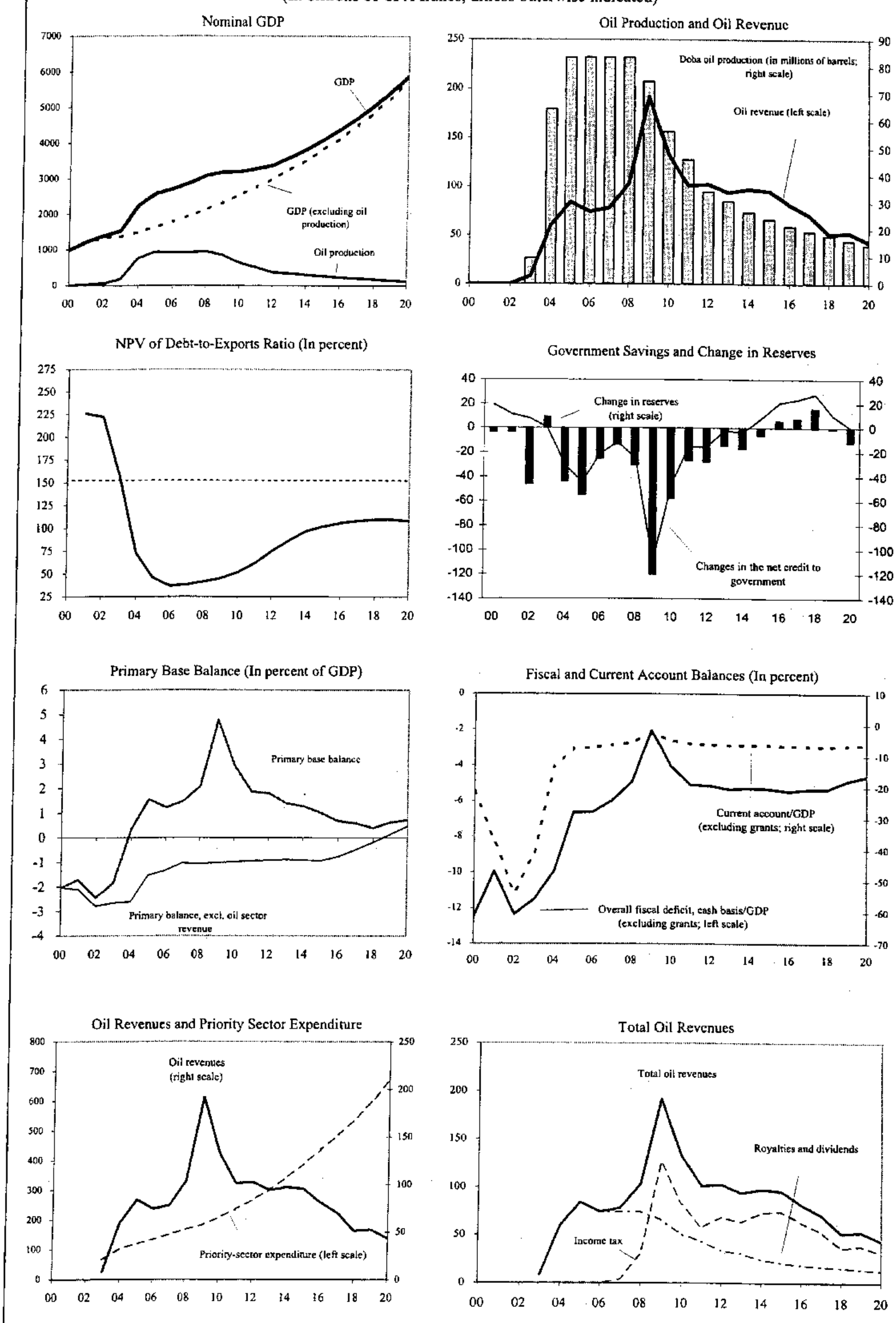


Figure 1b.CEMAC: Real Effective Exchange Rate
Index, 1990=100



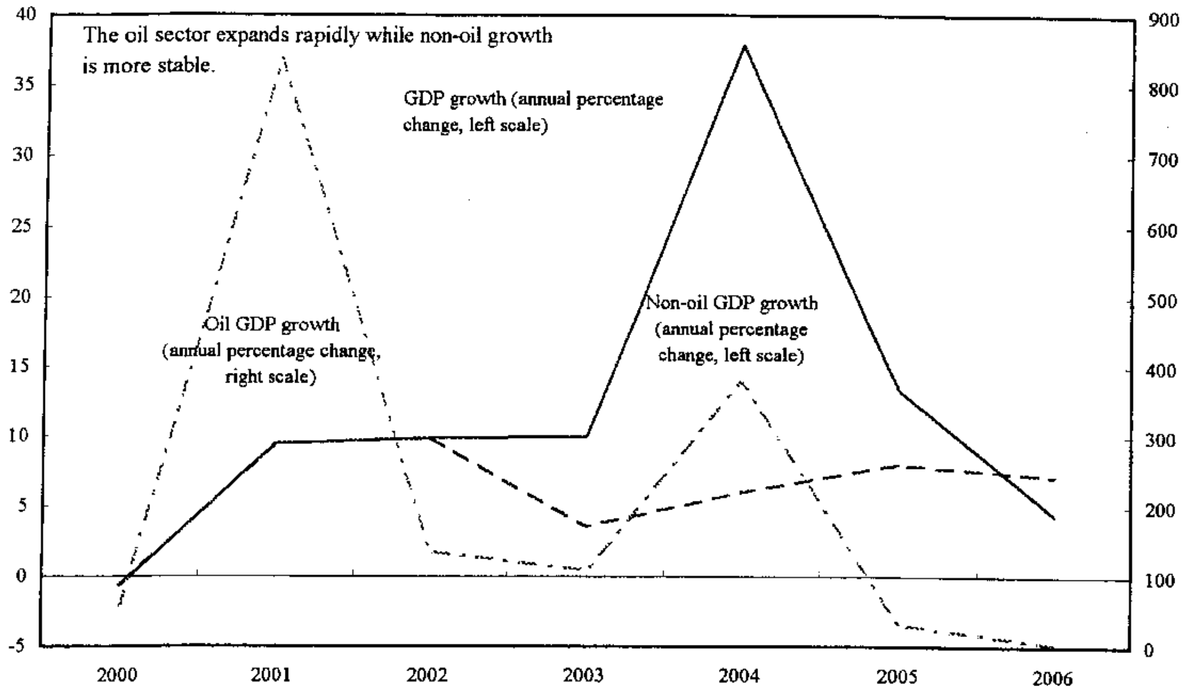
Source: IMF, Information Notice System.

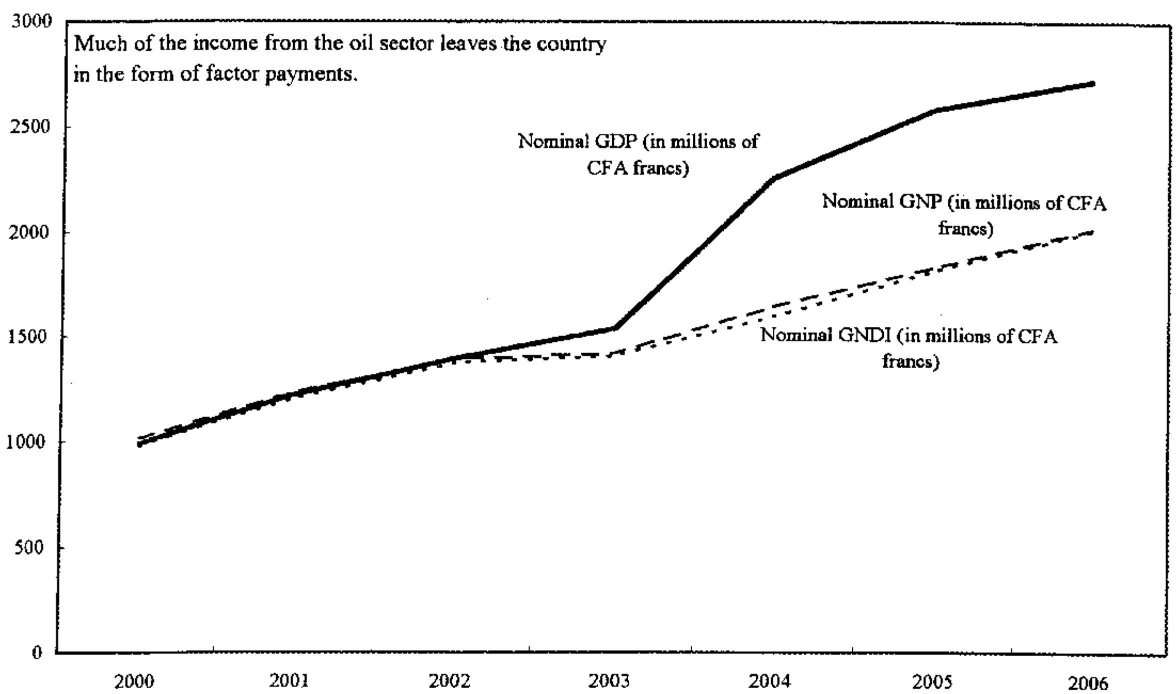
Figure 2. Chad: The Long-Term Macroeconomic Framework, 2000–20
(In billions of CFA francs, unless otherwise indicated)



Source: Chadian authorities; and staff estimates and projections.

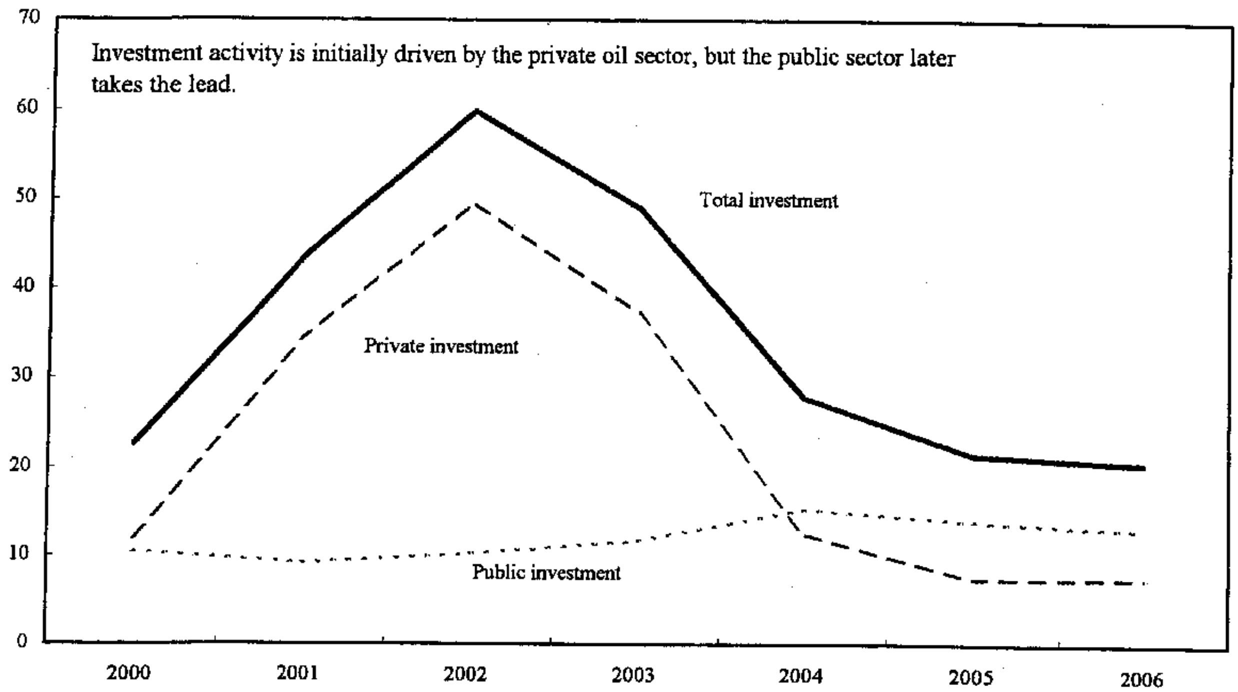
Figure 3. Chad: Real GDP, 2000-06

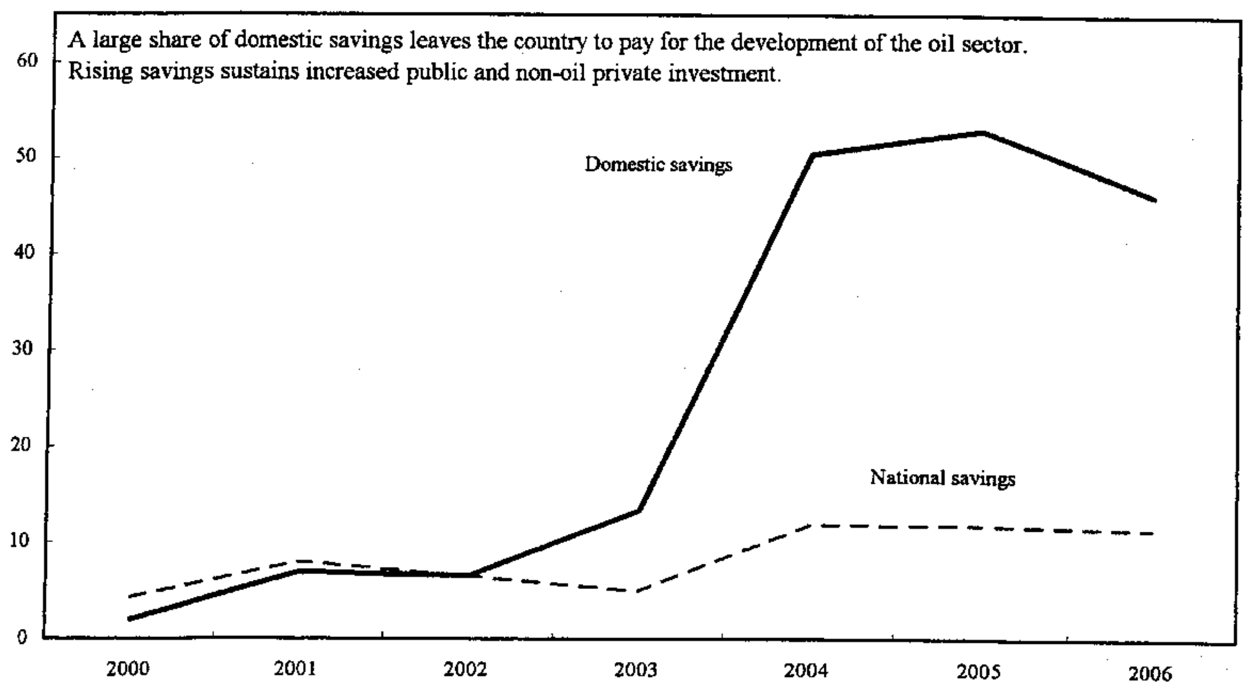




Sources: Chadian authorities; and staff estimates and projections.

Figure 4. Chad: Investment and Savings, 2000-06 (in percent of GDP)





Sources: Chadian authorities; and staff estimates and projections.

Table 1. Chad: Selected Economic and Financial Indicators, 2001-06 1/

	2001	2002		2003		2004 2/	2005	2006
		Prog. EBS/02/173	Est.	Prog. EBS/03/77	Proj. as of 12/15/03		Proj.	
				(Annual percentage change, unless otherwise specified)				
National income								
GDP at constant prices	9.5	10.9	9.9	11.2	10.0	37.9	13.3	4.4
Oil GDP	837.0	...	135.2	...	108.8	377.5	32.5	2.8
Non-oil GDP	7.4	...	7.1	...	5.2	5.6	5.1	5.3
GDP at current prices	23.3	15.0	14.0	16.5	10.4	47.0	14.2	5.3
GNP at current prices	23.2	14.9	13.9	11.3	2.5	13.5	14.0	10.6
Consumer price index (average)	12.4	4.0	5.2	4.3	-1.0	3.0	3.0	3.0
Consumer price index (December on December)	0.7	9.4	12.6	3.0	-6.1	2.5	3.5	3.0
Money and credit								
Net foreign assets 3/	-6.6	4.5	35.3	20.3	-5.9	18.8	25.2	10.6
Net domestic assets 3/	29.1	10.5	-10.8	-8.9	10.6	-8.5	-15.5	-0.6
Of which: net claims on central government 3/	12.6	3.4	-3.3	-12.5	-5.3	-15.5	-20.5	-9.0
Of which: credit to nongovernment sector	21.0	16.2	-0.8	11.2	32.9	15.0	10.0	16.0
Broad money	22.9	15.0	24.2	10.3	4.7	10.3	9.7	10.0
Income velocity of money (M2) 4/	8.1	7.7	7.1	7.7	6.9	6.9	6.8	6.8
External sector (valued in CFA francs)								
Exports, f.o.b.	6.3	-4.0	-13.7	67.8	129.6	253.6	17.5	-4.8
Imports, f.o.b.	93.2	32.1	48.9	-21.7	-7.7	-19.1	-5.3	2.2
Export volume	-11.3	6.2	-2.2	37.0	75.1	193.1	23.7	0.8
Import volume	119.8	29.8	58.6	-29.9	-6.6	-25.2	-5.0	-0.6
Terms of trade	19.1	-11.6	-10.4	6.9	35.3	18.3	-5.7	-7.3
				(In percent of GNP)				
Basic ratios 5/								
Gross investment	43.7	63.2	59.8	43.9	49.0	27.8	21.4	20.5
Government	9.2	10.3	10.2	11.4	11.7	15.3	14.0	13.0
Private sector	34.5	52.9	49.6	32.6	37.3	12.5	7.5	7.5
Of which: oil sector	23.9	45.3	44.4	23.8	30.7	7.5	2.9	1.2
Gross domestic savings	6.6	5.4	6.5	10.5	13.4	50.4	53.0	46.2
Government	-1.5	-2.0	-2.0	-0.9	-0.3	3.1	4.8	4.2
Private sector	8.1	7.5	8.5	11.3	13.7	47.4	48.2	41.9
Gross national savings	8.0	6.2	7.1	7.0	5.4	12.2	12.2	11.8
Government	0.9	-0.7	-0.2	-0.2	0.8	6.5	6.3	5.3
Private sector	7.1	6.9	7.3	7.2	4.5	5.7	5.8	6.5
Government finance								
Revenue	7.6	8.0	8.0	8.6	9.5	13.1	15.0	14.4
Of which: oil revenue	...	...	...	0.5	0.6	3.8	4.6	3.7
Total expenditure	18.3	24.0	20.3	20.8	21.6	25.3	24.1	23.1
Current primary balance (- =deficit) 6/	-0.8	-1.6	-1.2	-0.1	0.4	3.7	5.4	4.9
Primary base balance, excluding oil sector revenue 6/ 7/ 8/	-1.7	-3.8	-2.4	-3.4	-2.6	-3.3	-2.4	-2.0
Primary base balance 6/ 7/	-1.7	-3.8	-2.4	-2.9	-2.0	0.5	2.2	1.6
Overall fiscal deficit (commitment basis) 6/	-10.7	-16.0	-12.3	-12.2	-12.0	-12.2	-9.1	-8.8
Overall fiscal deficit (cash basis) 6/	-10.1	-17.2	-12.5	-13.1	-12.6	-14.1	-9.5	-8.9
Overall fiscal deficit (cash basis, including grants)	-4.4	-11.0	-5.5	-8.1	-7.3	-6.9	-3.0	-3.0
External financing (already obtained)	9.4	17.6	12.4	13.4	11.1	14.3	10.8	8.9
Domestic financing	0.7	-0.4	0.2	-0.3	0.4	-1.7	-2.4	-1.1
Financing gap (+)	-5.7	0.0	-7.0	0.0	-4.1	-5.7	-5.3	-4.9
External sector								
Current account (- = deficit) 9/								
Including official current transfers	-35.7	-51.8	-52.7	-36.9	-43.9	-17.9	-10.1	-9.3
Excluding official current transfers	-38.0	-51.8	-54.5	-37.6	-44.8	-19.1	-10.8	-9.8
Excluding pipeline-related imports	-12.2	-19.7	-12.1	-13.3	-14.8	-6.2	-2.8	-4.0
				(In millions of U.S. dollars, unless otherwise specified)				
Nominal GDP (in billions of CFA francs)	1,221	1,349	1,392	1,600	1,537	2,259	2,580	2,718
Nominal GNP (in billions of CFA francs)	1,203	1,362	1,371	1,534	1,404	1,594	1,817	2,010
Nominal GNP	1,643	1,960	1,969	2,544	2,416	2,718	3,059	3,359
Nominal GNP per capita (in dollars)	214	247	251	330	300	329	362	387
CFA francs per U.S. dollar (period average)	732	695	696	603	581	586	594	598
CFA francs per U.S. dollar (end of period)	744	670	652	668	589	598	603	608

Sources: Chadian authorities, and staff estimates and projections.

1/ Projections for 2004-06 are IMF projections.

2/ Projections for 2004 and onward are IMF projections.

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

4/ Ratio of non-oil GDP to average broad money.

5/ Previous programs showed these ratios as shares of GDP. The revised numbers here are shown as ratios to GNP, which are thought to better reflect their value, given the magnitude and variation of oil-related factor payments.

6/ Excluding grants.

7/ The primary base balance is the overall fiscal deficit, excluding debt-service payments and foreign-financed investment.

8/ Excludes direct oil revenue, as well as income taxes on oil-producing companies.

9/ Projections for current account do not include transfers in exceptional financing.

Table 2. Chad: Consolidated Government Operations, 2001-04 1/
(In billions of CFA francs)

	2001	2002		2003						2004
				June		Sep.		Dec.		
		Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Proj. as of	Proj.
		EBS/02/173		EBS/03/77		EBS/03/77		EBS/03/77	12/15/03	Auth.
Total revenue and grants	160.5	191.8	205.9	89.9	115.6	136.0	135.2	207.9	207.5	322.6
Total revenue	91.7	108.3	110.0	59.4	61.0	90.2	91.0	132.2	133.9	208.1
Oil revenue 2/	...	...	...	...	...	...	...	7.2	8.3	59.9
Non-oil revenue	91.7	108.3	110.0	59.4	61.0	90.2	91.0	125.0	125.6	148.2
Tax revenue	78.6	95.1	98.4	52.1	55.4	79.3	83.0	110.5	110.5	123.9
Tax on revenue	38.0	33.9	45.5	20.1	27.6	30.2	41.5	40.2	57.1	45.6
Tax on goods and services	19.7	24.5	19.5	14.1	11.2	21.4	15.3	29.2	19.4	30.6
Of which : petroleum taxes	4.1	5.0	4.4	2.9	2.5	4.4	3.6	5.8	4.7	6.0
Tax on international trade	27.2	35.4	31.9	17.3	16.3	26.7	24.2	39.5	32.0	43.7
Other	1.6	1.3	1.5	0.7	0.3	1.0	1.8	1.6	2.1	4.0
Nontax revenue	13.1	13.2	11.6	7.2	5.6	10.9	8.0	14.5	15.1	24.2
Total grants	64.8	83.5	95.9	30.6	54.6	45.8	44.2	75.6	73.6	114.5
Current grants	15.5	0.0	10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance 3/	5.0	8.3	11.0	4.7	3.8	5.9	4.3	10.5	8.5	6.8
Project grants	48.2	75.2	74.4	25.9	50.9	39.9	39.9	65.1	65.1	107.7
Total expenditure	220.3	326.7	278.2	137.9	153.3	214.9	208.2	319.5	302.8	405.8
Current expenditure	109.8	143.7	137.9	67.2	70.6	100.3	108.1	145.4	138.2	156.1
Current primary expenditure	100.7	130.2	126.0	61.3	66.1	92.2	102.1	133.8	128.5	146.6
Wages and salaries	44.3	51.8	48.9	28.8	29.1	43.2	42.8	57.6	55.6	59.4
Goods and services	22.6	27.3	24.5	14.0	15.0	22.0	22.0	29.8	31.0	34.7
Transfers	6.9	20.1	18.9	7.3	5.3	7.8	15.7	17.9	17.2	22.8
Defense	19.2	19.2	23.9	9.4	14.0	16.1	18.8	21.7	21.6	29.7
Salaries	12.4	12.5	13.2	7.0	7.8	10.5	12.1	14.0	14.4	21.2
Goods and services	6.8	6.8	10.7	2.4	6.2	5.6	6.7	7.8	7.2	8.5
Famine	3.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Elections	4.7	2.1	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Peace accord implementation 4/	0.0	2.9	2.5	2.1	2.7	3.1	2.9	3.1	3.1	0.0
Contingent current expenditure	0.0	5.7	3.2	0.0	0.0	0.0	0.0	3.7	0.0	0.0
Interest	9.1	13.5	12.0	5.8	4.5	8.2	6.0	11.6	9.7	9.5
Domestic	0.6	2.6	1.3	1.0	0.3	1.4	0.1	1.9	1.4	1.9
External	8.6	10.9	10.6	4.8	4.2	6.8	5.8	9.7	8.3	7.6
Current primary balance	-9.0	-21.9	-16.0	-2.1	-5.2	-10.2	-11.1	-1.6	5.4	61.5
Current balance	-18.1	-35.4	-27.9	-7.9	-9.7	-10.2	-17.1	-13.1	-4.3	52.0
Investment expenditure	110.5	182.9	140.3	70.7	82.7	114.6	100.1	174.1	164.6	249.7
Domestically financed 5/	11.4	29.7	16.9	14.0	9.2	29.5	14.9	42.6	33.1	56.7
Foreign financed	99.1	153.2	123.5	56.7	73.5	85.1	85.1	131.5	131.5	193.0
Primary base balance, excluding oil sector revenue (commitment basis, excl. grants) 6/	-20.5	-51.7	-32.8	-16.2	-14.4	-31.5	-26.1	-51.4	-36.0	-55.3
Primary base balance (commitment basis, excl. grants) 7/	-20.5	-51.7	-32.8	-16.2	-14.4	-31.5	-26.1	-44.2	-27.7	4.7
Non-oil balance, excluding oil sector revenue (commitment basis, excl. grants)	-128.6	-218.4	-168.2	-78.6	-92.3	-124.8	-117.2	-194.5	-177.2	-257.6
Overall balance (commitment basis, excl. grants)	-128.6	-218.4	-168.2	-78.6	-92.3	-124.8	-117.2	-187.3	-168.9	-197.7
Overall balance (commitment basis, incl. grants)	-59.9	-134.8	-72.4	-48.0	-37.7	-79.0	-73.0	-111.6	-95.3	-83.2
Change in payments arrears	9.3	-17.2	-6.7	-10.5	-13.6	-9.8	-6.5	-10.5	-7.3	-30.2
External (interest)	-0.9	0.0	0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	0.0
Domestic 8/	10.2	-17.2	-7.2	-10.0	-13.3	-9.4	-6.1	-10.0	-6.9	-30.2
Float, errors, and omissions 9/	-2.1	1.9	3.2	-2.7	-0.5	-2.7	1.3	-2.7	-0.5	0.0
Overall balance (cash basis, excluding grants) 8/	-121.4	-233.6	-171.8	-91.7	-106.5	-137.2	-122.3	-200.4	-176.8	-227.9
Overall balance (cash basis, including grants) 8/	-52.7	-150.1	-75.9	-61.1	-51.9	-91.4	-78.1	-124.8	-103.2	-113.4
Total financing	52.7	150.1	75.9	61.1	51.9	91.4	78.1	124.8	87.4	91.3
External financing, excl. exceptional financing (net)	44.7	61.1	73.8	23.3	11.9	35.8	32.1	46.8	42.1	65.7
Loans	50.8	77.9	89.9	30.8	22.6	45.2	45.2	63.4	66.4	85.2
Provisioning	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.0	-4.5
Amortization due	-15.2	-20.0	-21.9	-6.8	-8.1	-9.3	-10.7	-17.0	-16.9	-16.1
Change in external arrears (principal)	-1.5	0.0	1.5	-1.5	-3.1	-1.5	-3.1	-1.5	-3.1	0.0
Rescheduling / debt relief	10.6	3.2	4.3	1.0	0.5	1.5	0.7	2.0	0.7	1.1
Domestic financing (net)	8.0	-5.9	2.1	-2.2	8.0	3.2	9.7	-3.2	5.3	-21.9
Banking system 10/	11.3	3.0	7.8	-10.7	1.8	-12.0	1.5	-19.9	-2.8	-25.4
Central bank	8.7	-2.4	7.9	-9.5	-0.8	-12.4	-0.7	-23.8	-10.0	-20.4
Of which: stabilization account	...	...	...	...	...	...	...	-4.2	-2.3	-5.0
Fund for Future Generations	...	...	...	...	...	...	...	-0.7	-0.3	-5.5
Fund for oil producing regions	...	...	...	...	...	...	...	...	-0.1	-2.5
Commercial bank	2.5	5.4	0.0	-1.2	2.5	0.3	2.2	3.9	7.2	-5.0
Nonbanking system	-3.3	-9.3	-6.2	-3.6	-2.5	-3.9	-3.6	-6.5	-3.6	-7.2
Sale of assets	0.0	0.4	0.5	12.1	8.7	21.1	11.8	21.1	11.8	10.7
Expected additional financing	0.0	82.7	0.0	35.7	32.0	46.1	32.1	74.5	35.7	47.5
World Bank	0.0	33.9	0.0	24.0	24.2	24.0	24.2	39.0	24.8	14.7
European Union	0.0	13.7	0.0	4.2	4.2	10.7	4.2	23.9	4.2	24.9
African Development Bank	0.0	4.2	0.0	3.3	0.0	6.7	0.0	6.7	3.3	4.1
Bilateral donors	0.0	2.0	0.0	2.6	2.6	2.6	2.6	2.6	2.6	2.6
HIPC Initiative exceptional financing 11/	0.0	4.9	0.0	1.6	1.0	2.0	1.1	2.3	1.6	1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund disbursement	0.0	12.2	0.0	4.3	0.0	4.3	4.2	8.6	4.2	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.7	22.1
Memorandum item:										
Priority sector spending financed by earmarked oil revenue	...	...	...	...	...	...	...	...	...	35.0

Sources: Chadian authorities; and staff estimates and projections.

1/ Excluding public contract taxation.
2/ Oil export price based on World Economic Outlook projection with a discount for quality. Larger than originally projected oil exports are now expected in 2003, but oil revenue going to the budget is lower because the revenue transfer mechanism operates with a one-month lag.
3/ Includes only HIPC assistance that has been replenished into the HIPC account.
4/ Spending includes salaries as well as goods and services.
5/ Includes the 2003 off-budget operation referred to in paragraph 8 in the staff report.
6/ Excludes direct oil revenue, as well as income taxes on oil-producing companies.
7/ Overall fiscal balance, excluding debt-service payments and foreign-financed investment.
8/ 2004 projection includes repayment of arrears equivalent to the CFAF 15.7 billion financing gap shown for 2003. These payments would be carried out using external financing postponed in 2003 and disbursed.
9/ Includes late debt-service payments that are not yet classified as arrears as well as arrears and repayments of previous years' arrears to the HIPC account.
10/ Includes net use of government deposits in the banking system, and repayments to the IMF. Starting in 2003, includes also money saved for stabilization purposes.
11/ HIPC Initiative assistance from bilateral creditors. Includes only HIPC assistance that has been replenished into the HIPC account.

Table 3. Chad: Consolidated Government Operations, 2001-04 1/
(In percent of GNP, unless otherwise specified) 2/

	2001	2002		2003		2004
		Prog. EBS/02/173	Est.	Prog. EBS/03/77	Proj. as of 12/15/03	Proj. Auth.
Total revenue and grants	13.3	14.1	15.0	13.6	14.8	20.2
Total revenue	7.6	8.0	8.0	8.6	9.5	13.1
Oil revenue	...	...	...	0.5	0.6	3.8
Non-oil revenue	7.6	8.0	8.0	8.1	8.9	9.3
Tax revenue	6.5	7.0	7.2	7.2	7.9	7.8
Nontax revenue	1.1	1.0	0.8	0.9	1.1	1.5
Total grants	5.7	6.1	7.0	4.9	5.2	7.2
Of which: HIPC Initiative assistance 3/	0.4	0.6	0.8	0.7	0.6	0.4
Total expenditure	18.3	24.0	20.3	20.8	21.6	25.5
Current expenditure	9.1	10.6	10.1	9.5	9.8	9.8
Of which: current primary expenditure	8.4	9.6	9.2	8.7	9.2	9.2
Current primary balance	-0.8	-1.6	-1.2	-0.1	0.4	3.9
Total investment expenditure	9.2	13.4	10.2	11.4	11.7	15.7
Domestically financed	1.0	2.2	1.2	2.8	2.4	3.6
Foreign financed	8.2	11.2	9.0	8.6	9.4	12.1
Primary base balance,excluding oil sector revenue (excluding grants) 4/	-1.7	-3.8	-2.4	-3.4	-2.6	-3.5
Primary base balance (excluding grants)	-1.7	-3.8	-2.4	-2.9	-2.0	0.3
Non-oil balance, excluding oil sector revenue (commitment basis, excl. grants)	-10.7	-16.0	-12.3	-12.7	-12.6	-16.2
Overall balance (commitment basis, excl. grants)	-10.7	-16.0	-12.3	-12.2	-12.0	-12.4
Overall balance (commitment basis, incl. grants)	-5.0	-9.9	-5.3	-7.3	-6.8	-5.2
Overall balance (cash basis, incl. grants) 5/	-4.4	-11.0	-5.5	-8.1	-7.3	-7.1
Total financing	4.4	11.0	5.5	8.1	6.2	5.7
External financing (net)	3.7	4.5	5.4	3.1	3.0	4.1
Domestic financing (net)	0.7	-0.4	0.2	-0.3	0.4	-1.4
Expected additional financing 3/	0.0	6.1	0.0	4.9	2.5	3.0
Fund disbursement	0.0	0.9	0.0	0.6	0.3	0.0
Financing gap	0.0	0.0	0.0	0.0	1.1	1.4
Memorandum items:						
HIPC Initiative assistance (total)	0.4	1.0	0.8	0.8	0.7	0.5
HIPC Initiative assistance (total, billions of CFA francs)	5.0	13.1	11.0	12.8	10.1	8.0
Nominal GDP (billions of CFA francs)	1,221	1,349	1,392	1,600	1,537	2,259
Nominal GNP (billions of CFA francs)	1,203	1,362	1,371	1,534	1,404	1,594
Oil revenue (in percent of total revenue)	...	...	...	5.5	6.2	28.8
Priority sector spending financed by earmarked oil revenue	...	...	...	...	...	2.2
Priority sector spending financed by earmarked oil revenue (in percent of total expenditure)	...	...	...	...	...	8.6

Sources: Chadian authorities; and staff estimates and projections.

1/ Excluding public contract taxation.

2/ Previous programs used to show these ratios as shares of GDP.

3/ Includes only HIPC assistance that has been paid into the HIPC account.

4/ Excludes direct oil revenue, as well as income taxes on oil-producing companies.

5/ 2004 projection includes repayment of arrears equivalent to the CFAF 15.7 billion financing gap shown for 2003. These payments would be carried out using external financing postponed in 2003 and disbursed in 2004.

Table 4. Chad: Domestically Financed Primary Expenditure, 2002-04

	2002		2003		2004
	Prog.	Est.	Prog.	Proj. as of 12/15/03	Proj. 1/
	(In billions of CFA francs)				
Total	159.9	142.8	176.4	161.6	200.3
Priority spending for poverty reduction	72.3	52.8	87.9	66.7	102.4
Health and social affairs	17.5	13.6	22.9	18.4	28.2
Education	28.0	25.3	32.9	26.5	40.7
Rural development	14.7	7.7	16.9	13.6	20.9
Infrastructure	6.7	2.4	10.2	8.2	12.6
Good governance 2/	5.4	3.9	5.0	...	...
Nonpriority spending	87.6	90.0	88.5	94.9	97.9
Nonpriority civilian spending	64.5	62.6	65.8	73.2	71.1
Military spending	23.1	27.5	22.7	21.6	26.8
	(In percent of total)				
Total	100.0	100.0	100.0	100.0	100.0
Priority spending for poverty reduction	45.2	37.0	49.8	41.3	51.1
Health and social affairs	10.9	9.5	13.0	11.4	14.1
Education	17.5	17.7	18.7	16.4	20.3
Rural development	9.2	5.4	9.6	8.4	10.4
Infrastructure	4.2	1.6	5.8	5.1	6.3
Good governance 2/	3.4	2.7	2.8	...	...
Nonpriority spending	54.8	63.0	50.2	58.7	48.9
Nonpriority civilian spending	40.3	43.8	37.3	45.3	35.5
Military spending	14.5	19.2	12.9	13.4	13.4
Memorandum item:					
Priority sector spending financed by earmarked oil revenue (in billions of CFA francs)	...	...	...	...	35.0

Sources: Chadian authorities; and staff estimates and projections.

1/ Projections for 2004 are IMF projections.

2/ From 2003 onward, spending on good governance is not included in priority sector spending.

Table 5. Chad: Balance of Payments, 2001-06

	2001	2002		2003		2004 12/	2005	2006
		Prog. EBS/01/173	Est.	Prog. EBS/03/77	Proj. as of 12/15/03		Proj.	
	(In billions of CFA francs)							
Current account, incl. official current transfers	-429.4	-705.6	-722.1	-566.4	-616.5	-285.6	-183.6	-186.4
Current account, excl. official current transfers	-457.9	-705.6	-747.2	-576.9	-628.5	-303.6	-195.3	-196.9
Current account, excl. pipeline imports	-146.6	-265.9	-165.4	-201.6	-208.1	-99.3	-51.5	-79.9
Trade balance, incl. oil sector	-241.3	-396.3	-446.0	-268.7	-247.8	546.7	738.6	675.6
Trade balance, excl. oil sector	-54.2	-105.4	-84.2	-102.1	-123.4	-138.6	-138.0	-150.0
Exports, f.o.b.	138.3	125.1	119.4	206.1	274.1	969.1	1,138.6	1,084.2
Of which: oil exports 1/	0.0	...	0.0	74.7	145.9	833.5	991.6	924.2
Imports, f.o.b.	379.6	521.4	565.4	474.8	521.9	422.4	399.9	408.6
Formal imports	318.2	459.1	491.9	412.1	430.5	321.6	287.0	282.9
Of which: pipeline-related imports	187.1	290.9	361.8	241.3	270.3	148.2	115.0	98.6
Informal	61.4	62.2	73.5	62.7	91.4	100.8	113.0	125.7
Services, incl. oil sector (net)	-204.4	-289.9	-284.5	-237.1	-252.5	-186.2	-165.3	-160.1
Services, excl. oil sector (net)	-108.7	-141.1	-89.6	-113.6	-114.4	-148.1	-148.2	-152.2
Credit	47.8	38.6	51.2	41.1	52.5	56.5	60.5	66.4
Debit	252.2	328.6	335.6	278.2	305.0	242.7	225.8	226.6
Of which: pipeline related	95.7	148.8	194.8	123.5	138.1	38.1	17.1	7.9
Factor income (net)	-17.7	-12.5	-21.2	-66.5	-132.3	-664.9	-763.8	-708.0
Of which: oil-related debit	0.0	0.0	0.0	-54.9	-110.0	-644.6	-741.0	-682.3
Current transfers (net)	34.0	-6.9	29.7	5.9	16.0	18.8	6.8	6.2
Official (net)	28.5	0.0	25.2	10.5	12.0	18.1	11.6	10.5
Of which: HIPC Initiative grants 2/	5.0	8.3	11.0	10.5	8.5	6.8	9.1	9.0
Private (net)	5.5	-6.9	4.5	-4.6	4.1	0.8	-4.9	-4.4
Capital and financial account	390.8	617.3	810.5	524.9	565.0	256.7	206.1	188.9
Long- and medium-term capital	420.8	614.8	766.4	529.5	580.3	314.2	253.8	224.7
Public	83.8	141.4	138.4	114.6	105.6	168.3	172.9	171.3
Project grants 3/	48.2	75.2	70.4	65.1	61.1	103.7	104.8	105.9
Loans	35.6	57.9	68.0	49.4	44.5	64.6	68.1	65.4
Drawings	50.8	77.9	89.9	66.4	66.4	85.2	86.1	86.9
Repayments 4/	-15.2	-20.0	-21.9	-17.0	-22.0	-20.6	-18.0	-21.5
Private	337.0	473.3	628.0	414.9	474.7	145.8	80.9	53.4
Direct investment	338.3	472.3	628.3	412.5	474.7	145.8	80.9	53.4
Of which: direct oil project investment	287.8	447.5	608.4	389.4	448.7	119.0	53.3	24.7
Other investments	-0.3	1.0	-0.3	2.4	0.0	0.0	0.0	0.0
Short-term capital	-30.1	2.5	44.1	-4.6	-15.3	-57.4	-47.7	-35.8
Net errors and omissions	29.8	0.0	-48.4	0.0	-6.2	0.0	0.0	0.0
Overall balance	-8.8	-88.3	40.0	-41.5	-57.8	-28.8	22.5	2.5
Committed financing	8.8	5.6	-40.0	-33.0	42.0	4.6	-43.6	-23.7
Change in official net reserves	-3.3	-4.8	-46.3	-31.2	9.1	-44.0	-54.7	-25.2
Of which: use of Fund resources (net)	10.2	7.1	6.9	-1.9	-6.2	-7.4	-8.6	-7.2
stabilization fund	0.0	0.0	0.0	-4.2	-2.3	-10.1	-23.8	-4.3
Change in arrears	1.5	0.0	2.0	-2.0	-3.5	0.0	0.0	0.0
Rescheduling of public debt and arrears 5/	10.6	3.2	4.3	2.0	0.7	1.1	0.0	0.0
Financing need	0.0	82.7	0.0	74.5	51.4	71.8	32.2	22.7
Identified financing	0.0	82.7	0.0	74.5	35.7	47.5	11.1	1.5
European Union (EU)	0.0	15.7	0.0	23.9	4.2	24.9	5.2	0.0
World Bank	0.0	55.9	0.0	39.0	24.0	14.7	0.0	0.0
African Development Bank	0.0	4.2	0.0	6.7	3.3	4.1	4.1	0.0
Bilateral donors	0.0	2.0	0.0	2.6	2.6	2.6	0.0	0.0
Projected HIPC Initiative assistance	0.0	4.9	0.0	2.3	1.6	1.2	1.8	1.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	15.7	24.2	21.1	21.2
Memorandum items:	(In percent, unless otherwise indicated)							
Nominal GNP (in billions of CFA francs)	1,203	1,362	1,371	1,534	1,404	1,594	1,817	2,010
Current account balance (incl. official current transfers)/GNP 6/	-35.7	-51.8	-52.7	-36.9	-43.9	-17.9	-10.1	-9.3
Current account balance (excl. official current transfers)/GNP	-38.0	-51.8	-54.5	-37.6	-44.8	-19.1	-10.8	-9.8
Current account balance (excl. oil sector, incl. off. transfers)/GNP	-12.2	-19.7	-12.1	-13.3	-14.8	-6.2	-2.8	-4.0
Gross official reserves (in billions of CFA francs)	93	97	139	170	130	174	229	254
Gross official reserves (in months of imports (incl. oil sector)) 7/	1.8	1.5	1.9	3.0	1.9	3.1	4.4	4.8
Gross official reserves (in months of imports (excl. oil sector)) 7/	3.2	3.4	4.8	6.3	3.7	4.4	5.6	5.8
Debt outstanding (in billions of CFA francs) 8/	903	957	923	1,027	941	951	948	937
Debt outstanding/GNP 8/	75.0	70.3	67.4	67.0	67.0	59.7	52.2	46.6
Debt service/exports of goods and services 9/ 11/	4.8	...	12.0	9.8	10.5	2.7	2.2	2.8
Debt service/government revenue, excluding grants 9/ 11/	9.8	...	18.7	18.3	25.5	13.2	9.9	11.1
NPV of debt-to-exports ratio 10/ 11/	226.0	215.6	222.2	221.9	158.5	73.2	46.2	37.1

Sources: Chadian authorities; and staff estimates and projections.

1/ Oil export price based on World Economic Outlook projection with a discount for quality.

2/ HIPC interim assistance from multilateral creditors is recorded as current transfers in the current presentation.

3/ Excluding technical assistance grants.

4/ Including provisioning.

5/ Includes HIPC assistance from bilateral creditors for 2001 and 2002, and only traditional debt relief from 2003 onward.

6/ Assuming that the budgetary support expected from the EU and bilateral donors from 2003 onward will materialize.

7/ In months of imports of goods and services, excluding imports related to oil export sector.

8/ Before stock-of-debt operation.

9/ Debt service due, after HIPC Initiative assistance.

10/ Based on the three-year, backward-looking average of exports of goods and nonfactor services.

11/ Debt service and NPV ratios are based on the legal situation. For an explanation of differences with debt sustainability ratios shown in Appendix V, see footnote 9, Table 1, Appendix V.

12/ Projections for 2004 and onward are IMF projections.

Table 6. Chad: Monetary Survey, 2001-04

	2001	2002		2003						2004
				June		Sep.		Dec.		Dec.
		Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Proj. as of	Proj. 3/
		EBS/02/173		EBS/03/77		EBS/03/77		EBS/03/77	12/15/03	
	(In billions of CFA francs)									
Net foreign assets	27.8	34.6	81.3	100.4	72.7	44.1	62.8	119.5	70.2	107.2
Central bank	25.5	30.2	71.6	87.2	63.9	35.3	50.9	102.8	62.5	106.5
Commercial banks	2.3	4.3	9.7	13.2	8.8	8.7	11.9	16.7	7.7	0.7
Medium- and long-term liabilities	-1.9	-1.9	-2.4	-2.4	-3.3	-1.9	-3.1	-2.4	-2.4	-2.4
Net domestic assets	125.6	141.5	109.3	116.4	125.1	162.1	134.2	90.4	129.2	112.5
Domestic credit	157.1	175.2	151.6	159.7	165.6	197.1	175.6	134.6	167.6	152.9
Claims on the government (net) 1/	77.4	82.5	72.4	58.3	66.9	81.6	74.1	46.6	62.4	31.9
Treasury (net)	87.4	92.5	80.3	68.4	81.9	91.6	79.9	56.7	70.2	39.7
Banking sector 2/	21.2	19.1	13.4	-0.1	21.8	17.3	18.1	-12.7	9.2	-25.2
Fund position	66.2	73.4	66.9	68.5	60.1	74.3	61.9	69.4	61.1	64.9
Other nontreasury	-10.0	-10.0	-7.9	-10.0	-15.0	-10.0	-5.8	-10.0	-7.8	-7.8
Credit to the economy	79.8	92.7	79.1	101.3	98.6	115.5	101.4	88.0	105.2	120.9
Other items (net)	-31.5	-33.6	-42.3	-43.2	-40.5	-35.0	-41.4	-44.2	-38.4	-40.3
Money and quasi money	151.5	174.2	188.2	214.5	194.6	204.3	193.8	207.5	197.0	217.3
Currency outside banks	93.9	98.2	116.8	122.4	110.7	102.8	114.3	120.3	120.3	132.7
Demand deposits	47.4	62.5	59.8	75.7	69.5	83.5	67.1	71.7	63.6	70.1
Time and savings deposits	10.2	13.5	11.6	16.4	14.4	18.0	12.5	15.5	13.1	14.5
	(Changes in percent of beginning-of-period money stock, unless otherwise specified)									
Net foreign assets	-6.6	4.5	35.3	10.2	-4.6	5.5	-9.8	20.3	-5.9	18.8
Net domestic assets	29.1	10.5	-10.8	5.0	8.4	11.8	13.2	-8.9	10.6	-8.5
Domestic credit	23.8	11.9	-3.7	5.5	7.5	12.6	12.8	-7.8	8.5	-7.5
Claims on the government (net) 1/	12.6	3.4	-3.3	-6.3	-2.9	-0.5	0.9	-12.5	-5.3	-15.5
Of which: treasury (net)	13.0	3.4	-4.7	-6.3	0.9	-0.5	-0.2	-12.6	-5.3	-15.5
Credit to the economy	11.2	8.5	-0.4	11.8	10.4	6.2	11.9	4.7	13.8	8.0
Credit to the economy (annual percentage change)	21.0	16.2	-0.8	...	...	...	...	11.2	32.9	15.0
Money and quasi money	22.9	15.0	24.2	14.0	3.4	17.3	3.0	10.3	4.7	10.3
Currency outside banks	10.7	2.8	15.1	3.0	-3.3	2.7	-1.4	1.8	1.9	6.3
Demand deposits	10.6	10.0	8.2	8.5	5.2	12.0	3.9	6.3	2.0	3.3
Time and savings deposits	1.6	2.2	0.9	2.5	1.5	2.6	0.5	2.1	0.8	0.7
Memorandum items:										
Nominal non-oil GDP (in billions of CFA francs)	1,221	1,349	1,336	...	...	...	...	1,600	1,361	1,497
Money multiplier (M2 as a fraction of base money)	1.41	1.55	1.29	...	...	...	...	1.38	1.45	1.45
Money velocity (non-oil GDP relative to M2)	8.1	7.7	7.1	...	...	...	...	7.7	6.9	6.9
GNP/M2 velocity	7.9	7.8	7.3	...	...	...	...	7.4	7.1	7.3
Gross reserves (in percent of M2)	61.6	56.3	73.8	...	...	...	...	82.0	65.9	80.0

Sources: Bank of Central African States (BEAC); and staff estimates and projections.

1/ Including net use of Fund resources.

2/ Data reflect the definition used by BEAC headquarters, which is not directly comparable to the definition used for program monitoring.

3/ Projections for 2004 are IMF projections.

Primary base balance, excluding oil revenue 3/ 4/

Table 7. Chad: Selected Economic and Financial Indicators, 2000-20 1/

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(Annual percentage change, unless otherwise specified)																				
National income																					
GDP at constant prices	-0.6	9.5	9.9	10.0	37.9	13.3	4.4	4.0	4.1	-0.1	-3.5	-0.4	-0.4	3.3	3.1	3.8	3.8	4.2	4.3	4.4	4.4
Excluding oil sector	-0.7	7.4	7.1	5.2	5.6	5.1	5.3	5.0	5.2	5.6	5.6	5.7	5.4	5.3	5.3	5.3	5.3	5.4	5.4	5.4	5.4
Oil sector	57.6	837.0	135.2	108.8	377.5	32.5	2.8	2.1	2.0	-11.6	-25.2	-20.8	-26.8	-9.9	-13.5	-10.3	-12.5	-11.5	-11.6	-14.6	-17.4
GDP at current prices	5.1	23.3	14.0	10.4	47.0	14.2	5.3	6.4	7.1	3.1	0.0	3.0	3.1	6.4	6.4	7.0	7.1	7.4	7.6	7.6	7.7
GNP at current prices	4.5	23.2	13.9	2.5	13.5	14.0	10.6	9.3	9.7	12.0	4.4	6.1	7.1	7.5	7.8	7.7	7.5	7.8	7.6	8.1	7.9
GNDI at current prices	5.4	22.2	13.2	1.7	15.8	11.5	10.2	8.9	9.5	12.1	4.5	6.1	7.1	7.4	7.8	7.5	7.5	7.7	7.6	8.1	7.9
Money and credit																					
Net foreign assets 2/	-2.7	-6.6	35.3	-5.9	18.8	25.2	10.6	5.2	11.5	38.6	17.1	7.3	6.9	3.4	3.7	1.3	-0.8	-1.0	-2.2	0.4	1.7
Net domestic assets 1/	21.1	29.1	-10.8	10.6	-8.5	-15.5	-0.6	4.0	-2.4	-29.0	-7.9	1.8	1.9	5.2	5.0	7.4	9.6	9.8	11.0	8.5	7.1
Domestic credit 1/	24.5	23.8	-3.7	8.5	-7.5	-14.9	-0.1	4.5	-1.9	-28.6	-7.5	2.2	2.3	5.6	5.4	7.7	9.9	10.1	10.8	8.2	6.9
Net claims on central government 2/	18.1	12.6	-3.3	-5.3	-15.5	-20.5	-9.0	-4.5	-8.5	-35.2	-13.9	-4.1	-3.9	-0.5	-0.8	1.5	3.7	3.8	4.1	1.4	0.0
Credit to nongovernment sector	11.6	21.0	-0.8	32.9	15.0	10.0	16.0	15.3	10.5	10.5	10.0	9.8	9.5	9.4	9.4	9.4	9.4	9.5	10.0	10.0	10.0
Broad money	18.3	22.9	24.2	4.7	10.3	9.7	10.0	9.2	9.1	9.6	9.2	9.1	8.8	8.7	8.7	8.7	8.8	8.8	8.8	8.8	8.8
GDP non-oil/broad money 3/	8.0	7.9	7.1	6.9	6.9	6.9	6.9	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.7	6.7	6.7	6.7	6.7	6.6	6.6
External sector																					
Exports, f.o.b.	12.5	6.3	-13.7	129.6	253.6	17.5	-4.8	-0.4	2.1	-7.0	-17.4	-10.6	-14.1	-1.7	-2.0	1.1	1.0	2.7	4.1	5.2	6.1
Non-oil exports/non-oil GDP 3/	13.2	11.6	8.9	9.4	9.1	9.0	8.9	8.9	9.0	9.0	9.1	9.2	9.3	9.4	9.6	9.7	9.8	9.9	10.0	10.3	10.6
Imports, f.o.b.	19.5	93.2	48.9	-7.7	-19.1	-5.3	2.2	1.6	4.0	5.6	2.9	5.6	3.7	5.8	5.6	6.1	6.3	6.6	6.7	6.8	6.8
Non-oil imports/non-oil GDP 3/	14.3	14.5	13.7	16.7	16.7	16.7	16.6	16.3	16.0	15.7	15.4	15.3	15.1	14.9	14.7	14.5	14.4	14.2	14.0	13.9	13.7
Export volumes	6.6	-11.3	-2.2	75.1	193.1	23.7	0.8	0.8	0.9	-7.5	-17.8	-11.7	-15.3	-3.7	-4.4	-1.7	-1.5	0.1	1.3	1.2	1.8
Import volumes	13.5	119.8	58.6	-6.6	-25.2	-5.0	-0.6	-1.3	1.4	3.7	0.5	3.6	1.5	3.8	3.7	4.2	4.4	4.7	4.9	5.0	4.9
	(In percent of GNP, unless otherwise specified)																				
Basic ratios																					
Gross investment	22.6	43.7	59.8	49.0	27.8	21.4	20.5	19.8	19.9	19.7	20.1	20.4	20.6	20.9	21.1	21.3	21.7	21.9	22.5	23.1	23.7
Central government	10.6	9.2	10.2	11.7	15.3	14.0	13.0	12.3	11.8	11.1	11.3	11.4	11.5	11.5	11.7	11.8	12.0	12.2	12.4	12.6	12.8
Private sector	12.0	34.5	49.6	37.3	12.5	7.5	7.5	7.5	8.0	8.6	8.9	9.0	9.2	9.3	9.4	9.5	9.6	9.7	10.1	10.5	10.9
Of which : oil sector	5.6	23.9	44.4	30.7	7.5	2.9	1.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Gross domestic savings	2.0	6.6	6.5	13.4	50.4	53.0	46.2	43.1	41.3	34.8	27.9	23.7	19.8	18.7	17.7	17.4	17.0	16.9	17.3	17.8	18.4
Central government	-2.0	-1.5	-2.0	-0.3	3.1	4.8	4.2	4.5	5.5	8.7	6.7	5.8	6.0	5.9	6.2	6.4	6.5	6.7	7.0	7.6	8.1
Private sector	4.0	8.1	8.5	13.7	47.4	48.2	41.9	38.7	35.8	26.2	21.2	17.9	13.8	12.8	11.5	11.0	10.6	10.1	10.3	10.1	10.3
Gross national savings	4.3	8.0	7.1	5.4	12.2	12.2	11.8	12.0	13.1	16.9	15.0	14.2	14.4	14.3	14.7	14.8	14.9	15.0	15.4	16.4	17.2
Central government	1.2	0.9	-0.2	0.8	6.5	6.3	5.3	5.1	6.0	9.1	7.1	6.2	6.4	6.2	6.4	6.4	6.5	6.8	7.0	7.6	8.1
Private sector	3.1	7.1	7.3	4.5	5.7	5.8	6.5	6.9	7.1	7.8	7.9	8.0	8.0	8.1	8.2	8.3	8.4	8.3	8.4	8.7	9.0

Table 7. Chad: Selected Economic and Financial Indicators, 2000-20 1/ (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(In percent of GNP, unless otherwise specified)																				
Central government finance																					
Revenue	8.2	7.6	8.0	9.5	13.1	15.0	14.4	14.6	15.7	18.7	17.2	16.8	17.3	17.6	18.2	18.7	19.1	19.5	20.0	20.8	21.5
Of which: oil revenue	0.0	0.0	0.0	0.6	3.8	4.6	3.7	3.5	4.3	7.1	4.7	3.4	3.2	2.7	2.6	2.4	1.9	1.5	1.0	1.0	0.7
Total expenditure	20.8	18.3	20.3	21.6	25.3	24.1	23.1	22.4	22.0	21.1	21.8	22.4	22.8	23.2	23.6	24.2	24.7	25.0	25.4	25.8	26.2
Current primary balance (- =deficit) 4/	-1.0	-0.8	-1.2	0.4	3.7	5.4	4.9	5.2	6.1	9.2	7.2	6.3	6.5	6.4	6.6	6.8	6.8	7.1	7.3	7.9	8.4
Domestic primary base balance, excluding oil sector revenue 4/ 5/	-2.1	-1.7	-2.4	-2.6	-3.3	-2.4	-2.0	-1.6	-1.6	-1.5	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-0.9	-0.6	-0.3	0.0
Domestic primary base balance 4/ 5/	-2.1	-1.7	-2.4	-2.0	0.5	2.2	1.6	1.9	2.7	5.7	3.3	2.0	1.9	1.4	1.3	1.0	0.7	0.6	0.4	0.6	0.7
Overall fiscal balance (commitment basis) 4/	-12.6	-10.7	-12.3	-12.0	-12.2	-9.1	-8.8	-7.8	-6.3	-2.4	-4.6	-5.6	-5.4	-5.6	-5.4	-5.5	-5.6	-5.5	-5.4	-5.0	-4.7
Non-oil fiscal balance, excluding oil sector revenue (commitment basis) 4/	...	...	...	-12.6	-16.0	-13.7	-12.5	-11.4	-10.6	-9.5	-9.3	-9.0	-8.6	-8.3	-8.1	-7.9	-7.5	-7.0	-6.5	-5.9	-5.4
Overall fiscal balance (cash basis) 4/ 6/	-12.7	-10.1	-12.5	-12.6	-14.1	-9.5	-8.9	-7.9	-6.3	-2.4	-4.6	-5.6	-5.4	-5.6	-5.4	-5.5	-5.6	-5.5	-5.4	-5.0	-4.7
Overall fiscal balance (com.basis, including grants)	-6.9	-5.0	-5.3	-6.8	-5.0	-2.6	-2.9	-2.4	-1.3	2.1	-0.1	-1.3	-1.3	-1.7	-1.7	-2.0	-2.3	-2.3	-2.4	-2.0	-1.8
External sector																					
Current account (- deficit)																					
Excluding official transfers	-21.5	-38.0	-54.5	-44.8	-19.1	-10.8	-9.8	-8.5	-7.2	-3.2	-5.5	-6.6	-6.6	-6.8	-6.6	-6.6	-6.8	-6.9	-7.1	-6.7	-6.5
Excluding official transfers and oil-related imports	-16.2	-14.6	-13.9	-15.7	-7.4	-3.5	-4.5	-4.5	-3.9	-0.2	-3.2	-4.6	-5.2	-5.6	-5.6	-5.8	-6.1	-6.3	-6.6	-6.3	-6.1
NPV of debt-to-exports ratio 7/	214.0	226.0	222.2	158.5	73.2	46.2	37.1	38.5	41.6	45.2	51.8	61.9	75.4	87.0	97.1	102.2	106.2	108.6	109.9	109.9	108.7
Gross official reserves (in months of imports (excluding oil sector)) 8/ 9/	3.0	3.4	4.8	3.7	4.4	5.6	5.8	5.8	6.2	8.1	8.8	8.7	8.6	8.3	8.1	7.7	7.1	6.6	6.0	5.6	5.4
	(In millions of U.S. dollars, unless otherwise specified)																				
Nominal GNP (in billions of CFA francs)	977	1,203	1,371	1,404	1,594	1,817	2,010	2,197	2,410	2,699	2,818	2,990	3,201	3,441	3,708	3,992	4,291	4,625	4,976	5,378	5,801
Nominal GDP (in billions of CFA francs)	991	1,221	1,392	1,537	2,259	2,580	2,718	2,890	3,096	3,193	3,193	3,288	3,389	3,607	3,836	4,105	4,395	4,719	5,075	5,461	5,880
Nominal GDP per capita	186	218	254	328	467	514	524	540	560	564	550	552	555	577	598	625	653	684	717	753	791
Nominal GNP	1,370	1,643	1,969	2,416	2,718	3,059	3,359	3,646	3,972	4,449	4,645	4,928	5,277	5,672	6,112	6,580	7,072	7,624	8,202	8,864	9,562
Nominal GNP per capita	183	214	251	300	329	362	387	410	436	476	485	502	525	550	578	608	637	670	703	741	780
Oil revenue (in percent of total revenue)	...	...	...	6.2	28.8	30.9	25.7	24.3	27.3	38.1	27.3	20.2	18.5	15.5	14.4	12.8	9.9	7.8	5.2	4.7	3.5
Priority sector spending financed by earmarked oil revenue (in percent of GNP)	...	...	...	0.0	1.9	2.0	2.2	2.6	2.5	2.2	1.3	1.0	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2
Priority sector spending financed by earmarked oil revenue (in percent of total expenditure)	...	...	...	0.0	7.4	8.5	9.7	11.4	11.5	10.5	5.7	4.4	3.2	2.6	2.0	1.5	1.3	1.1	0.9	0.8	0.6

Sources: Chadian authorities; and staff estimates and projections.

1/ Projections for 2004 and onward are IMF projections.

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

3/ Ratio in percent.

4/ The domestic primary base balance is the overall fiscal deficit, excluding debt-service payments and foreign-financed investment.

5/ In percent of non-oil GDP.

6/ 2004 projection includes repayment of arrears equivalent to the CFAF 15.7 billion financing gap shown for 2003. These payments would be carried out using external financing postponed in 2003 and disbursed in 2004.

7/ Based on the three-year, backward-looking average of exports of goods and nonfactor services.

8/ In months of imports of goods and nonfactor services, excluding imports relating to oil export sector.

9/ Official reserves include the Fund for Future Generations.

Table 8. Chad: GDP by Sector, 2001-20

	2001-03	2004-10	2011-20	2004-20
	(Annual growth rate, in percent)			
Primary sector	4.6	4.3	4.3	4.3
Agriculture	6.4	5.5	5.3	5.4
Food crops	7.2	5.6	5.5	5.5
Industrial crops	1.3	4.5	4.0	4.2
Livestock	2.7	2.9	3.0	3.0
Fishing and mining	3.5	2.6	2.3	2.4
Secondary sector	25.4	13.9	-2.2	4.1
Secondary sector, excluding oil production	11.6	5.9	6.0	5.9
Manufacturing	2.0	3.9	6.2	5.2
Of which: cotton processing	-0.8	0.2	4.0	2.4
Handicrafts	7.4	6.3	6.0	6.1
Electricity and water	10.3	5.2	5.0	5.1
Construction and public works	12.1	8.9	6.0	7.2
Oil sector 1/	...	27.4	-13.2	1.7
Tertiary sector	7.6	7.2	4.8	5.8
Commerce, transport	7.7	6.2	6.0	6.1
Commerce	7.9	6.1	6.0	6.0
Transport	6.3	7.1	6.0	6.4
General government	7.1	5.6	5.4	5.5
Other	7.9	10.8	1.7	5.4
Total GDP at market prices	9.8	7.9	3.0	5.0
GDP at market prices, excl. oil production	6.6	5.3	5.4	5.4
	(In percent of total GDP)			
Primary sector	36.6	22.6	26.4	25.2
Agriculture	16.7	10.2	14.3	13.0
Food crops	14.7	9.0	12.9	11.7
Industrial crops	2.0	1.2	1.5	1.4
Livestock	16.7	10.2	9.9	10.0
Fishing and mining	3.2	2.2	2.2	2.2
Secondary sector	16.5	38.1	17.5	23.9
Secondary sector, excluding oil production	10.3	8.0	11.4	10.3
Manufacturing	2.2	1.6	2.4	2.1
Of which: cotton processing	0.3	0.1	0.1	0.1
Handicrafts	6.2	4.5	6.3	5.7
Electricity and water	0.5	0.4	0.5	0.4
Construction and public works	1.4	1.5	2.3	2.0
Oil sector 1/	6.2	30.1	6.1	13.6
Tertiary sector	43.3	36.7	52.5	47.6
Commerce, transport	23.8	20.6	28.8	26.2
Commerce	21.3	18.7	26.3	24.0
Transport	2.6	1.9	2.5	2.3
General government	10.8	9.5	14.5	13.0
Other	8.7	6.6	9.2	8.4
Duties and taxes on imports	3.6	2.7	3.6	3.3
Total GDP at market prices	100.0	100.0	100.0	100.0
GDP at market prices, excl. oil sector	93.8	69.9	93.9	86.4
GDP at market prices, oil sector 1/	6.2	30.1	6.1	13.6

Sources: Chadian authorities; and staff estimates and projections.

1/ Oil sector comprises oil production, transportation, and investment related to the oil export sector (including the oil pipeline).

Table 9. Chad: Tracking Delivery of HIPC Initiative Assistance
(Decision point, May 2001; floating completion point)

	When/How Did Authorities Contact Creditor?	Agreement to Provide HIPC Relief ? (Date)?	Agreement to Provide Interim Assistance? (Date)?	Begun to Deliver Interim Assistance (Date)?	Begun to Deliver Comp.Point Assistance? (Date)?	Amount of Interim Assistance (Millions of	Modalities/ *Comments*
Multilateral creditors 1/							
IMF	Decision point	yes (05/16/01)	yes (05/16/01)	yes (09/14/01)	...	10.0	Partial payment of debt service.
IDA/IBRD	Decision point	yes (05/22/01)	yes (05/25/01)	yes (06/01/01)	...	13.6	Debt service reduction
IFAD	Letter dated 01/07/03	...	...	...	...	...	No answer yet/ *In principle, IFAD provides debt-service reduction starting at completion point*
IsDB	IsDB's initiative	yes (03/01/03)	yes (03/16/03)	no	...	...	Rescheduling
OPEC Fund	OPEC's inititaive	yes (8/29/01)	yes (02/26/02)	yes (06/26/02)	...	7.0	New concessional loan of US$7 million and restructuring.
European Union	EIB's inititative	yes (11/12/02)	yes (11/12/02)	yes (11/12/02)	...	0.6	Debt-service reduction during interim, supplemented with grants at completion point.
AfDB	AfDB's inititative	yes (07/11/01)	yes (10/22/01)	yes (10/01/01)	...	8.8	Debt-service reduction
BADEA	Letter dated 01/07/03	...	...	...	...	...	No answer yet/*flow operation expected at completion point*
Paris Club creditors 2/							
Austria	Letter dated 08/06/01	yes (08/21/01)	yes (08/21/01)	yes (09/14/01)	...	0.0	Flow operation / *debt relief beyond HIPC assistance: flow operation with 100% debt reduction on eligible debt*
France	Formal request, 06/12/01	yes (06/12/01)	yes (06/12/01)	yes (03/1703)	...	4.9	Flow operation / *debt relief beyond HIPC assistance: flow operation with 100% debt reduction on eligible debt*
Germany	Formal request, 06/12/01	yes (06/12/01)	yes (06/12/01)	yes (03/28/02)	...	0.1	Flow operation
Italy	Formal request, 06/12/01	yes (06/12/01)	yes (06/12/01)	yes (09/23/02)	...	1.2	Flow operation / *debt relief beyond HIPC assistance: flow operation with 100% debt reduction on eligible debt*
Netherlands	Formal request, 06/12/01	yes (06/12/01)	yes (06/12/01)	yes (04/02/02)	...	0.0	Flow operation
Russia	Formal request, 06/12/01	yes, in principle	yes, in principle	no	...	0.1	Flow operation/*bilateral agreement not yet finalized*
Spain	...	...	...	...	...	...	Observer/*post-cutoff-date debt not eligible for flow operation*
Non-Paris Club bilateral creditors							
Cameroon	...	...	...	...	...	...	Noneligible/*sight postal debt*
China	Letter dated 09/09/02	...	...	...	...	...	No answer yet
Côte d'Ivoire	...	...	...	...	...	...	Noneligible/*sight postal debt*
Israel	...	...	...	...	...	...	Passive debt
Kuwait	Letter dated 12/30/01	yes (02/05/02)	no	...	...	...	Flow operation/*treatment at completion point*
Saudi Arabia	Letter dated 01/07/03	...	...	...	...	...	No answer yet
Senegal	...	...	...	...	...	...	Noneligible/*sight postal debt*
Taiwan Province of China	...	...	...	...	...	...	Post-cutoff date debt
Togo	...	...	...	...	...	...	Noneligible/*sight postal debt*

Sources: Chadian authorities and staff estimates.

1/ IFAD: International Fund for Agricultural Development; IsDB: Islamic Development Bank; EIB: European Investment Bank; AfDB: African Development Bank; and BADEA: Arab Bank for Economic Development in Africa.
2/ Paris Club creditors signed an agreement with Chad on June 12, 2001 providing a flow rescheduling under Cologne terms (90 percent reduction in NPV terms on eligible debt).

Table 10. Chad: Quantitative Performance Criteria and Indicative Targets for the Third Annual Program Under the Poverty Reduction and Growth Facility Arrangement, 2002-04
(In billions of CFA francs: cumulative changes from the beginning of each calender year, unless otherwise indicated)

	Cumulative Changes from the Beginning of Each Calendar Year (Unless otherwise indicated)																			
	End-Sep. 2002				End-Dec. 2002				End-June 2003 10/					End-Sep. 2003 10/				End-Dec. 2003 10/		End-Dec. 2004 11/
	Ind. Targets	Adjusted Targets	Est.	Bench. Met.?	Crit.	Adj. Crit.	Prel. Est.	Crit. Met?	Crit.	Rev. crit.	Adj. Crit.	Prel. Est.	Crit. Met?	Ind. Targets	Adj. Crit.	Prel. Est.	Crit. Met?	Ind. Targets	Rev. Ind. Targets	Ind. Targets
Quantitative performance criteria																				
Ceiling on the increase in net credit of the banking system to the central government, excluding IMF resources 1/	7.4	6.0	1.0	yes	8.1	13.1	0.6	yes	10.3	-7.4	1.0	4.5	no	-3.7	10.4	6.8	yes	-8.9	7.4	-23.1
Floor on primary fiscal base balance, excluding grants 2/ 3/	-25.8	-25.4	-20.2	yes	-51.7	-50.9	-32.8	yes	-9.7	-16.2		-14.4	yes	-31.5		-26.1	yes	-44.2	-27.7	7.7
Floor on total government revenue, excluding grants 4/	79.0		79.6	yes	108.3		110.0	yes	59.4	59.4		61.0	yes	90.2		91.0	yes	132.2	133.9	208.0
Nonaccumulation of external payments arrears of the central government 5/ 6/	0.0		0.7	no	0.0		1.5	no	0.0	0.0		0.0	yes	0.0		0.6	no	0.0	0.0	0.0
Ceiling on new nonconcessional external debt with maturities of more than one year contracted or guaranteed by the central government	0.0		0.0	yes	0.0		0.0	yes	0.0	0.0		0.0	yes	0.0		0.0	yes	0.0	0.0	0.0
Ceiling on net change in external debt with a maturity of up to and including one year, except normal trade financing	0.0		0.0	yes	0.0		0.0	yes	0.0	0.0		0.0	yes	0.0		0.0	yes	0.0	0.0	0.0
Floor on base expenditure on health 7/	10.2		7.8		14.4		12.5		7.6	8.5		6.6	no	13.7		10.5	no	18.5	14.9	20.7
Floor on base expenditure on education 7/	18.8		16.7		25.8		23.6		13.2	13.2		11.7	no	20.6		17.3	no	27.6	22.2	26.8
Indicative target																				
Ceiling on total wage spending by the central government (including military)	48.3		45.7		64.3		62.1		34.5	35.8		36.9	no	53.7		54.9	no	71.6	70.1	80.6
Adjusters																				
Net reduction of domestic payments arrears of the government 8/ 9/	5.5		5.1		17.2		7.2		17.2	17.2		20.4		16.5		13.3		17.2	14.1	-30.2
Peace agreement-related expenditure	1.0		0.5		2.9		2.1		n.a.	n.a.		n.a.		n.a.		n.a.		n.a.	n.a.	n.a.
Privatization revenue	0.4		0.5		0.4		0.5		3.4	12.6		9.2		21.6		12.2		21.6	12.2	10.7
Expected additional financing and non-HIPC Initiative debt relief	39.6		40.4		76.9		55.7		89.3	90.8		87.2		101.3		87.4		129.9	107.1	71.7
Adjustment lending (excl. IMF)	33.3		33.4		55.9		40.9		59.5	68.2		65.0		71.6		65.0		86.6	83.9	43.0
Adjustment grants	3.9		3.94		17.7		10.5		25.6	17.3		17.3		23.9		17.3		37.0	17.3	27.6
Debt relief, excluding HIPC Initiative	2.4		3.0		3.2		4.3		4.2	5.3		4.9		5.8		5.0		6.3	5.9	1.2

Sources: Chadian authorities; Bank of Central African States (BEAC); and staff estimates and projections.

1/ The targets will be adjusted (i) downward (respectively upward) to take account of a lower (higher) repayment of domestic arrears than foreseen under the program for the corresponding period; (ii) downward for the difference between the actual level of expenditure related to the peace agreement signed on January 7, 2002 and the program level; (iii) upward for a shortfall in sales of assets revenue up to an amount equivalent to 75 percent of the shortfall; and (iv) upward for a shortfall in balance of payments assistance (as identified in the adjusters and excluding projected lending and grants) up to an amount equivalent to 75 percent of the shortfall.
2/ The end-December 2002 targets are adjusted upward for the difference between the actual level of expenditure related to the peace agreement signed on January 7, 2002 and the program level.
3/ The primary base balance is the difference between revenue and primary current expenditure and domestically financed investment.
4/ Net of reimbursements under the system of treasury checks.
5/ Monitored on a continuous basis.
6/ Excluding external payments arrears incurred pending debt rescheduling.
7/ Only an indicative target at end-December 2002.
8/ Not an adjuster in 2003.
9/ 2004 projection includes repayment of arrears equivalent to the CFAF 15.7 billion financing gap shown for 2003. These payments would be carried out using external financing postponed in 2003 and disbursed in 2004.
10/ Net credit to the government, net reduction of domestic payment arrears, privatization revenue, and expected additional financing are cumulative from January 1, 2002 onward.
11/ Reflects IMF staff proposal.

Table 11. Chad: Conditionality for the Completion of the Sixth Review Under the Poverty Reduction and Growth Facility (PRGF) Arrangement, 2003

Conditions	Date	Status
Structural performance criteria		
Adoption by the Council of Ministers of the draft presidential decrees regarding the modalities for the operational rules of the Fund for Future Generations.	July 31, 2003	Not observed (adopted November 2003)
Structural benchmarks		
Adoption by the Council of Ministers of detailed rules for the pricing and taxation of oil products from the Sédigui field consistent with understandings under the Poverty Reduction and Growth Facility (PRGF)-supported program.	September 30, 2003	Not observed
Adoption by the Council of Ministers of principles for the use of the revenues that could stem from the possible exploitation of new oil fields, in the spirit of the Law on Petroleum Revenue Management (LPRM).	September 30, 2003	Not observed
Adoption by the Council of Ministers of the medium-term expenditure framework (MTEF) for all priority sectors (health, education, rural development, and basic infrastructure) for 2004-06, prepared in consultation with the World Bank on the basis of public expenditure review in those sectors, and consistent with the long-term macroeconomic framework of the Poverty Reduction Strategy Paper (PRSP).	October 31, 2003	Not observed

Table 12. Chad: Social Indicators

	Chad	Latest Year	Sub-Saharan Africa	Latest Year
Total population, midyear (millions)	8.1	2002	688.0	2002
Growth rate (percent; annual average)	2.8	2002	2.2	2002
Urban population (percent of population)	24.6	2002	32.9	2002
Life expectancy at birth (years)	48.4	2002	45.8	2002
Male	46.9	2002	45.1	2002
Female	49.9	2002	46.6	2002
Total fertility rate (births per woman)	6.2	2002	5.0	2002
Mortality				
Infant (per thousand live births)	117	2001	105	2001
Under 5 years (per thousand live births)	200	2001	171	2001
Child malnutrition, weight for age (percent under 5 years)	28	2000	40	2000
Access to safe water (percent of population)	27	2000	58	2000
Urban	31	2000	83	2000
Rural	26	2000	46	2000
Immunization rate (percent under 12 months)				
Measles	36	2001	58	2001
DPT	27	2001	53	2001
Gross primary enrollment (percent of school-age population)	73	2000	86	2000
Male	90	2000	92	2000
Female	57	2000	80	2000
Gross secondary enrollment (percent of school-age population)	11	1998	27	1998
Male	17	1998	29	1998
Female	4	1998	24	1998
Illiteracy (percent of population age 15 and over)				
Male	45	2002	29	2002
Female	62	2002	45	2002
Daily newspapers (per thousand people)	0.3	1996	12.3	1996
GNP per capita (U.S. dollars)	251	2002	450	2002

Source: World Bank, *World Development Indicators*, 2003.

Chad: Relations with the Fund
(As of December 31, 2003)

I. Membership Status: Joined 7/10/63; Article VIII

II. **General Resources Account:**	**SDR Million**	**% Quota**
Quota	56.00	100.00
Fund holdings of currency	55.72	99.50
Reserve position in Fund	0.28	0.50

III. **SDR Department:**	**SDR Million**	**% Allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.00	0.03

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**% Quota**
ESAF and PRGF arrangements	71.28	127.29

V. Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Poverty Reduction and Growth Facility (PRGF)	01/07/00	01/06/2004	47.60	42.40
Enhanced Structural Adjustment Facility (ESAF)	09/01/95	04/30/1999	49.56	49.56
Stand-By Arrangement	03/23/94	03/22/1995	16.52	10.33

VI. Projected Obligations to Fund (without HIPC Initiative assistance)
(SDR Million; based on existing use of resources and present holding of SDRs)

	Overdue [1/]	Forthcoming				
	2003	2004	2005	2006	2007	2008
Principal	0.41	9.09	10.43	10.59	9.69	8.84
Charges/interest		0.49	0.44	0.38	0.33	0.28
Total	0.41	9.57	10.87	10.98	10.02	9.12

[1/] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of Initiative for Heavily Indebted Poor Countries (HIPC Initiative) assistance	
Decision point date	05/16/2001
Assistance committed (NPV terms)	
Total assistance (US$ million)	170.00
Of which: Fund assistance (SDR million)	14.25
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	7.18
Interim assistance	7.18
Completion point	0.00
Amount applied against member's obligations (cumulative)	7.18

VIII. Safeguards Assessments:

Introduction

Under the Funds's safeguards assessment policy, Bank of the Central African States (BEAC), of which Chad is a member, is subject to a full safeguards assessment. An on-site safeguards assessment of the BEAC, which was completed on July 25, 2001, proposed specific remedies to alleviate vulnerabilities that were identified by staff. The authorities have committed to implement the proposed remedies, and the status of implementation is described in the following sections.

Safeguards Areas and Main Remedies

The external audit mechanism. The safeguards assessment proposed that (i) the external auditor refer explicitly to the international standards of auditing (ISA) in its opinion; (ii) the external auditor become more cognizant of the accounting rules applicable to the recording of Fund's balances; and (iii) the BEAC should include the audit opinion in the annual publication of the financial statements. The external auditor does not specifically refer to ISA in its audit opinion. The financial statement and the audit opinion are not yet published on the bank website.

Financial reporting. The staff recommended that the BEAC (i) enhance the readability and the credibility of the published annual accounts by including detailed explanatory notes on the accounting methods followed, and indicating whether these methods referred explicitly to a generally accepted accounting framework; (ii) adopt International Accounting Standards; and (iii) change the accounting of some of its operations with the Fund, especially with regard to the revaluation of the IMF accounts. The management of the BEAC has agreed to implement these recommendations. The BEAC, with the assistance of Banque de France, is working to modify its accounting framework and align its accounting and reporting practices with International Financial Reporting Standards (IFRS) and the European Central Bank (ECB) framework, including the Fund-related accounts. It is anticipated that the new framework will be in effect for the 2003 financial statements.

Internal audit mechanism. The staff recommended that the BEAC (i) establish a charter for the Internal Audit Department (IAD); (ii) expand the audit scope and coverage of IAD to include activities at headquarters; (iii) prepare an annual rolling multiyear audit program describing risk assessment, activities scheduled, staffing, and financial resources required; and (iv) increase the number of qualified staff. A draft for a new IAD' s charter has been prepared and will be submitted to management's approval, and a risk-based audit methodology should be prepared in 2004.

The system of internal controls. The staff recommended that BEAC (i) strengthen coordination among the audit bodies; (ii) examine in-depth the segregation of duties at headquarters; and (iii) put in place a more systematic follow-up of all recommendations made by the external auditor to allow the Governor and the Board of Directors to better exercise their oversight responsibilities. The Board of Directors of the BEAC has designated in July 2003 the five members of its new audit committee, which will include the three members of the existing censors' committee. The follow-up of recommendations will be implemented once the terms of reference of the committee are finalized.

IX. Exchange Rate Arrangement

Chad is a member of the BEAC. The exchange system common to all members of the BEAC has been free of restrictions on payments and transfers for current international transactions. Repurchase of the CFA franc banknotes exported outside the BEAC was suspended on August 2, 1993. The BEAC common currency is the CFA franc, which was formerly pegged to the French franc. 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. Starting on January 1, 1999, the CFA franc has been pegged to the euro at a the fixed rate of EUR 1 = CFAF 655.97. On January 21, 2004, the rate of the CFA franc, in terms of the SDR, was CFAF 775.97 = SDR 1.

X. Article IV Consultations

The last discussions for the 2001 Article IV consultation were held in N'Djaména during the period October 31 – November 13, 2001. The staff report (IMF Country Report No. 02/29) was discussed by the Executive Board on January 16, 2002, together with the third review under the second annual program under the Poverty Reduction and Growth Facility, and Chad's request for augmentation of access and for waiver of criteria. Following the current Article IV Consultation, which is expected to be completed in March 2004, the next consultation discussion would take place on the standard 12-month cycle.

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

Not applicable for Chad.

XII. Technical Assistance

1988: FAD mission to prepare a tax reform program.

1989: FAD mission to prepare a tax reform program.

1990: FAD mission to review implementation of the tax reform program.

1991: FAD mission to review implementation of the tax reform program.

1994: FAD mission to assess weaknesses in customs administration and recruit an expert responsible for strengthening customs administration.

October 1994-October 1995: FAD resident expert to strengthen customs administration.

1996: FAD mission to review the tax reform program (introduction of the turnover tax and strengthening of tax administration).

August 1997: FAD mission to follow up on the tax reform program initiated in 1996.

November-December 1997: FAD mission to assess weaknesses in customs administration and prepare a rehabilitation program for strengthening the Customs Directorate.

May-June 1998: FAD mission to assess the need for long-term assistance in tax and customs administration, treasury operations, and budget preparation and execution.

November 1998: FAD expert to begin a series of missions to strengthen customs administration.

March 1999–December 2001: FAD resident expert to assist the tax administration, in particular, with the introduction of a value-added tax (VAT).

October 1999: FAD mission to assess tax administration.

November 1999-December 2001: FAD resident expert to serve as public expenditure management advisor to the Minister of Finance.

May 2000: STA multisector statistics mission.

June 2001-December 2001: FAD resident expert to assist the tax administration with, in particular, strengthening tax collection and implementing the VAT.

May 2002: FAD mission to assess the implementation of fiscal reforms and investigate the possible need for further Fund technical assistance.

July 2002: STA mission to evaluate the status of national accounts statistics and to provide recommendations for their improvement.

April 2003: FAD mission to provide technical advice to the authorities on the implementation of the customs action plan.

XIII. Resident Representative

The post of Fund Resident Representative was opened in N'Djaména in 1998. Ms. Laurence Allain, the current IMF representative, took up her post on October 15, 2001.

Chad: IMF-World Bank Relations

A. Partnership for Development

1. Chad's poverty reduction strategy paper (PRSP) was formally endorsed by the Boards of the World Bank and the Fund on November 13, 2003, and November 17, 2003, respectively. Good governance and sound macroeconomic management, and rapid economic growth are among the five strategic axes of the PRSP. The strategy also underlines the need for strong and sustained growth in the non-oil sector, improved human capital, improved living conditions for vulnerable groups, and the preservation of the environment. The Chadian outlook promises to be propitious due to the additional revenues that will result from the exploitation of the oil fields of Miandum, Komé and Bolobo which started in July 2003.

2. Oil provides a major opportunity for Chad to break free from poverty and very limited resources, to diversify its economy and increase its fiscal revenues. If well managed, additional revenues from oil can translate into significant poverty alleviation, through greater availability of resources for priority sectors, improved basic infrastructure and enhanced delivery of social services. The ongoing program of reforms of the Government, to prepare for the advent of oil revenues, is focusing on completing its structural reforms, reinforcing institutions, including fiduciary arrangements, strengthening the macroeconomic environment, and alleviating the bottlenecks that hinder both private sector activity and public sector delivery of services.

3. Nonetheless, in view of what is sometimes called the "paradox of abundance" and the experience of other oil-producing countries in Africa, petroleum resources also create new risks. Inability to control aggregate demand could lead to inflation, an appreciation of the real exchange rate, and a shrinkage of tradable sectors (including the cotton sector), which could undermine sustained economic growth. These risks are partly mitigated by Chad's membership in the BEAC, a supranational central bank that independently implements monetary policy. There is also the risk that large oil revenues weaken the incentives for reforms and the leverage of external assistance. To ensure that future petroleum revenues do not compromise the country's growth, Chad is in the process of setting up a regulatory and institutional framework for checks and balances on the use of petroleum revenues. Thus, the National Assembly adopted on December 30, 1998, a law on the management of government petroleum revenue (Law no. 001/PR/99) that establishes an oversight committee to monitor the use of petroleum revenues. This committee, *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (CCSRP), includes representatives of the Government, Parliament, and civil society. The bulk of oil revenue will be allocated to priority expenditure for poverty reduction. In addition, 10 percent of these resources (royalties and dividends) will be deposited in an account for future generations managed through the BEAC.

B. World Bank Country Assistance Strategy

4. The World Bank's assistance program in Chad is laid out in the Country Assistance Strategy (CAS) for Chad which was endorsed by the World Bank Board on December 11, 2003. The CAS supports two key strategic objectives (i) strengthening governance, including public resource management; (ii) ensuring inclusive, broad-based growth as the country embarks on oil production. This assistance program is consistent with the key strategic objectives of Chad's poverty reduction strategy paper.

5. The World Bank's current portfolio of projects supports (i) capacity building for public expenditure management, management of the petroleum sector, and environmental management; (ii) investments in key sectors for social and economic services (health, education, energy, rural development and transport); and (iii) the exploitation of Chad's petroleum resources.

6. Support has been approved for key activities proposed by the CAS and its predecessor over the last three years. With respect to the oil sector, a Management of the Petroleum Economy Project in the amount of US$17.5 million, aimed at building capacity for public financial management, was approved in January 2000. On June 6, 2000, the Executive Board of the World Bank approved a Petroleum Development and Pipeline Project, for which it provided an IBRD loan equivalent to US$39.5 million to the Republic of Chad, as well as US$14.2 million in A-Loans and up to US$42.7 million in B-Loans from the International Finance Corporation to the oil transportation company in Chad. A complementary IDA-funded Petroleum Sector Management Capacity-Building Project, aimed at promoting environmentally and socially sound management of the petroleum sector, was approved simultaneously for US$23.7 million. In the transport sector, a credit of US$67 million in support of the National Transport Program was approved by IDA on October 26, 2000. In the health sector, a Health Sector Support Project in the amount of US$41.5 million was approved in April 2000. A second Population and Aids Project in the amount of $24.6 million was approved by IDA on July 12, 2001. A Critical Electricity and Water Services Project was approved by IDA on October 10, 2002 and an Education Sector Reform Project was approved by IDA on March 18, 2003. Finally, an Agricultural Services and Producers Organizations Project was endorsed by the Board on December 11, 2003.

7. Three quick-disbursing policy reform operations for a total of US$85 million were successfully carried out from 1996 to 1999 in support of the government's structural adjustment program. The current policy dialogue between Chad and the World Bank focuses on improving transparency and accountability in Chad's public expenditure management and procurement system, notably in preparation to the advent of oil revenues, so as to ensure that oil revenues will primarily contribute to achieving the poverty reduction objectives set out in the PRSP. The World Bank also provides support to deepen reforms in the cotton sector aimed at disengaging the State from the cotton sector and strengthening cotton farmers' organizations, with the objective of increasing farmers' incomes. Thus, a fourth and a fifth Structural Adjustment Credits (US$40 million each) were approved by IDA on December 18, 2001 and March 18, 2003, respectively, to provide support to the three-year program of reforms in these areas.

8. Other projects under preparation for presentation to the Board of Executive Directors in FY04-05 include a Local Development Project, an Institutional Reform Support Credit, and a second Management of the Petroleum Economy Project, as well as support to Demobilization and Reintegration of armed rebels and soldiers, which would be followed by a PRSC in FY06. An Urban Development Project is also planned to be discussed at the Board in FY05.

9. In addition to these lending activities, the World Bank has been carrying out non-lending activities focusing on critical areas of the program, in particular (i) public expenditure reviews in health and education (2001-02), and in health, education, justice, housing and transport (2002-2003), (ii) support for the implementation of a medium-term expenditure framework and program budgets in health and education in 2002 which haven been extended to other priority sectors in 2003, and (iii) completion of a study of the health sector (2002). The planned program of non-lending activities includes comprehensive public expenditure assessment, in close collaboration with the IMF and other donors. This will keep the focus of public expenditure reviews in priority sectors, provide analytical support for the implementation of a medium-term expenditure framework, and review of financial management and accountability mechanisms. The work also includes further expenditure-tracking surveys in priority sectors starting with a comprehensive health facility survey in end 2003. Work is also ongoing on a Water Supply and Water Sector Management Strategy and on the cotton sector. In particular, a Poverty and Social Impact Analysis (PSIA) has been launched in the cotton sector to identify ex ante the impact of reforms on all stakeholders, notably the poor, and to inform the selection of a scenario for the State's disengagement from the cotton sector.

10. Institutional Development Grants have been approved to support capacity building for civil society groups and Parliament. These grants have been aimed, in particular, at strengthening the civil society's ability to play its role in the management of future petroleum revenues.

C. IMF-World Bank Collaboration in Specific Areas

11. Chad's principal development challenges can be described as threefold: (i) translating future petroleum revenues into expenditures for poverty reduction; (ii) maintaining macroeconomic stability and managing carefully the macroeconomic impact of the advent of oil revenues; and (iii) promoting growth in the non-oil sector, especially in rural areas.

Areas in which the World Bank leads

12. Policy reforms supported by the Bank through structural adjustment credits focus on two strategic PRSP axes: (i) promoting good governance; and (ii) ensuring strong and sustained growth. Specific objectives are sought in each of the development challenges, including

- enhancing transparency, accountability, and adherence to the rule of law and participation;

- improving the preparation, execution and ex-post monitoring, control and audit of the budget;
- making public procurement more efficient and transparent;
- strengthening the transparency and accountability of the civil service; and
- strengthening the cotton farmers' organizations, and disengage the state from cotton production; and promote microfinance institutions.

13. The dialogue pertaining to these areas of policy reforms is conducted with shared responsibility on governance and transparency issues and public finance management, as described in the following two subsections. The Bank leads the dialogue in all other areas, including the cotton sector reform, in close collaboration with the Fund. The Bank also leads the dialogue on the energy sector, in coordination with the Fund. The Fund focuses in particular on monitoring the fiscal impact of some key measures of reforms, e.g., the increase in the wage bill, Government subsidies to Cotontchad and the electricity company.

14. In addition, the Bank has taken the lead in assessing the poverty and social impact of reforms undertaken in the cotton sector, as mentioned above. An ex ante qualitative analysis was carried out in 2002. The Government identified a few scenarios for reform in early 2003, and the Bank is now providing support to the Government in assessing the poverty impact of each scenario and defining accompanying measures accordingly. An ex post analysis will then be conducted through repeated surveys with the support of the Bank to allow the Government to monitor the reform process and implement measures to mitigate the poverty and social impact of the reform and maximize the gains for the poor.

15. The Bank also provides support to sectoral policy reforms in the sectors of education, health, electricity, water and transport.

16. Measures under the Bank's current adjustment support to the Government's program of reforms are described below. Their satisfactory completion are prior actions for the next structural adjustment credit.

Improving governance

- satisfactory progress in the implementation of the National Governance Strategy on the basis of progress reports, as evidenced by (i) the review by the Government (*Haut Comité Interministériel*) of the first draft of a policy for the public disclosure of information; (ii) the publication and wide availability of the Government's 2003 Budget Law; (iii) publication on the Auditor General's Office's website of its report on the audit of the use of HIPC Initiative funds between May 2001 and May 2002; and (iv) publication on the Auditor General's Office's website of its report on the execution of the 2002 Budget Law;

- finalization of a survey on users' perception of customs services, after validation in a seminar; adoption and publication of an action plan to further improve customs services, including the reduction of the involvement of third parties in customs operations;
- launching of the studies relating to the legal and institutional framework of the decentralization process:

  - Study on the modalities for creating rural community-level governing structures,

  - Study on the training policy for elected representatives and for staff in charge of the decentralization process,

  - Study on land ownership issues;
- finalization and publication of the decree specifying the role and attributions of the Petroleum Revenue Oversight Committee (CCSRP), recruitment of two analysts; and
- satisfactory use of the remainder of the Petroleum Agreement Signing Bonus as confirmed by the CCSRP.

Improving public resource management

- presentation in the 2003 Budget documents submitted to Parliament of a medium-term macroeconomic and expenditure framework and medium-term expenditure plans for the health and education sectors;
- launching of the preparation of medium-term expenditure plans for the health, education, justice, housing and public works sectors, which will be submitted to Parliament with the 2004 Budget Law; launching of the preparation of public expenditure reviews and medium term expenditure plans in the rural development sector (agriculture, livestock, water and environment) for submission to Parliament with the 2004 Budget Law;
- continued monthly publication of the report on the execution of the budget, distinguishing between commitment, order to pay and payment and distinguishing specifically the Ministries of Education, Health, Public Works, Housing and Justice;
- review of budget execution in priority ministries (including the investment budget) every two months, with the Ministry of Finance, the Procurement Directorate, the Procurement Commission, and donors if necessary, and preparation of minutes for publication;
- production of public procurement plans in priority ministries every two months; review during the meetings on budget execution and preparation of minutes for publication;
- effective launching of the training program for all agents in charge of budget preparation and execution;

- hiring of the required number of qualified staff in the Budget Directorate, including macroeconomists for the economic forecasting subdirectorate (*sous-direction de la prévision)* and qualified executives for the investment subdirectorate (*sous-direction de l'investissement);*
- identification of the needs in terms of qualified staff in the area of budget preparation and procurement in the Ministries of Health, Education, Higher Education, Housing, Public Works, Justice, Agriculture, Livestock and Water and Environment; hiring of required staff or subcontracting of some activities if necessary;
- completion of the first phase of the implementation of the Integrated Financial Management Information System (design of the work program, installation of the computerized platform for the development of the software and of a training room with about fifteen computers, definition of technical requirements and main changes needed to adapt the Burkina software and launching of the preparation of the budget for a few ministries with training of the agents involved); launching of users' training at the Ministry of Finance and the Treasury;
- submission to Parliament of the 2001 Budget Settlement Law before the adoption of the 2003 Budget Law, and submission to the Auditor General's Office of the accounts for fiscal year 2002 after reconciliation of the accounts; and
- finalization and launching of implementation of the action plan to improve the arrival of public expenditures to health and education facilities.

Improving the efficiency and transparency of public procurement

- submission to parliament of the new procurement code, including the texts creating an independent appeals system, and preparation of draft implementation decrees;
- improvement and continued regular publication of the quarterly procurement bulletin, with incorporation of the minutes of the monthly meetings on budget execution; and
- launching of an audit for the 2002 procurement contracts and system.

Strengthening the transparency and accountability of the civil service

- issuance of the implementation decrees relating to the new civil service status law, including the status for special professions, remuneration and missions and the implementation decrees for performance evaluation, training and recruitment;
- adoption of methodology for the audit of the nine pilot ministries covering organizational, procedural and human aspects, and collection of basic data and documentation; and
- final update of the payroll, based on the update of the 2000 census of civil servants and the list of all personnel included in the payroll; monthly update and quarterly review of this list by ministry (December 2002, March 2003, and June 2003).

Strengthening the cotton farmers organizations, and disengaging the state from cotton production:

- adoption of an action plan for the institutional strengthening of cotton farmers' organizations (CCL);
- full implementation of the cost-cutting measures for the operation of Cotontchad; and
- adoption of privatization scenarios by the government, preparation of the investors' forum and farmers' forum to discuss the scenarios for the privatization of Cotontchad and the poverty and social impact of the reforms in the cotton sector.

Areas of shared responsibility

17. Areas of shared responsibility between the Bank and the Fund concern mainly (i) the dialogue on petroleum revenue management and support to increased transparency and efficiency in public finance management; and (ii) support to governance reforms.

18. In all these areas, the Bank and the Fund maintain a joint dialogue but focus separately on specific components of the reform program, and have defined complementary benchmarks in their instruments of support for measuring progress in the implementation of the program. In addition the Bank provides technical assistance and support to the implementation of the reform program through several projects, notably the Management of the Petroleum Economy Project and structural adjustment credits.

19. Exchange of information, consultation and coordination for defining benchmarks and discussing progress in the implementation of the reform agenda take place on a regular basis between the Bank and the Fund. Joint missions are carried out at least twice a year to review progress and discuss the next steps on the program of reforms in these areas.

20. There is also close collaboration and shared responsibility between the Bank and the Fund on the monitoring of HIPC Initiative completion point triggers, with the Bank taking the lead on triggers in the health, education, rural development and infrastructure sectors, and the IMF taking the lead in the assessment of the macroeconomic performance of Chad. Responsibility is shared in the monitoring of most governance-related triggers. Similarly, the Bank and the Fund have agreed jointly with the authorities on an action plan to improve the tracking of poverty-related spending. The two institutions monitor progress and exchange information about the implementation of the plan.

21. The Bank and the Fund also collaborate very closely on the dialogue pertaining to the PRSP, with the IMF focusing on the macroeconomic framework, and the Bank on all other areas covered in the document.

Areas where the IMF leads

22. The IMF has taken the lead in the discussion and definition of the macroeconomic framework and the setting up of macroeconomic objectives and targets (overall public sector deficit, primary balance, current account balance and overall balance of payment, monetary sector quantitative targets, and other benchmarks). The IMF also leads the dialogue on revenue mobilization, notably tax policy, with Bank involvement in the area of customs reforms.

Ex Post Assessment of Performance Under ESAF/PRGF-Supported Programs

Prepared by a Team from AFR, FAD, and PDR

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I. Introduction

1. **Chad's operational relations with the Fund and the World Bank were limited before 1994**, owing in large part to political instability. Continuing civil strife had prevented economic reforms, derailed financial policies, and disrupted private sector activity. In that context, no Fund-supported program could be established.[1]

2. **In 1993, armed conflict ended**. The country was able to step up its democratization, culminating in the first free presidential and parliamentary elections in 1996 and 1997, respectively. The relative stability permitted the authorities to focus on economic reforms.

3. **The authorities' attention to economic issues was supported by a 12-month Stand-By Arrangement** in the context of the January 1994 CFA franc devaluation. However, slippages soon emerged, and only the first purchase under the Stand-By Arrangement was made.[2] To establish a track record of policy implementation, a staff-monitored program (SMP) was put in place during October 1994-June 1995. In this period, the Chadian authorities demonstrated commitment to economic policies, which resulted in an encouraging performance under the SMP.

4. The **establishment of a track record** paved the way for the Executive Board to approve three annual arrangements under the Enhanced Structural Adjustment Facility (ESAF) over the period July 1995 to March 1999. Negotiations during the remainder of 1999 led to the approval of a three-year PRGF arrangement in January 2000, which, following an extension of the commitment period, expired on January 6, 2004.

5. This note reviews Chad's performance under Fund-supported programs since the beginning of the 1995 ESAF-supported program. It evaluates the factors that have contributed to the Fund's prolonged involvement; analyzes outcomes under the two main

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[1] The exception was three annual Structural Adjustment Facility arrangements commencing in 1987, the results of which were mixed.

[2] Strikes crippled the administration, import disruptions on account of transit problems in neighboring countries curtailed fiscal revenue and fueled inflation, and there was insufficient commitment to and implementation of agreed policies and reforms.

ESAF- and PRGF-supported programs; draws lessons from the past; outlines the challenges for the future; and explores the rationale for the Fund's future involvement in Chad.

II. Rationale for Fund Involvement in the Mid-1990s

6. **In the mid-1990s, Chad was facing enormous obstacles,** both natural and man-made. Chad is a vast, landlocked country, with large arid and semiarid zones, comprising a great number of diverse communities. The harsh natural conditions had been aggravated by a 30-year civil war (from independence in 1960 until 1990) and an armed conflict with a neighboring country (1990-93). Moreover, the neglect of development policies over many years had led to major economic challenges.[3] Poverty remained at levels higher than average for sub-Saharan Africa as the economy hardly grew—it was actually contracting during 1990-93—and government expenditure was biased toward unproductive activities. Budget revenue collection was one of the lowest in the world. Institutions and capacity were weak, and there were governance shortcomings. Economic policy had virtually no credibility either at home or abroad.

7. **The involvement of the Fund was aimed at helping Chad switch from a war economy to a sustainable, development-oriented economy that would be conducive to private sector activity.** It was felt that the Fund could help Chad's efforts with its advice and expertise on fiscal policy, various structural reforms, and capacity building.[4] An appropriate fiscal policy, in terms of fiscal consolidation through revenue enhancement as well as an improvement in the composition and efficiency of spending, would go a long way toward establishing macroeconomic stability and the credibility of economic policy. The Fund could also help put in place structural reforms that would further revitalize the private sector through government withdrawal from productive areas, improved market access, and a streamlined regulatory environment (wage, price, and trade liberalization, and the removal of import and export licensing). The Fund could also assist, together with the World Bank, in strengthening the public administration, with emphasis on the efficiency and transparency of financial management.[5] Finally, it was felt that the Fund could help strengthen the extremely weak statistical base, with a view to facilitating policy formulation and monitoring.

8. **In addressing these challenges, the Fund-supported programs would have to build on the existing difficult socioeconomic context,** striking a difficult balance among addressing the large adjustment and reform needs, acknowledging the capacity constraints,

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[3] Chad's history has left it one of the least-developed countries in the world, with a rank of 155 out of 162 in the United Nations' human development index.

[4] Monetary policy has been conducted at the regional level by the Bank of Central African States.

[5] The very much needed comprehensive civil service reform would fall mostly under the purview of the World Bank.

and building confidence in the government's economic policies. The program design therefore would have to avoid being unrealistic while still addressing the main deficiencies outlined above.

III. Performance Under the 1995-99 ESAF-Supported Program

A. Overview

9. **The adjustment strategy underlying the 1995-99 ESAF-supported program was predicated on pursuing macroeconomic stability and initiating much-needed structural reforms.** It aimed primarily at improving domestic resource mobilization and allocation, strengthening public sector management, and fostering private sector development through privatization and price and trade liberalization.

10. **Overall, the 1995-99 ESAF-supported program brought about a marked recovery in economic activity, tangible progress in macroeconomic stability, and an improved economic environment for private sector activity.** Nevertheless, greater-than anticipated institutional inefficiency and limited capacity played an important role in limiting the implementation of some macroeconomic policies and key structural reforms. This was in the context of weaknesses in governance and somewhat incomplete ownership of program goals and policies.

B. How did Chad perform vis-à-vis the macroeconomic program targets?

11. **Chad showed an overall good macroeconomic performance, with relatively small deviations from the program's macroeconomic objectives (Box 1 and Figures 1–3).** Economic growth was somewhat lower than hoped for, at an average of 3.8 percent per year, but inflation was within the target range by 1998. The current account deficit (excluding grants and oil pipeline-related imports) improved by 9 percentage points of GDP, significantly more than expected, reflecting mostly favorable movements in the terms of trade.

C. Implementation of the policies envisaged under the program and reasons for shortfalls

12. **During the program period, the fiscal accounts improved more than targeted, owing to the broad achievement of the revenue targets and expenditure shortfalls.** The overall fiscal deficit (on a commitment basis and excluding grants) shrank by 6.8 percentage points of GDP, more than programmed. The current primary deficit also overperformed, but by a smaller amount. Revenue, excluding grants, improved by 2.5 percentage points of GDP over the 1994–98 period, broadly in line with a target of 2.7 percentage points of GDP. Government wages were kept in check, but capital expenditure was less than in the program.

13. **There was progress in liberalizing the economy, albeit with some delays, but progress was more modest in improving the efficiency and transparency of public sector administration and financial management.** Most administrative price controls were eliminated as envisaged, a more flexible labor code was adopted, and the Central African

Economic and Monetary Community (CEMAC) provisions for trade liberalization were implemented. The demobilization program was initiated, and a number of enterprises were privatized. However, program intentions were only partially met or not met at all regarding civil service reform, the rationalization of the budget process, revenue-enhancing measures, cotton sector reform, and the quality of statistics.

14. **Despite some steps taken to facilitate policy implementation, greater-than-anticipated institutional inefficiency and low capacity played an important role in limiting the implementation of policies.** On the positive side, the authorities established high-level policy committees, and on a number of occasions they acted promptly to compensate for program slippages in various areas, as, for example, in 1998, when nonpriority sector spending was cut to offset the effects of revenue shortfalls. These steps also went some way toward demonstrating the government's commitment to reform. However, there were slippages in macroeconomic policy implementation,[6] for example, in customs revenues, where performance continued to be weak despite repeated technical assistance provided by the Fund (see Box 3). In addition, there were continued delays in key structural reforms, such as the privatization of some large public enterprises. These weaknesses were linked to the failure to effectively train civil servants, the high turnover rate among senior officials, the somewhat limited government ownership of program goals and policies, and governance shortcomings (such as insufficient accountability). Moreover, this meant that the approach to policymaking was not systematic, and there was excessive reliance on onetime, donor-driven measures. The above shortcomings contributed to the government's making less-than-anticipated progress in establishing credibility for its economic policies.

[6] In some cases, exogenous factors, such as the 1998 energy crisis, renewed regional conflicts, and declining terms of trade, contributed to the slippages.

Box 1. Main Macroeconomic Objectives and Outcomes, 1995-1998 [1/]

Objectives	Outcome
Average annual growth rate of real GDP of 5 percent, or 2.5 percent in per capita terms.	Real GDP growth averaged 3.8 percent per year (about 1.3 percent in per capita terms) during 1995-98.
Inflation to fall within the 3–5 percent range, after the initial surge in prices following the CFA franc devaluation.	Inflation surged to 41.3 percent in 1994, but declined to 4.3 percent by 1998.
Improvement in the current primary fiscal balance from a deficit of 4 percent of GDP in 1994 to a surplus of 0.5 percent in 1998.	The current primary balance improved to a surplus of 1.1 percent of GDP in 1998.
Reduction in the overall fiscal deficit (on a commitment basis and excluding grants) from 14.2 percent of GDP in 1994 to 8.7 percent in 1998.	The overall fiscal deficit was reduced to 7.4 percent of GDP in 1998.
A rise in overall investment from 20.8 percent of GDP in 1994 to 25 percent in 1998.	Gross investment slipped to 17 percent of GDP in 1998, reflecting a decline in inventories.
Reduction in the external current account deficit (excluding official transfers and oil pipeline imports) from 19.5 percent of GDP in 1994 to 14.2 percent in 1998. Projected export volume growth at a cumulative 60 percent during 1995-98.	The external current account deficit (excluding official transfers) fell to 10.4 percent of GDP in 1998. Cumulative export volume growth was as programmed, but the terms of trade improved.

1/ The program objectives were redefined to be consistent with the revised data series.

IV. Performance Under the PRGF-Supported Program (2000–03)

A. Overview

15. **Chad's main goals in the current PRGF-supported program were recast in light of the emergence of new challenges and the progress achieved under the ESAF-supported program.** Two major new challenges emerged:

- **The need to focus on poverty reduction.** Policies were to explicitly focus on poverty reduction by (i) developing a comprehensive poverty reduction strategy and (ii) targeting increased spending on health, education, rural development, and basic infrastructure, which became the priority sectors. This focus underscored the need to strengthen absorptive capacity in these sectors, strengthen the system of public expenditure management (including through a medium-term expenditure framework (MTEF)), and reinforce the weak statistical system, to allow, inter alia, for poverty monitoring.

- **The need to prepare for the oil era, and especially to take steps to ensure that the oil revenue would be used explicitly to reduce poverty and in a prudent**

manner. In this context, the program aimed at putting in place the specific modalities for the use of oil revenue to implement the ground-breaking Law on Petroleum Revenue Management (LPRM) of 1999, which earmarked the majority of direct oil revenue (i.e., royalties and dividends) for spending in the above-mentioned priority sectors. The program also aimed to improve governance by, inter alia, strengthening the judiciary and the auditing and oversight of the use of public resources.

16. **Building on the progress made under the ESAF-supported program, the fiscal position was to be consolidated and non-oil sector development supported.** The movement toward long-term fiscal sustainability would continue and be based on increases in the revenue-to-GDP ratio. Non-oil sector development was to be aided by (i) strengthening the formal financial sector and microfinance; (ii) privatizing the remaining large state companies; and (iii) rationalizing the pricing and regulatory framework for public utilities and providing for adequate investment, especially in the energy sector. The program was also to aim explicitly at fostering program ownership, including, inter alia, by widening the public dialogue on policies that characterized the period of the ESAF arrangement.

17. **Under the current PRGF-supported program, economic activity has received a substantial boost from oil sector activity.** Macroeconomic stability has been broadly maintained, and the environment for private sector activity has improved, despite continued delays in policy implementation. The latter have reflected continuing weaknesses in administrative and institutional capacity (despite ongoing technical assistance), governance, and ownership of economic reforms. These shortcomings have appeared to be more binding, and the ensuing policy implementation delays somewhat more protracted, than under the ESAF arrangements.

B. How did Chad perform vis-à-vis the macroeconomic program targets?

18. **The fundamental macroeconomic goal of the PRGF-supported program—to maintain the macroeconomic stability achieved under the ESAF-arrangement—was broadly achieved (Box 2 and Figures 1–3).** The faster-than-anticipated oil pipeline construction contributed to higher-than-programmed real GDP growth, averaging 6.1 percent per year. However, it also contributed to higher-than-targeted inflation, which averaged over 7 percent per year.[7] Given the participation of Chad in the CFA franc zone, the higher inflation contributed to the real effective exchange rate's appreciating to a level equal to 97 percent of the predevaluation level of 1994. This appear to have been one of the reasons for a rising import penetration of the economy and a weakening ability to export (Figure 4).

[7] A drought caused a spike in inflation in 2001.

Box 2. Main Macroeconomic Objectives and Outcomes, 2000-2002

Objectives	Outcomes
Average annual growth rate of real GDP of 4.1 percent, or 1.6 percent in per capita terms.	Real GDP growth averaged 6.1 percent, or about 3.4 percent in per capita terms.
Inflation to remain around 3 percent per annum.	Inflation averaged 7.2 percent.
Improvement in the current primary budget deficit (excluding grants) from 0.2 percent of GDP in 1999 to a surplus of 0.7 percent of GDP in 2002.	The current primary balance deteriorated to a deficit of 1.1 percent of GDP.
Overall fiscal deficit (on a commitment basis and excluding grants) to improve from 10.7 percent of GDP in 1999 to 10.2 percent in 2002.	The overall fiscal deficit deteriorated to 12.1 percent of GDP.
Increase in gross investment from 13.7 percent of GDP in 1999 to 32.5 percent in 2002 to build the oil pipeline. Increase to come from private sector and be financed externally.	Gross fixed investment increased to about 59 percent of GDP in 2002 as a result of the acceleration of the construction of the oil pipeline.
The external current account deficit (excluding official transfers and oil pipeline imports) to improve from 15.7 percent of GDP in 1999 to 13.5 percent in 2002.	The external current account deficit (excluding official transfers and oil imports) was estimated at 13.7 percent of GDP in 2002.

1/ The program objectives were redefined to be consistent with the revised data series.

C. Implementation of the policies envisaged under the program and reasons for shortfalls

19. **While policies were implemented so as to maintain macroeconomic stability, the intended improvement in the fiscal accounts did not materialize.** Both the current primary fiscal balance and the overall fiscal balance deteriorated instead of improving. Delays in implementing certain revenue measures[8] and governance problems[9] prevented the

[8] On the one hand, a value-added tax (VAT) was introduced; tax identification numbers were assigned to all identified economic agents; and SYDONIA (a customs computer system) was installed in the N'Djamena customs offices. On the other hand, reforms regarding small taxpayers and cattle taxes did not take place; the computerization of the large taxpayer unit was delayed; and the linking up of computer networks among revenue departments lagged. Box 3 provides a short discussion of the effectiveness of FAD technical assistance, which has been aimed at increasing revenues and improving public expenditure management.

programmed increase in the revenue-to-GDP ratio. Current expenditure was higher than programmed, while investment expenditure experienced persistent shortfalls. The composition of expenditure was persistently skewed away from priority sectors, contrary to program intentions.[10] The authorities were able to design, but not consistently implement, a system of budgetary programming, implementation, monitoring, and control.[11] The preparation of administrative decentralization lagged and the social security system was not reformed. There was some limited effort to identify and settle domestic arrears, but new domestic and external arrears continued to arise regularly.[13]

20. **The expected strengthening in the effectiveness and capacity of the public administration again lagged.** The civil service reform experienced delays in most areas, and the envisaged redistribution of human resources and competencies did not take place.[12] This contributed to the weak improvement in the delivery of public services, especially in health and education, as evidenced by Chad's mixed performance in achieving the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) completion point conditions in these areas. There was limited progress in the statistical system, despite foreign technical assistance (including from the Fund) and some increases in budgetary allocations for the statistics institute. Among the few improvements were some first steps taken toward building a poverty-monitoring system.[13]

21. **There have been some advances with regard to structural reforms aimed at supporting private sector development, but delays have persisted in the energy,**

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[9] For example, ex post verification of tax exemptions of imports for the oil pipeline project was not effective, leading to an abuse of the system.

[10] Some of these shortfalls were in the context of delays in foreign financing, mostly on account of delays in fulfilling donor conditionality. However, at the same time, implementation of nonpriority expenditures remained high.

[11] The revised public procurement procedures did not become effective; the cash flow plan was not implemented consistently and did not include the investment budget; tables monitoring the four stages of expenditure were produced irregularly and with significant delays; the MTEF lagged; and the absorptive capacity in health and education did not increase as hoped.

[12] The harmonization and computerization of the civil service ministry records still remain to be done. While the civil service statutes were adopted by parliament, the adoption of the implementation decrees has lagged, and merit-based advancement and competitive recruitment still have to be implemented.

[13] A much-delayed household survey was launched (results are expected in 2004), and an action plan to track health and education spending has been prepared but not yet adopted.

banking, cotton, and telecommunications sectors. On the positive side, microfinance expanded, the maximum tariff rate was reduced to 20 percent, and the new exchange regulations for the CFA franc zone were adopted. In the domestic energy sector, the prices of petroleum products were fully liberalized, and the privatization of the water and electricity company (STEE) was initiated in 2000 with the signing of the management contract with a private company. However, STEE has continued to need subsidies from the government, and the supply of electricity has been very irregular. Cheaper fuel from the Sedigui oil field was intended to alleviate these problems and the pipeline from that field was actually built; however it has not yet become operational, as the quality of the work done on it was deficient. Moreover, the principles of a framework for the pricing of energy were adopted, but there have been delays in the preparation of pricing and taxation policies for Sedigui energy products. In the banking sector, there was some improvement in the recovery of, and provisioning for, nonperforming loans. However, the banking system continued to be heavily exposed to the public sector (including public enterprises) and to be beyond the reach of the large majority of potential depositors and borrowers. In the cotton sector, while the soap and oil unit of the state-owned cotton company (Cotontchad) was finally privatized in mid-2003, the privatization of Cotontchad itself has lagged and is now expected to take place only by end-2005. The prices for cotton were linked to international prices by early 2000 through an agreed formula, which, however, has been suspended since the 2002/03 campaign when world cotton prices reached historical lows.[14] The cotton sector also suffered from persisting delays in providing VAT refunds and budgeted subsidies to Cotontchad. The telecommunications company was not privatized, but the sugar factory was divested as envisaged under the program.

22. **A number of steps were taken to improve governance, and in particular transparency, but several instances of misuse of public resources have surfaced.** The Accounting Office of the Supreme Court became operative, and independent auditors evaluated public spending, uncovering various instances of weak governance. The government published these audit reports. The governance problems that were uncovered related, inter alia, to the unprogrammed use of the bonus for signing the oil exploitation agreement with the international consortium; the nontransparent award of contracts in the domestic energy sector; extrabudgetary spending and accounts; and procurement irregularities in spending financed from HIPC Initiative resources. In all these instances, investigative and corrective actions were taken. However, it is possible that this was done under pressure from the Fund and other donors. There has been little accountability and a lack of clear evidence that the incidence of such misuses of public resources has been

[14] A poverty and social impact analysis (PSIA) of the cotton sector reform is under way.

BOX 3. CHAD: FISCAL AFFAIRS DEPARTMENT (FAD) TECHNICAL ASSISTANCE

Since the inception of the ESAF in 1995, FAD has provided technical assistance in tax policy and administration, and expenditure management, through regular missions, as well as the posting of long-term advisors. The implementation of reforms has been mixed; some important steps have been taken, but delays have been caused by weak capacity and lack of will. Since the late 1990s, reforms have focused on preparing the country to face the challenges of the oil era.

Tax administration

Missions took place starting in 1996 to evaluate the turnover tax (TCA) and prepare for the introduction of the VAT. Most recommendations were implemented in a timely manner. Two resident advisors were posted in N'Djaména from 1998 until end-2001. In spite of substantial weaknesses in human, material and financial resources, the Tax Directorate (DIT) made good progress in 2001–02. A single-rate VAT was introduced in January 2000, and the implementation of the new tax was gradually improved.

Key weaknesses remain, especially in areas that require coordination between the tax administration and other departments within the Ministry of Finance. The FAD resident expert noted that several factors contributed to limiting progress in reform: the lack of material means, the weakness of the staff, the poor data management and lack of information of the Customs Department, the pervasiveness of special regimes and exemptions, the lack of cooperation among various departments, the importance of payments arrears, which adversely affect the cash position of enterprises, and the economics' agents feeling of impunity.

Customs administration

Reform in customs administration met with more difficulties. Between 1994 and 2000, a number of missions and peripatetic visits took place, and some progress was made. However, between 2000 and 2003, no noticeable progress was achieved. It seems that the main problems relate to governance and state authority, which is translated into a weak central administration and relatively autonomous customs offices operating more like an informal sector.

Public expenditure management

Technical assistance (TA) in public expenditure management started in 1998 in the context of multitopic fiscal missions and the placement of a resident advisor in 1999. Basic public expenditure management tools have been at least partly implemented, but ownership of the reform process remains weak. A new budget classification system and chart of accounts were adopted, as well as a streamlined expenditure process that reduced substantially the multiple control points. However, basic tools that had been developed, such as a treasury plan, are not being utilized as expected. Budget preparation remains another weak area, although efforts have been made recently to frame budget preparation within a macroeconomic framework. On the basis of the new expenditure process, limited computerization has been initiated, although several factors hamper its effectiveness: (i) delays in the authorities' appointment of a coordinator and supervisor of the process; (ii) the continued use by comptrollers of manual recording and controls; and (iii) an insufficient pool of equipment made available for this function.

Conclusions

Six factors appear to have hampered the implementation of TA recommendations in the fiscal area: (i) lack of qualified staff; (ii) absence of equipment; (iii) smaller-than-needed budgetary allocations to improve (i) and (ii); (iv) lack of coordination among different fiscal agencies; (v) governance problems, particularly at the customs level; and (vi) lack of credibility of the authorities vis-à-vis private operators—including pervasive exemption and ad hoc regimes, and lack of sanctions. Finally, under the Fund-supported programs conditionality could have been put on implementation of TA recommendations, including on the needed budgetary allocations to effect that implementation.

declining. Moreover, other actions aimed at improving governance have experienced delays.[15]

23. **Incomplete program ownership—at both the policy and technical levels—persisted as program priorities and capacity-building efforts were not fully internalized by the authorities.** Incomplete program ownership reflected the continuing existence of different "camps" within the government. As a result, the authorities' capacity for coordinated economic policy formulation and the full implementation of policies remained limited. Nevertheless, there are—albeit yet to be tested—signs of progress in increasing the authorities' program ownership—mainly in the design of the modalities of use of oil revenue and in the elaboration of a reasonable poverty reduction strategy in the poverty reduction strategy paper (PRSP).

V. Performance Against Conditionality Under the ESAF and PRGF Arrangements

24. **Measured strictly against compliance with program performance criteria (PCs) and benchmarks, Chad's performance under the recent arrangements has been relatively weak (Tables 1, 2, 3a, and 3b).** Numerous conditions were not met on time, and multiple waivers have been required to complete each of the program reviews of the arrangements under consideration. While the proportion of missed targets has been similar for both quantitative and structural conditionality, the deviation from targets has varied. While comparisons cannot be accurately made, there is a clear sense that **quantitative targets have been missed by small margins, while the delays in fully implementing structural measures have tended to be more significant.**

25. **Under the 1995-99 ESAF arrangements, waivers were required for about half of all PCs, (both structural and quantitative). Under the current PRGF arrangement, waivers have so far been required for about one-third of the quantitative PCs and nearly 60 percent of all structural PCs.** Performance was perhaps weakest around the time of the second review of the PRGF arrangement, when four of the six quantitative PCs, four of the five quantitative benchmarks, and all four structural benchmarks were missed. Following this and continued weak performance around the time of the third review, quarterly monitoring was introduced. The response to quarterly monitoring seems to have been positive, with the number and share of waivers requested declining. However, the need for this approach underscores the reservations that have been expressed about governance and the authorities' ownership of the program.

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[15] The budget settlement process was not applied as expected under the program; the amended legal framework for procurement has not yet become effective; and the plans to strengthen the judiciary have been implemented very slowly.

26. **The most systematically breached quantitative conditions relate to the repayment and/or nonaccumulation of external arrears,** requiring waivers in all but one review[16] under the ESAF and PRGF arrangements. The authorities experienced similar difficulties with domestic arrears repayments, and waivers were granted on all but one of the occasions when relevant conditions were included.[17] The authorities also had continued difficulties in meeting the floor on priority health and education expenditures.

27. **Significant progress was made under the PRGF arrangement in streamlining structural conditionality and in adjusting other program conditionality in response to shifting priorities in economic policy, as well as to the need to improve implementation of policies, while recognizing what was feasible.** For example, during the PRGF-supported program, new emphasis was placed on spending in health and education, and these indicative targets were elevated eventually to performance criteria. The difficulty in monitoring domestic arrears led to the dropping of the corresponding performance criterion, even though targets in this area continued to be set. In response to the need for improving the timeliness and degree of implementation of reforms in governance and other areas, quarterly monitoring was carried out for a limited period in 2001–02.

28. **Conditionality was successfully reoriented to focus on the identified objectives regarding the impending inflow of oil receipts.** However, doing so was not costless or without tension. While the World Bank assumed more responsibility for setting conditions in several key structural areas—including civil service and cotton sector reform—only a limited number of the objectives in these areas (as enunciated under ESAF-supported program) have been achieved. Arguably, there have been more protracted delays in areas where no conditions were incorporated in the Fund arrangements.

VI. Fund-Bank Collaboration

29. **Over the past ten years, the World Bank's Country Assistance Strategies have focused on** (i) building public sector capacity; (ii) improving delivery of basic social services; (iii) removing constraints on growth; and (iv) focusing public expenditures on poverty reduction. The policy dialogue with Chad has also emphasized on using oil revenues to reduce poverty. This strategy has been consistent with the Fund-supported programs and the government's PRSP.

30. **Fund-Bank collaboration has generally been satisfactory**. Fund and Bank staffs have consulted regularly on Chad's reform agenda. In addition, joint Bank-Fund missions have worked together to resolve cross-cutting issues, especially regarding the oil sector and

[16] No new external arrears were accumulated only on the occasion of the first review under the PRGF arrangement.

[17] PCs on the repayment of domestic arrears was included for all reviews under the ESAF arrangements and for the first three reviews of the PRGF arrangement.

the preparation for the oil era. On some occasions, there were concerns that reforms under the responsibility of the World Bank were progressing slowly.[18] In a related vein, the authorities' delays in fulfilling World Bank conditions have occasionally led to then missing performance criteria of the Fund-supported programs.[19]

31. **In recent years, the division of responsibility between the Fund and Bank has remained broadly unchanged:**

- The **Fund** has taken the lead regarding the macroeconomic framework and related objectives and targets (including revenue mobilization).

- The **Bank** is leading the dialogue on structural policy reforms, notably the cotton sector, procurement, and civil service reforms, aside from its traditional sectors of health, education, energy, water, and transport.

- Areas of **shared responsibility** have mainly been petroleum revenue management, HIPC Initiative completion point triggers, transparency and efficiency in public resource management, and governance-related reforms.

VII. Lessons Learned and the Challenges Ahead

32. **Formulation and implementation of macroeconomic and structural policies have been, and will likely continue to be for some time, weak areas in Chad.** To address these weaknesses and have successful economic programs, especially at this stage of deeper or more wide-reaching reforms, it will be important for the authorities to improve their ownership of economic programs and administrative capacity. Shortcomings in these interrelated areas go a long way toward explaining many of the shortfalls in program implementation up to now.

33. **Fostering ownership would hinge on the incentives provided by the economic and political environment, as well as the authorities' driving the design and implementation of their economic policies.** Other ways to increase ownership also need to be explored. Initiatives could include government forums at which the authorities' development strategy and policies designed to achieve it could be explained to civil servants, and high-level discussion groups for senior officials, where the political aspect and responsibility issues could be highlighted.

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[18] There have been delays in reforming the cotton sector, producing the MTEF, monitoring the foreign-financed investment budget, and advancing procurement and civil service reform.

[19] In completing the fifth review of the PRGF arrangement (June 2003), targets had to be adjusted to account for a delay of 30 percent of programmed balance of payments support, which the World Bank postponed from 2002 to 2003.

34. **For strengthening public administration, including capacity, a sharper focus on civil service reform will be essential, along with increased program ownership by the authorities.** In addition, training for both senior and mid-level officials needs to be stepped up in order to create a culture of responsibility and diligence in implementing policy decisions. The authorities could elaborate a strategy to ensure a wider, yet more targeted, impact of training efforts. Considerable external resources and technical assistance will be needed over the medium term to help build up the necessary managerial and administrative skills. Therefore, the authorities' efforts need to be accompanied by a renewed capacity-building effort with the involvement of both the World Bank and the African Regional Technical Assistance Center (AFRITAC). The government also needs to deepen the policy dialogue with its external partners, with a view to strengthening the coordination of training programs and technical assistance.

35. **Governance remains to be improved by carrying out the civil service reform and creating or amplifying checks and balances to improve accountability** (e.g., by strengthening the judicial system and using the country's democratic institutions and civil society, as well as by creating institutions such as an anticorruption authority).

36. **It will be very important that the authorities fully implement the modalities they have adopted regarding the use of oil revenue**, as this framework has been one of the clearly positive achievements of recent programs. If Chadian capacity to implement these modalities remains weak in the immediate future, there may be a need to use external management/technical personnel for one or two years to help the authorities implement them.

37. **There is a need to look closely at fully identifying and meeting the conditions for the development and diversification of the non-oil economy**. Rapid and appropriate reforms in the cotton, domestic energy, and financial sectors, as well as in governance, are among the necessary conditions.

38. **It is essential to maintain a prudent fiscal policy that would aim, on the one hand, to manage demand conditions and forestall the onset of Dutch disease and, on the other hand, attain fiscal sustainability over the long term. The latter calls for a sustained improvement of non-oil fiscal revenue performance**, which would depend on improvements in governance and ownership, as well as on greater technical and financial assistance. Chad would also need to make effective use of the stabilization mechanism for oil revenue in order to ensure a smooth and rising path for priority-sector spending, as well as a sustainable path for nonpriority expenditures.

39. **A sustained improvement in public expenditure management (PEM) is needed.** In particular, there is an urgent need to improve expenditure monitoring and control, which will facilitate the consistent implementation of policies—especially in priority sector spending—and eliminate the need for ad hoc policy adjustments. Achieving the needed enhancement of PEM is linked to progress in civil service reform and improvements in ownership and governance.

40. **It is essential to strengthen the statistical base in all areas in order to improve the monitorability and design of programs.** More financial and technical resources may be needed and the accountability of people working in this area enforced. Envisaged improvements could also be part of program conditionality.

41. **Timetables for policies/reforms may have been too ambitious under the programs;** this was viewed as necessary in light of Chad's below-average position vis-à-vis most sub-Saharan African economic and social indicators. While the objectives were appropriate, there does appear to have been an underestimation of the time needed to build the necessary capacity. In this context, setting the timetables of policies/reforms could give greater regard to (i) existing implementation capacity, and (ii) the need for, and timing of, complementary technical assistance.

42. **There may be some scope for setting less ambitious timetables for certain structural reforms while taking a firmer stance on compliance with conditionality.**

43. **Consideration could be given to conditionality that focuses more on implementation of measures.**

44. **The scope of structural conditionality under Fund-supported programs may need to be reexamined.** In particular, it may need to be reoriented to cover some key structural reforms (especially civil service reform). Sizable delays in these key areas have had implications for performance under Fund-supported programs.

45. **It is possible that the authorities have been "distracted" from the broader reform agenda by the focus on preparing the modalities for the use of oil revenues and possibly by the prospect of the oil revenues themselves.** The probable discovery of additional large oil deposits may exacerbate the problem. Continued donor assistance in the form of debt relief in the near future (the HIPC Initiative completion point) and financing of the investment budget over the longer term could be used as a counterincentive to these tendencies.

VIII. Rationale for Future Fund Involvement

46. **Chad has had effectively three Fund-supported programs in the past two decades,** apart from the short-lived Stand-by arrangement in 1994. This is significantly fewer than most other countries in the region. The initial conditions at the inception of the 1995-99 ESAF arrangement were particularly unfavorable, and Fund-supported programs had to tackle a wider-than-usual array of problems. While advances were made in many areas, the continuing below-average economic and social conditions in Chad have meant a slow and difficult process to develop the country. In light of the situation, it should not be surprising that important weaknesses remain even after almost a decade of continuous Fund involvement.

47. **The authorities have already expressed their wish for a successor PRGF arrangement,** noting the financing gaps projected for the medium-term as well as the

persisting capacity constraints in macroeconomic management, the need to reach the HIPC Initiative completion point in order to continue to benefit from debt relief, and the country's projected long-term dependence on donor resources to finance an adequate level of investment.

48. **The staff agrees with the authorities that a follow-up PRGF arrangement would best fit the needs of Chad for 2004-06, given the constraints mentioned above and the persistent significant financing gaps in 2004-06.**[20] Following the projected elimination of the need for budgetary support after 2007, Chad could graduate from the use of Fund resources. There is a risk, however, that the envisaged improvement in non-oil fiscal revenue may not materialize, which would mean that the need for budgetary support would persist beyond 2007 and the Fund might be called upon to continue to provide financial support to Chad. Moral hazard issues may increase that risk.

49. **The staff is of the view that additional programs prepared with the assistance of Fund staff may be needed beyond the point-around 2007-when Chad would no longer need financial support from the Fund.** This is because it is not envisaged that Chad's capacity to implement economic programs would have improved adequately by then. The Fund may well need to continue to provide technical support, particularly in budget formulation and expenditure management. In addition, understandings on annual programs reached with Fund staff would most likely be needed to sustain the hoped-for donor financing of a large part of the investment budget, even if capacity reaches at some point more adequate levels and Fund financial support is not needed. Moreover, by staying closely involved with Chad's economic programs over the coming years, the Fund can help buttress the efficient use of oil revenues in the antipoverty effort, in accordance with the LPRM and the recently adopted specific modalities, which constitute an attempt to introduce a new model for the use of oil revenues among oil producers.

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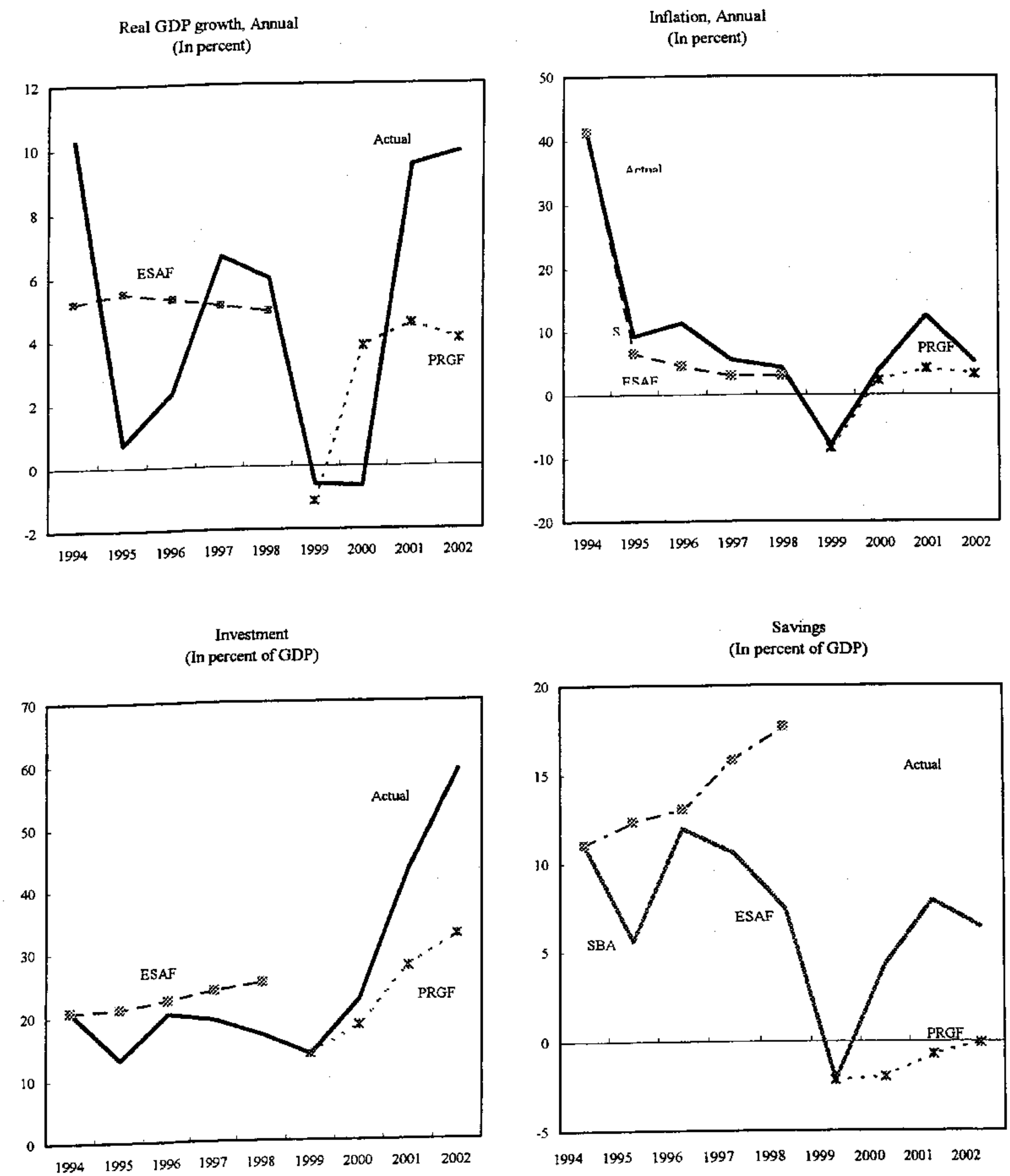
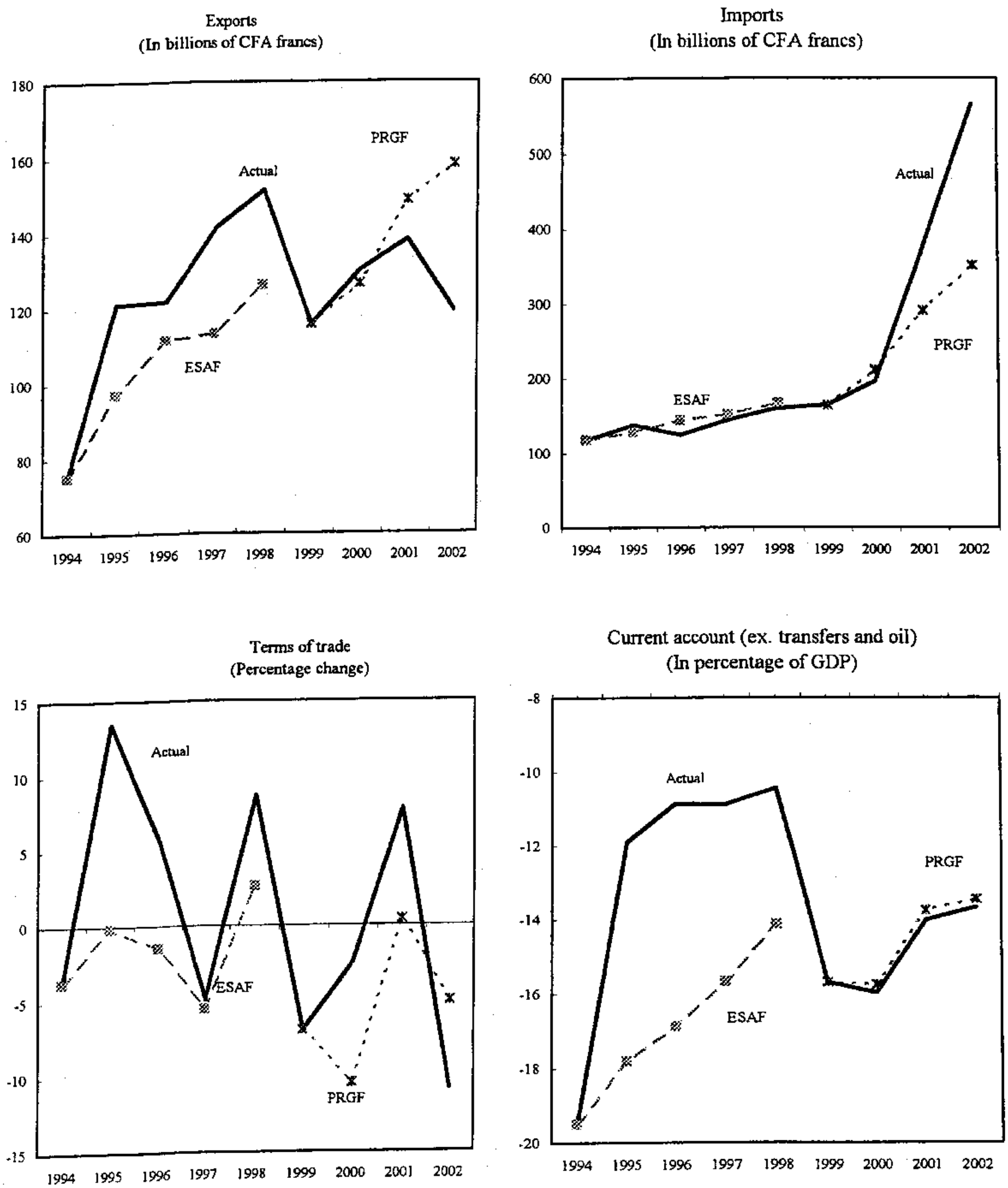
[20] Given that the bulk of oil revenue is earmarked for priority sector spending, and despite a projected increase in non-oil revenue, the currently anticipated sharp drop in foreign financing gives rise to financing gaps in 2004–06.

Figure 1. Chad: Real Sector — Programs' objectives and outcome, 1994-2002



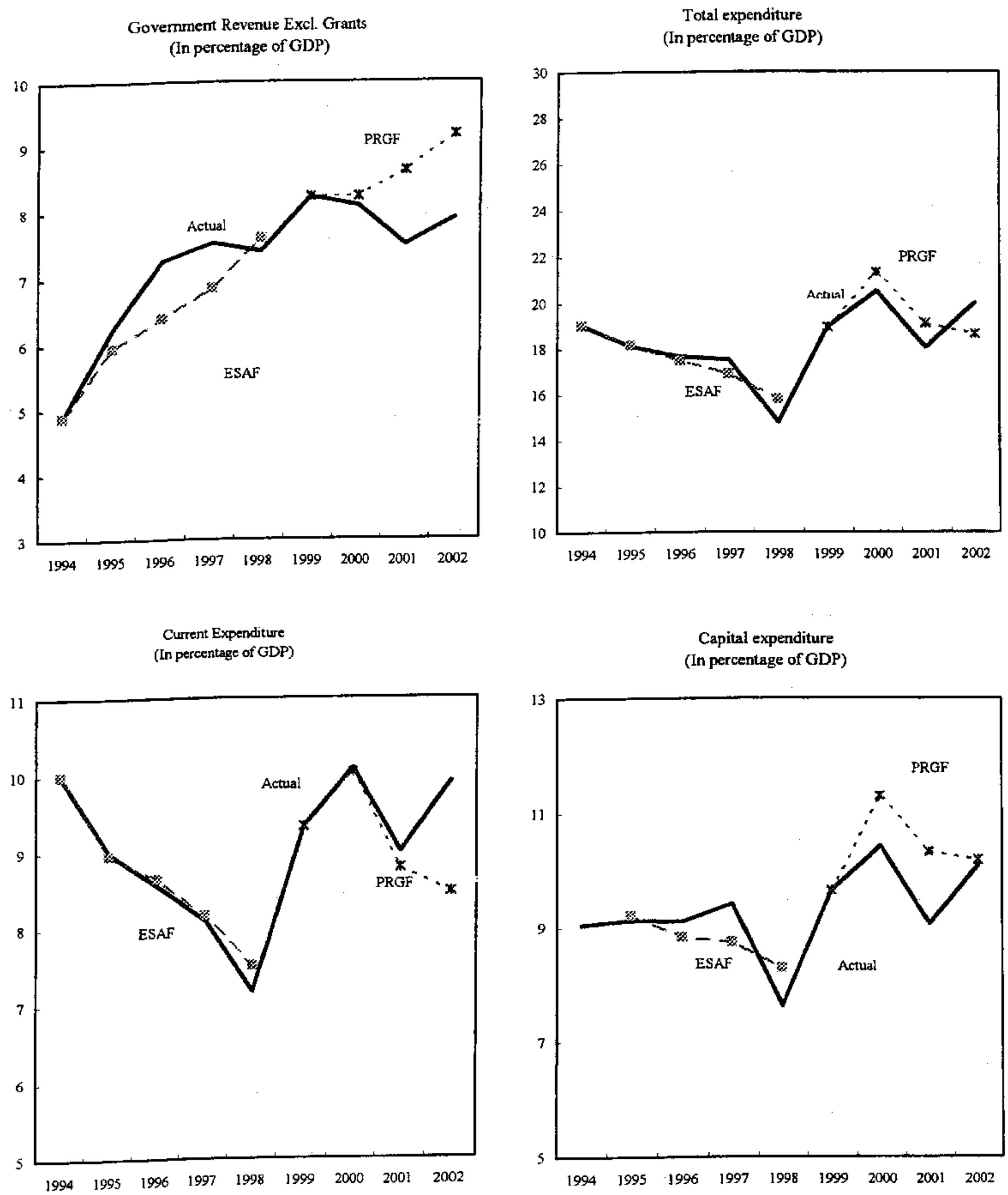
Sources: Chadian authorities; and staff estimates.

Figure 2. Chad: Balance of Payments — Programs' objectives and outcome, 1994-2002



Sources: Chadian authorities; and staff estimates.

Figure 3. Chad: Public Finances — Programs' objectives and outcome, 1994-2002 1/



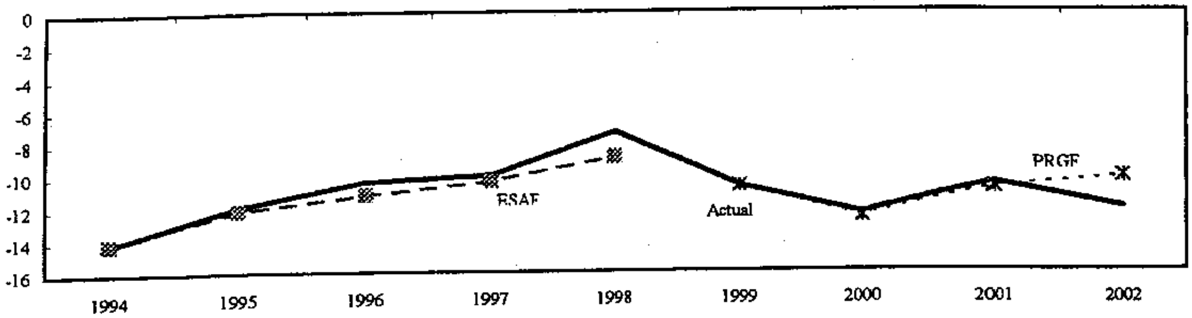
Sources: Chadian authorities; and staff estimates.

1/ The program objectives were redefined to be consistent with the revised GDP series.

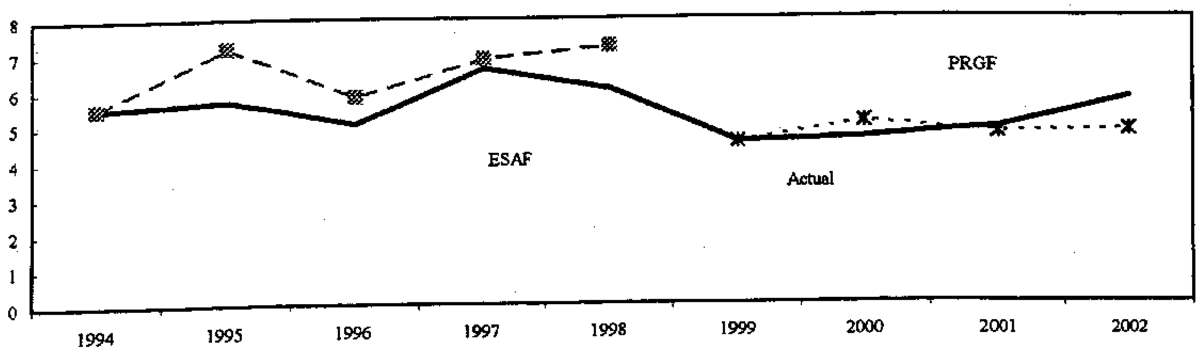
Figure 3. Chad: Public Finances — Programs' objectives and outcome, 1994-2002 (Continued) 1/

Overall Balance (excl. grants)

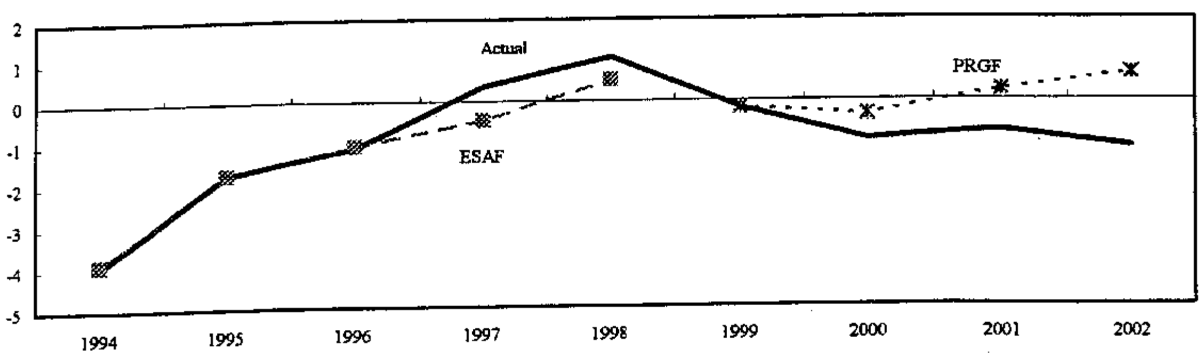
(In percentage of GDP)



Current Primary Balance
(In percentage of GDP)



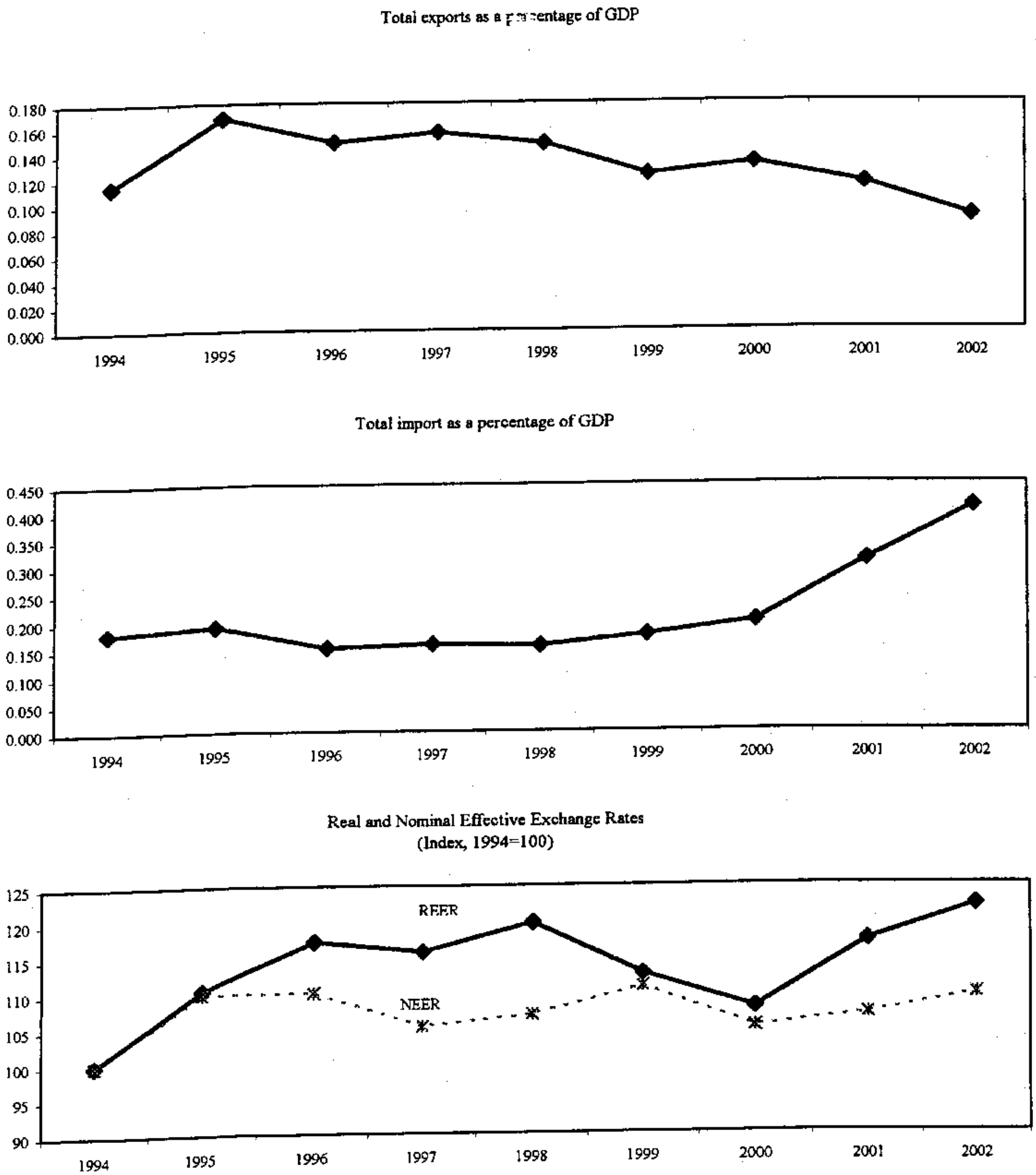
Current Primary Balance (excl grants)
(In percentage of GDP)



Sources: Chadian authorities; and staff estimates.

1/ The program objectives were redefined to be consistent with the revised GDP series.

Figure 4. Chad: Competitiveness Indicators, 1994-2002



Sources: Chadian authorities; and staff estimates.

1/ Oil exports have not begun by 2002, but imports relating to the construction of the oil pipeline are included.

Table 1. Summary of Performance Against Program Conditions under Recent ESAF and PRGF Arrangments

	ESAF I		ESAF II		ESAF III		PRGF (1st Rev)		PRGF (2nd Rev)		PRGF (3rd Rev)		PRGF (4th Rev)		PRGF (5th Rev)	
	Set	Missed	Set	Missed	Set	Missed	Set	Missed	Set	Missed	Set	Missed	Set	Missed	Set	Missed
Number of Conditions																
Quantitative																
Performance Criteria	6	3	9	5	7	3	6	1	6	4	6	2	6	1	6	1
Benchmarks 1/	3	0	1	1	1	1	5	2	5	4	3	2	3	2	3	2
Structural:																
Total	15	4	10	...	11	7	9	6	4	4	4	3	4	3	5	2
Prior Actions	6	...	0	...	0	...	1	...	0	...	0	...	0	...	1	...
Performance Criteria	2	1	2	1	4	2	3	2	0	...	1	1	2	1	3	1
Benchmarks	7	3	8	4	7	5	5	4	4	4	3	2	2	2	1	1
Total Waivers	...	4	...	6	...	5	...	3	...	4	...	3	...	2	...	2
Share of Missed PCs																
Total	...	50%	...	55%	...	45%	...	33%	...	67%	...	43%	...	25%	...	22%
Quantitative	...	50%	...	56%	...	43%	...	17%	...	67%	...	33%	...	17%	...	17%
Structural	...	50%	...	50%	...	50%	...	67%	...	...	...	100%	...	50%	...	33%

Source: International Monetary Fund.

Table 2: Chad: Performance Against Quantitative Program Conditions under Recent ESAF and PRGF Arrangements

	ESAF I: Dec-95		ESAF II: Dec-96		ESAF III: Sept-98		PRGF (1st): Mar-00		PRGF (2nd): Sept-00		PRGF (3rd): Sept-01		PRGF (4th): Mar-02		PRGF (5th): Dec-02	
	Prog.	Act	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
Quantitative PCs																
Change in NDA of the BEAC	4.7	-6.9	6.0	10.8 NO	...	...	...	...	...	...	...	...	...	...	...	...
Change in NDA of the banking system	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Net credit to DMBs to government	4.6	-9.1	7.8	5.6	1.6	3.9 NO	6.4	1.8	4.9	8.1 NO	15.7	6.0	14.6	-6.9	16.1	0.6
Change in domestic payments arrears	-3.7	10.2 NO[1]	-8.3	-1.3 NO	0.0	0.0	-2.0	0.8 NO	-11.3	-3.5 NO	...	...	...	...	...	...
Change in External payments arrears	-28.7	-14.0 NO	-35.8	-31.7 NO	-4.1	-0.5 NO	0.0	0.0	0.0	0.0 NO	0.0	0.6 NO	0.0	0.0 NO	0.0	1.5 NO
of which: cash	-9.7	-0.4 NO	-3.8	-4.9	-1.7	-1.1 NO	...	...	...	...	...	...	...	...	...	...
Change in nonconcessional external loans	0.0	0.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
<1 year	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1-15 years	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current primary balance	...	...	...	...	12.1	5.2	-3.6	-1.2	-0.7	-7.1 NO	-6.4	-5.6	-3.9	-1.5	50.9	32.8
Current balance (commitment)	...	...	-6.9	-12.1 NO	...	...	...	...	...	...	...	...	...	...	...	...
Total revenue	...	...	...	...	...	...	...	...	...	...	69.0	62.8 NO	23.7	25.3	108.3	110.0
Customs revenue	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Government wage bill	...	...	14.7	15.6 NO	18.6	20.0	...	...	...	...	...	...	...	...	...	...
Quantitative benchmarks (billion CFAF)																
Government wage bill	13.7	13.2	...	...	...	...	12.3	12.1	37.0	37.4 NO	42.5	41.5	16.0	15.3	64.3	62.1
Tax revenue	18.0	21.1	...	...	...	...	16.6	17.4	55.9	57.8	...	...	...	...	...	...
Noninterest spending	...	...	...	...	...	...	20.2	18.5	56.6	64.9 NO	...	...	...	...	...	...
Education	...	...	...	...	...	...	0.7	0.3 NO	2.4	0.8 NO	14.4	13.3 NO	5.6	3.9 NO	25.8	23.6 NO
Health	...	...	...	...	...	...	0.8	0.2 NO	2.6	1.0 NO	7.1	5.5 NO	2.6	1.0 NO	14.4	12.5 NO
Nonwage expenditure of priority sectors	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Other monitored variables																
Nonwage expenditure of priority sectors	...	...	...	...	5.2	4.6 NO	...	...	...	...	...	...	...	...	...	...
NDA of the banking system	3.4	-5.6	9.3	18.6 NO	...	...	...	...	...	...	...	...	...	...	...	...

Source: International Monetary Fund.

Table 3.a: Chad. Performance Against Structural Program Conditions

	ESAF Arrangements			PRGF Arrangment					
	(July 1995-June 1996)	(July 1996-June 1997)	(CY1998)	Request (Jan-00)	First Review (July 2000)	Second Review (April 2001)	Third Review (January 2002)	Fourth Review (September 2002)	Fifth Review (July 2003)
Prior Actions									
Effective implementation of new turnover tax, excise taxes, and customs duty rates consistent with the UDEAC reform	✓								
Publication of a decree providing for a single taxpayer code and file	✓								
Assignment of exclusive responsibility of the customs administration for assessment and collection of taxes on international trade	✓								
Abolition of the decrees fixing the prices of edible oils and soap	✓								
Increases in electricity tariffs by 10%	✓								
Elimination of controls on sugar prices and prescription of a profit margin for wholesalers and retailers	✓								
Adopt in Council of Ministers overall strategy for the liberalization of cotton sector over medium-term and lauch a public info campaign on the objectives and steps of the reform (Jul-00)				✓					
Make operational the Judicial Reform Commission, so it can review existing commercial legislation (Jul-00)				✓					
Put in place a debt reorganizaiton structure for the water and electricity company (Jul-00)				✓					
Adopt restructuring plan for Cotontchad					✓				
Adoption by CoM of principles and modalities on use of oil resources to ensure effective absorption of priority spending and shelters from oil price volatility (was Feb-03 benchmark; converted to prior action)									✓
Structural PCs									
Elimination of import and export licenses throught the repeal of Decree No. 282/PR/MCI/89 of 1989 and Decrees No. 113/ET of 1966	Dec-95 Met								
Amendement of Articles 116 and 142 of the Labor Code to abolish minimum wage requirements set by the Government and, thereby, enalble employers and employees to freely determine the salary grids, including minimum wages, at a national or sectoral level	Dec-95 Waived (Apr-96)								
Completion of provisional report on disengagement of government from COTONTCHAD		Dec-96 Met							
Completion of provisional report on disengagement of government from STEE		Dec-96 Waived (Mar-97)							
Adoption in of civil service reform recommendations on recruitment, pay and promotion policy			Sep-98 Waived (Dec-99)						
Solicitation of bids for the privatization of SONASUT			Sep-98 Waived						
Solicitation of bids for the privatization of the management of STEE			Sep-98 Met						
Adoption by govt of the new list of products exempted from the turnover tax and updating of the customs valuation database			Jul-98 Met						
Nominate controller general for Cotontchad					Mar-00 Waived (Sept-00)				
Implement a monthly cash flow plan at treasury based on a system of analysis and projection of the cash flow					Mar-00 Waived (Apr-00)				
Complete study of periodicity of data and of statistics prepared by statistical agency					Mar-00 Met				
Completion of audit on use of oil bonus							Sep-01 Waived (Nov-01)		
Finalization of biweekly expenditure monitoring sheets with four stages of the new expenditure circuit								Feb-02 Waived (Jul-02)	
Adoption by Council of Ministers of procedures for ex post verification of tax-exempted products under Doba project								Mar-02 Met	
Adopt action plan by CoM based on recommendation of international audit of customs									Oct-02 Waived (Feb-03)
Publish results of audits of 3 largest contracts awarded in 2001									Nov-02 Met
Publish results and recommendations of audit of expenditure financed by virtual poverty fund from May 2001 to May 2002									Dec-02 Met
Share of Structural Performance Criteria Missed:	50%	50%	50%		67%		100%	50%	33%

Source: International Monetary Fund.

Table 3.b Chad: Performance Against Structural Program Conditions

	ESAF Arrangements (July 1995-June 1996)	ESAF Arrangements (July 1996-June 1997)	ESAF Arrangements (CY1998)	PRGF Arrangement Request (Jan-00)	PRGF Arrangement First Review (July 2000)	PRGF Arrangement Second Review (April 2001)	PRGF Arrangement Third Review (January 2002)	PRGF Arrangement Fourth Review (September 2002)	PRGF Arrangement Fifth Review (July 2003)
Structural Benchmarks									
Reduction in the preferential intra-UDEAC tariff from 20% of the common UDEAC tariff to 10%	Jan-96 Done Budget provision								
Harmonization of special tax and customs regimes under enterprise conventions and the investment code in the line with common UDEAC regime	Dec-95 Done Budget provision								
Updating of exchange regulations in line with text adopted for the BEAC zone in September 1993	Dec-95 Done Decree signed								
Establishment of an action program to improve performance of Cotontchad	Dec-95 Done								
Presentation of a study on different options for the divestiture of SONASUT from the government	Jun-96 Not done								
Presentation of a study, with the assistance of the Fund, on the simplification of direct taxes	Jun-96 Missed FAD mission (May 96)								
Presentation of a study, with the assistance of the Fund, on possible modalities and timing of the introduction of a value-added tax (VAT)	Jun-96 Missed FAD mission (May 96)								
Establishment of large taxpayer unit		Sep-96 Done							
Elimination of reduced rate of the turnover tax		Dec-96 Done							
Completion of study on different options for the disengagement of the government from SONASUT		Mar-97 Missed Sep-97							
Acton plan on disengagement of government from COTONTCHAD		Apr-97 Done							
Regular payments by the government to CNRT of civil servants' contributions withheld at source, and regular payments by the government of its contribution to CNRT and NPS as employer		Jun-97 Done							
Implementation of single business tax		Jun-97 Missed Jan-98							
Adoption of revised statutes of civil service		Jun-97 Missed Dec-97							
Implementation of a mechanism for budgeting import duty exemptions included in government contracts		Jun-97 Never Reported							
Solicitation of bids for granting a license to an independent cell phone company			Jun-98 Missed Dec-98						
Solicitation of bids for privatization of :									
Air Tchad			Sep-98 Missed Liquidated						
Road maintenance company (SNER)			Sep-98 Missed Due 1999						
Parastatal commercial bank (BTCD)			Sep-98 Missed 1999						
Abattoirs (Sep 98)			Sep-98 Done						
Adoption of a privatization plan for soap and oil operations of COTONTCHAD			Dec-98 Missed Mar-99						
Adoption of restructuring program for two social security agencies (CNRT and CNPS)			Dec-98 Done						
Examine potential for automatic adjustment mechanism of petrol prices					Mar-00 Done				
Complete study of separation of COTONTCHAD's oil and soap manufacturing activities and prepare tender for privatization					Jun-00 Missed Jan-01				
Finalize proposals for reforming the statures and application texts of the civil service and submit these to the government					Jun-00 Missed Jan-01				
Rural development: launch training program in agricultural, herding and fishing techniques					Jun-00 Missed Dec-00				
Education: establish action plan to create and implement monitoring mechanism to compare commitments and actual spending in education sector (incorporated for 2nd review with Sept-00 deadline)					Jun-00 Not done				
Harmonize files of civil service ministry and the payroll files (intended to be incorporated as PC, but inadvertently omitted from arrangement and thus treated as a benchmark)						Sep-00 Missed Nov-00			
Education: establish action plan to create and implement monitoring mechanism to compare commitments and actual spending in education sector (intended to be incorporated as PC, but inadvertently omitted from arrangement and thus treated as a benchmark)						Sep-00 Missed Jan-01			
Evaluate financial implications of the implementation of the decentralization administrative structure						Sep-00 Missed Dec-00			
Health: establish action plan to transfer responsibility to districts for basic health care services and maintaining health care centers						Dec-00 Missed Jan-01			
Agree with commercial banks on the payment of interest on government accounts							Jun-01 Missed Sept-01		
Launch bidding procedures to recruit reputable international firm to conduct functional and financial audit of customs administration							Jul-01 Done		
Adoption by government of principles guiding pricing and taxation mechanism of Sedigi oil and gas field							Sep-01 Not done		
Publication in Public Procurement Bulletin of a report on results of inspection of companies that were awarded large contracts in 2000								Mar-02 Missed Apr-02	
Adoption of action plan by CoM on basis of recommendations of the international audit of customs								May-02 Missed	
Include medium-term expenditure program for health and education in 2003 budget									Missed
Share of structural benchmarks missed (in percent)	57%	57%	71%		80%	100%	67%	100%	100%

Source: International Monetary Fund.

Table 4. Chad: Selected Economic and Financial Indicators, 1994-2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002
	(Annual percentage change, unless otherwise specified)								
National income									
GDP at constant prices	10.2	0.7	2.3	6.6	5.9	-0.6	-0.6	9.5	9.9
GDP at current prices	57.9	9.8	13.9	10.7	13.3	-8.2	5.1	23.3	14.0
GNP at current prices	0.0	9.1	14.6	10.2	13.6	-8.3	4.5	23.2	13.9
Consumer price index (average)	41.3	9.2	11.3	5.6	4.3	-8.0	3.8	12.4	5.2
Broad money	66.3	36.0	20.2	-11.2	-8.2	-1.2	18.3	22.9	24.2
External sector (valued in CFA francs)									
Exports, f.o.b.	...	61.4	0.5	16.1	7.0	-23.6	12.5	6.3	-13.7
Imports, f.o.b.	...	17.2	-9.8	15.5	11.3	2.8	19.5	93.2	48.9
Export volume	...	31.6	-2.7	28.8	3.3	-16.0	6.6	-11.3	-2.2
Import volume	...	-4.3	-11.2	20.4	16.0	0.3	13.5	119.8	58.6
Terms of trade	...	14.8	1.3	-5.6	8.0	-11.2	0.2	19.1	-10.4
	(In percent of GNP)								
Basic ratios 1/									
Gross investment	20.9	13.4	20.5	19.6	17.1	13.8	22.6	43.7	59.8
Government	9.1	9.2	9.2	9.5	7.7	9.7	10.6	9.2	10.2
Private sector	4.4	5.3	6.0	6.9	6.6	4.1	12.0	34.5	49.6
Of which : oil sector	1.2	1.1	6.2	5.2	5.0	6.5	5.6	23.9	44.4
Gross domestic savings	1.4	1.4	8.8	7.7	4.1	-4.1	2.0	6.6	6.5
Gross national savings	11.1	5.7	12.0	10.7	7.5	-2.2	4.3	8.0	7.1
Government	5.9	2.7	2.3	3.3	3.1	1.2	1.2	0.9	-0.2
Private sector	5.2	3.0	9.7	7.4	4.3	-3.4	3.1	7.1	7.3
Government finance									
Revenue	4.9	6.2	7.3	7.5	7.4	8.2	8.2	7.6	8.0
Total expenditure	19.1	18.1	17.7	17.5	14.8	19.0	20.8	18.3	20.3
Current primary balance (- =deficit) 2/	-3.7	-1.7	-0.6	0.8	1.0	-0.2	-1.0	-0.8	-1.2
Primary base balance 2/ 3/	-3.9	-1.7	-0.7	0.3	0.5	-1.1	-2.1	-1.7	-2.4
Overall fiscal deficit (commitment basis) 2/	-14.2	-12.0	-10.5	-10.1	-7.4	-10.8	-12.6	-10.7	-12.3
Overall fiscal deficit (cash basis) 2/	-13.4	-11.1	-11.6	-11.4	-7.9	-11.2	-12.7	-10.1	-12.5
Overall fiscal deficit (cash basis, including grants)	-3.8	-3.6	-5.4	-5.1	-2.9	-6.5	-7.0	-4.4	-5.5
Domestic financing	4.0	4.5	6.7	5.5	2.6	5.5	4.4	9.4	12.4
External financing	-0.1	-1.0	-1.3	-0.4	0.2	1.0	2.6	0.7	0.2
External sector									
Current account (- = deficit)									
Including official current transfers	-9.8	-7.6	-8.4	-8.9	-9.6	-16.0	-18.3	-35.7	-52.7
Excluding official current transfers	-20.8	-13.2	-12.0	-12.7	-12.5	-18.3	-21.5	-38.0	-54.5
Excluding pipiline-related imports	...	...	-10.9	-11.0	-10.5	-13.5	-13.0	-12.2	-12.1
External debt outstanding	61.5	58.4	54.9	60.4	54.8	66.3	74.9	75.0	80.3
Debt service ratio									
Including the Fund	13.0	9.6	11.3	13.4	13.2	12.8	13.1	14.7	18.7
Excluding the Fund	11.3	7.4	8.6	8.7	9.2	11.1	12.5	13.2	14.8
	(In units specified)								
Memoranda Items:									
Social Indicators									
Life expectancy at birth (years)	...	...	...	...	...	...	48.5	...	...
Illiteracy (percent of population age 15 and over)	...	...	...	...	...	...	59.0	...	...
Access to safe water (percent of population)	...	...	...	...	...	...	27.0	...	...
Nominal GDP (in billions of CFA francs)	655	719	819	907	1,028	943	991	1,221	1,392
Nominal GNP (in billions of CFA francs)	651	710	814	897	1,019	934	977	1,203	1,371
Nominal GNP (in millions of US dollars)	1,172	1,422	1,591	1,537	1,727	1,520	1,370	1,643	1,969
Nominal GNP per capita (in dollars)	182	216	235	222	243	209	183	214	251
CFA francs per U.S. dollar (period average)	555	499	512	584	590	615	713	732	696
CFA francs per U.S. dollar (end of period)	535	490	524	599	562	649	705	744	652

Sources: Chadian authorities; and staff estimates and projections.

1/ Previous programs showed these ratios as shares of GDP. The revised numbers here are shown as ratios to GNP, which are thought to better reflect their magnitu

2/ Excluding grants.

3/ The primary base balance is the overall fiscal deficit, excluding debt-service payments and foreign-financed investment.

Chad: Statistical Issues

1. Chad's statistical system is weak and suffers from a shortage of financial and human resources. The compilation of national economic and financial statistics is decentralized, involving several government ministries and the national directorate of the Bank of Central African States (BEAC). The statistics directorate at the Ministry of Planning (Direction des Statistiques et des Études Économiques et Démographiques, or DSEED) is in charge of the national accounts and the consumer price index (CPI), as well as the production and dissemination of statistics on population. The Ministry of Finance is responsible for compiling fiscal data. The BEAC is responsible for monetary statistics and the balance of payments. The CPI is published biweekly, and other data are disseminated as they become available.

2. The authorities have expressed a strong interest in reforming the statistical system but lack the resources—both human and financial—to do so. An important step in this direction was the implementation of a new set of national accounts in line with the *System of National Accounts 1993 (1993 SNA)* in 1998. The adoption in 1999 by the government of a law to regulate and enhance statistical activity provides a new impetus to the collection and dissemination of statistical data.

3. Chad has also adopted the General Data Dissemination System (GDDS) as its statistical development framework; statistical metadata have been posted on the Fund's Dissemination Standards Bulletin Board since September 2002.

4. While the quality of real sector data has improved recently, weaknesses in balance of payments, government finance, and monetary statistics make program design and monitoring difficult.

Real sector

5. In early 1998, the authorities started compiling a new set of national accounts, conforming with the methodological requirements of the 1993 *SNA*, and retained 1995 as a base year. Notable improvements include the compilation of an input-output table that incorporates nonmarket household production and improved coverage of informal activities. However, there remains a need to refine the data-updating process, notably to account for structural changes in the economy. The only price index available is the CPI, which is based on outdated 1972 weights. It is therefore important that efforts aimed at producing a harmonized consumer price index for the Central African Economic and Monetary Community (CEMAC) countries be continued with the assistance of the regional statistical office (AFRISTAT), and that the planned household consumption survey be completed.

Public finance

6. Chad has not yet been able to resume reporting of detailed data for publication in the *Government Finance Statistics Yearbook (GFSY)*. Annual fiscal data to 2001 have been reported and published in the *International Financial Statistics (IFS)* but include significant discrepancies between the deficit and total financing. The 2000 multisector mission noted that there was no comprehensive and systematic compilation of government finance statistics. The quarterly Tableau des Opérations Financières de l'État (TOFE), compiled by a working group, mainly for the purpose of the Fund-supported program, is based on several disparate sources. The mission recommended that systematic procedures be established for the compilation of government finance statistics, based, to the extent possible, on a unified set of accounting and administrative records that would be implemented only after a comprehensive review of the public accounting system.

Monetary sector

7. Monthly data on monetary statistics for Chad, as well as for the other members of the CEMAC, are reported on a regular basis, although with some delays. The data are reported in electronic form by the regional central bank (BEAC) and published in *IFS*. The institutional coverage of monetary statistics is comprehensive, but accuracy is affected by large cross-border movements of currency among CEMAC member countries. About 48 percent of banknotes issued in Chad by the national BEAC directorate circulate in Cameroon, while currency in circulation in Chad includes some 20 percent of banknotes from Cameroon and 8 percent of notes from the Central African Republic.

8. The monetary and financial statistics mission that visited the BEAC headquarters (May 2001) provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, compilation procedures, and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the CEMAC. Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the MFSM in the CEMAC countries. The new CEMAC page was first published in the January 2003 issue of *IFS*.

Balance of payments

9. As in other CEMAC countries, the national agency of the BEAC is responsible for the compilation of the balance of payments statistics for Chad. The poor quality of the balance of payments statistics appears to be related to inadequate staffing and provision of financial and physical resources dedicated to balance of payments compilation. The foreign trade data, compiled by the DSEED on the basis of customs declarations, are known to be unreliable, and to suffer from coverage problems; in addition, they are believed to be inconsistent with those used in the compilation of national accounts. Consequently, they are not fully used by the BEAC in the compilation of balance of payments data. Data on exports

are estimated based on data provided by line ministers. Even considering the difficulty of collecting data on informal border trade between Chad and its neighboring countries, many improvements could be made on such items as imports, cotton and cattle exports, freight, and public transfers. It is believed that a tighter coordination among the CEMAC, DSEED, and other agencies is required in order to improve the data coverage. In May 2000, a multisector technical assistance mission, the first STA mission to Chad in ten years, provided a thorough assessment of requirements in the area of balance of payments statistics. It found the compilation system and procedures for balance of payments statistics, recently revised to conform to the *Balance of Payments Manual* (fifth edition) (*BPM5)*, to be conceptually sound but flawed in their application, owing to the absence of documented sources and methods, understaffing, and lack of training. In all of these areas, the mission made specific recommendations. This situation implies that the authorities' commitment to strengthen the human and technical resources needs to be reconfirmed

Poverty indicators

10. In early 2003, with assistance from the World Bank, the government launched a household survey on income and expenditure. The results of the survey will provide definitions of a poverty line and the main poverty indicators (incidence, depth, and severity).

Chad: Survey of Reporting of Main Statistical Indicators
(As of January 16, 2004)

	Exchange Rates 1/	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Current Government Balance	GDP/GNP	External Debt
Date of latest Observation	01/04 End-Sept.	Oct 03	Oct 03	Oct 03	Oct 03	Nov 03	End-Aug.	Dec. 2002	Dec. 2002	End-Aug.	Dec. 2002	Dec. 2002
Date received	01/04	Dec 03	Dec 03	Dec 03	Dec 03	Jan 04	Oct. 15	Sept. 2003	Sept. 2003	Oct. 15	June 2003	June 2003
Frequency of data	Monthly	Monthly	Monthly	Monthly	Monthly	Irregular	Monthly	Annual	Annual	Monthly	Annual	Monthly
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Monthly	Annual	Annual	Monthly	Annual	Monthly
Source of data	Central bank	Central bank	Central bank	Central bank	Central bank	Central bank	Ministry of Planning	Central bank	Central bank	Ministry of Finance	Ministry of Planning	Ministry of Finance
Mode of reporting	Mail	Mail	Mail	Mail	Mail	Mission in the field	Fax or mission in the field	Mission in the field	Mission in the field	Fax or mission in the field	Fax or mission in the field	Fax or mission in the field
Confidentiality	NO	YES	YES	YES	YES	NO	NO	YES	YES	YES	YES	YES

1/ Since January 1, 1999, the CFA franc has been pegged to the euro.

Chad: Assessing External Debt Sustainability

This appendix assesses external sustainability, applying the framework discussed in SM/02/166 to the staff's baseline scenario, and considers various standards, as well as country specific robustness checks. Since Chad is a HIPC country and reached its decision point under the enhanced HIPC Initiative in May 2001 key HIPC debt sustainability ratios have been included in the analysis. The analysis shows that debt- to-GDP ratios are falling over the medium term under the baseline scenario, and that the debt sustainability outlook seems robust to a series of plausible stress tests and shocks. However, some of the extreme stress tests show that the combination of adverse external and internal shocks could under some circumstances result in increases in the debt-to-GDP ratios and unsustainable debt levels. It is projected that the NPV of debt-to-exports ratio would fall below 150 percent in 2004— i.e., one year earlier than originally anticipated at decision point— owing to the earlier-than-anticipated exploitation of the oil pipeline.

1. Under the staff's baseline projections, Chad's baseline external debt-to-GDP ratio declines over the period 2004–08 (Appendix V, Table 1). After peaking at 73.9 percent in 2001, the debt-to-GDP ratio steadily declined to 61.2 percent in 2003. This was a result of high GDP growth, primarily due to the increased economic activity related to the oil pipeline construction. With the beginning of the "oil era," the period 2004–08 is characterized by large increases in oil receipts from oil production and exports, which are expected to raise the rate of growth of overall GDP by an average of 12.3 percent annually and dramatically improve the current account balance. On this account, as well as the HIPC Initiative debt relief, the debt-to-GDP ratio is projected to fall gradually to 27.2 percent by 2008, a decrease of 34 percentage points compared with 2003. As a result, the gross external financing gap will be reduced dramatically to 5.9 percent of GDP in 2008, compared with 41.6 percent in 2003.

2. The standard set of sensitivity checks on the evolution of the debt-to-GDP ratio suggests that Chad continues to be vulnerable to external shocks over the period 2004–08. Under the first set of sensitivity tests, which sets key parameters to their historical average values[1] (Appendix V, Table 1, bottom panel, alternative scenario A1), Chad's external debt-to-GDP ratio would be on average 22.4 percentage points higher over the period 2004–08. This is primarily because real GDP growth under this sensitivity check is kept (by construction) at only 3.7 percent, substantially lower than the 12.3 percent projected in the baseline scenario. Therefore, given Chad's tremendous growth potential resulting from oil production and exports, the results of this first sensitivity test need to be interpreted with caution.

[1] These are the real GDP growth, current account deficit, nominal interest rate, and GDP deflator growth, which are set to 3.7, 17.3, 1.2, and -0.8 percent, respectively.

3. The second set of sensitivity tests (bound tests) assumes adverse transitory shocks to key parameters first separately, and in some cases jointly. The main results of these sensitivity tests (summarized in Appendix V, Table 1 and Figure 2) are as follows:

- Compared with the baseline scenario, the transitory negative shock on the nominal interest rate (bound test B1) has the smallest effect on the path of the debt-to-GDP ratio out of all the bound tests. The debt-to-GDP ratio would be 1.1 percent higher over 2004–08.

- Under a temporary negative shock of the real GDP growth in 2004 and 2005 (bound test B2), the debt-to-GDP ratio would be on average 8.7 percent higher than the baseline scenario over 2004–08. Again, as discussed in paragraph 2 above, the results of this test should be interpreted with caution, given Chad's growth prospects with the use of its oil resources.

- A temporary shock to the U.S. dollar deflator (bound test B3) causes the debt ratio to be 12.2 percent higher over 2004–08, but, by 2008, the debt-to-GDP ratio is brought down to the baseline scenario level.

- The effect of the transitory shock on the current account balance (bound scenario B4) is large. The debt-to-GDP ratio would reach 106.7 percent in 2005. This is because the transitory shock sets the current account balance-to-GDP ratio at 46.6 percent over 2004–05 compared with the 9.7 percent in the baseline scenario. Although under the circumstances facing Chad a current account shock of such a magnitude may not be very likely, this sensitivity check emphasizes the country's vulnerability to the external environment. Similarly, the combined transitory shock over 2004–05 (bound scenario B5) has the largest effect on the debt-to-GDP ratio, causing the debt burden to reach 114.3 percent in 2005. This is dominated by the current account shock discussed above, and therefore caution should be exercised when interpreting the results.

- A onetime depreciation vis-à-vis the U.S. dollar in 2004 (bound scenario B6) results in an increase in the debt-to-GDP ratio of 5 percent on average over 2004–08 compared with the baseline scenario.

4. In addition to the standard stress tests in the framework, this analysis includes country-specific shocks that affect oil revenues and could conceivably pose risks to the country's debt sustainability. The effects of transitory and permanent shocks on oil prices were analyzed. The results of a onetime (transitory) adverse shock of one standard deviation for 2004 are shown in Appendix V, Table 1 (bottom panel, alternative scenario A3). Compared with the baseline scenario, a transitory adverse oil price shock of one standard deviation results in an average 9.8 percentage points increase in the debt-to-GDP ratio over 2004–08; a permanent one standard deviation adverse shock in the price of oil raises the debt-to-GDP ratio by 7.3 percentage points on average over 2004-08 (alternative scenario

A4). The effects of adverse oil price shocks directly affect oil revenues, the current account balance, and output, and underscore the sensitivity of Chad's economy to the exogenous price level of oil and in general to the external environment.

5. Regarding key HIPC debt sustainability ratios, the updated analysis shows that the NPV of debt-to-exports ratios is now projected to fall below 150 percent in 2004, owing to the earlier-than-anticipated exploitation of the oil pipeline. Debt service ratios are also projected to be sustainable, with a debt service-to-government revenues ratio at around 7.1 percent in 2004–08.

Table 1. Chad: External Debt Sustainability Framework, 1992-2008
(In percent of GDP, unless otherwise indicated)

	Actual 1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002			Projections 2003	2004	2005	2006	2007	2008	
														I. Baseline projections						Debt-stabilizing non-interest current account 6/
1 External debt	38.2	44.5	62.3	57.6	54.5	59.8	54.3	65.7	73.9	73.9	66.3			61.2	42.1	36.7	34.5	31.6	27.2	-3.6
2 Change in external debt		6.3	17.9	-4.7	-3.1	5.3	-5.5	11.4	8.1	0.1	-7.6			-5.1	-19.1	-5.4	-2.3	-2.8	-4.4	
3 Identified external debt-creating flows (4+8+9)		19.6	17.9	-6.1	-0.1	7.9	1.8	21.7	16.6	-4.9	-5.5			-6.9	-13.0	-0.8	3.3	3.0	0.5	
4 Current account deficit, excluding interest payments		14.1	9.8	6.4	7.4	8.0	8.9	15.1	17.1	34.5	51.1			39.5	12.2	6.7	6.4	5.5	4.6	
5 Deficit in balance of goods and services		16.1	19.4	-55.9	-46.8	-49.4	-49.4	-49.3	-54.4	-67.0	-77.0			-75.1	-74.9	-70.7	-65.7	-62.1	-56.8	
6 Exports	12.5	13.4	13.4	22.0	17.6	18.8	18.2	15.8	17.1	15.2	12.3			21.3	45.4	46.5	42.3	39.9	36.4	
7 Imports		29.5	32.8	-33.9	-29.2	-30.6	-31.2	-33.6	-37.4	-51.7	-64.7			-53.8	-29.4	-24.2	-23.4	-22.2	-20.5	
8 Net non-debt creating capital inflows (negative)		0.0	-2.3	-2.4	-2.7	-2.6	-1.2	-1.6	-8.3	-27.7	-45.1			-30.9	-6.5	-3.1	-2.0	-1.3	-1.2	
9 Automatic debt dynamics 1/		5.5	10.4	-10.0	-4.8	2.5	-5.8	8.2	7.7	-11.6	-11.5			-15.6	-18.8	-4.4	-1.1	-1.3	-2.9	
10 Contribution from nominal interest rate		0.0	0.0	1.3	1.0	0.8	0.7	0.8	0.9	0.7	0.8			0.6	0.4	0.4	0.5	0.5	0.5	
11 Contribution from real GDP growth		0.9	-2.7	-0.5	-1.1	-3.7	-3.2	0.3	0.5	-5.8	-6.1			-5.0	-15.9	-5.0	-1.5	-1.3	-1.2	
12 Contribution from price and exchange rate changes 2/		4.6	13.1	-10.8	-4.7	5.4	-3.3	7.0	6.4	-6.5	-6.2			-11.2	-3.3	0.2	0.0	-0.5	-2.1	
13 Residual, incl. change in gross foreign assets (2-3)		-13.3	0.0	1.4	-3.0	-2.6	-7.3	-10.2	-8.5	4.9	-2.0			1.8	-6.1	-4.6	-5.6	-5.8	-5.0	
External debt-to-exports ratio (in percent)	304.5	332.0	463.5	261.9	309.6	317.9	297.8	417.2	432.5	485.1	541.5			288.0	92.7	79.0	81.4	79.3	74.7	
Gross external financing need (in billions of U.S. dollars) 3/		0.2	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.6	1.1			1.1	0.5	0.3	0.3	0.3	0.3	
in percent of GDP		14.9	10.8	7.8	9.4	9.6	10.6	17.4	19.5	36.4	53.5			41.6	13.6	7.8	7.6	7.0	5.9	
Key Macroeconomic Assumptions												Ten-year historical average	Ten-year standard deviation							Projected average
Real GDP growth (in percent)		-2.1	4.8	1.0	2.1	6.6	5.9	-0.6	-0.6	9.5	9.9	3.7	4.3	10.0	37.9	13.3	4.4	4.0	4.1	12.3
Exchange rate appreciation (US dollar value of local currency, change in percent)		-6.5	-49.0	11.2	-2.4	-12.4	-1.1	-4.0	-13.8	-2.6	5.2	-7.5	16.3	19.8	-0.9	-1.2	-0.8	-0.7	-0.7	2.6
GDP deflator in US dollars (change in percent)		-10.8	-22.7	20.9	8.9	-9.0	5.8	-11.5	-8.8	9.6	9.1	-0.8	13.5	20.3	5.6	-0.4	0.1	1.5	7.3	5.7
Nominal external interest rate (in percent)		0.0	0.0	2.5	1.9	1.5	1.2	1.3	1.2	1.1	1.2	1.2	0.8	1.2	1.0	1.2	1.4	1.6	1.6	1.3
Growth of exports (US dollar terms, in percent)		-6.6	-18.6	99.8	-11.1	3.6	8.8	-24.0	-1.8	7.1	-3.6	5.4	34.8	129.4	211.2	15.5	-4.8	-0.5	1.9	58.8
Growth of imports (US dollar terms, in percent)		-8.1	-9.7	-226.0	-4.3	1.8	14.2	-5.1	0.8	66.2	50.0	-12.0	79.5	9.9	-20.3	-7.1	0.7	0.2	3.2	-2.2
Current account balance, excluding interest payments		-14.1	-9.8	-6.4	-7.4	-8.0	-8.9	-15.1	-17.1	-34.5	-51.1	-17.2	14.5	-39.5	-12.2	-6.7	-6.4	-5.5	-4.6	-12.5
Net non-debt creating capital inflows		0.0	2.3	2.4	2.7	2.6	1.2	1.6	8.3	27.7	45.1	9.4	15.0	30.9	6.5	3.1	2.0	1.3	1.2	7.5
														II. Stress tests for external debt ratio						Debt-stabilizing non-interest current account 6/
A. Alternative Scenarios																				
A1. Key variables are at their historical averages in 2004-08 4/														61.2	59.5	59.3	57.4	54.9	53.0	-5.9
A2. Country-specific shock in 2004, with reduction in GDP growth (relative to baseline) of one standard deviation														61.2	51.4	39.5	39.8	39.6	39.0	-2.1
A3. Country-specific shock: temporary negative oil price shock of one standard deviation for 2004-2008														61.2	46.3	44.0	44.2	43.7	42.8	...
A4. Country-specific shock: negative oil price shock of one standard deviation for 2004-2005														61.2	46.3	44.0	39.8	39.6	39.0	...
B. Bound Tests																				
B1. Nominal interest rate is at historical average plus two standard deviations in 2004 and 2005														61.2	42.8	38.0	35.7	32.8	28.2	-3.7
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005														61.2	55.6	52.8	44.5	36.1	26.8	-4.4
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2004 and 2005														61.2	56.0	60.4	49.7	39.1	27.7	-4.8
B4. Noninterest current account is at historical average minus two standard deviations in 2004 and 2005														61.2	76.0	106.7	102.3	96.9	86.6	-9.0
B5. Combination of 2-5 using one standard deviation shocks														61.2	83.6	114.3	108.3	100.7	88.0	-10.6
B6. Onetime 30 percent nominal depreciation in 2004														61.2	54.5	44.7	39.0	33.1	25.9	-4.0
Key HIPC debt sustainability ratios																				
Memo: ratios as projected at decision point																				
NPV of external debt-to-exports ratio after enhanced HIPC assistance as projected at decision point (in percent) 5/ 6/									150.0	192.6	210.4			220.1	201.1	86.4	54.7	42.1	42.4	
NPV of external debt-to-GDP ratio after enhanced HIPC assistance as projected at decision point (in percent) 5/									28.2	28.6	28.8			29.7	31.6	21.3	21.1	21.3	21.4	
NPV of external debt-to-revenues ratio after enhanced HIPC assistance as projected at decision point (in percent) 5/ 7/									352.2	339.3	341.6			330.4	315.3	212.3	201.0	196.1	191.0	
Debt service of external debt-to-revenues ratio after enhanced HIPC assistance as projected at decision point (in percent) 7/									...	16.0	16.1			13.9	15.7	11.1	9.9	9.5	9.5	
Updated ratios 8/ 9/																				
NPV of external debt-to-exports ratio after enhanced HIPC assistance - updated estimate (in percent) 5/ 6/									150.0	203.6	217.4			168.2	75.5	47.6	38.7	40.0	43.0	
NPV of external debt-to-GDP ratio after enhanced HIPC assistance as projected at decision point (in percent) 5/									28.2	28.0	26.5			22.5	16.7	15.8	16.1	16.3	16.2	
NPV of external debt-to-revenues ratio after enhanced HIPC assistance as projected at decision point (in percent) 5/ 7/									352.2	372.9	335.7			258.3	181.4	149.9	152.1	146.8	133.2	
Debt service of external debt-to-revenues ratio after enhanced HIPC assistance - updated estimate (in percent) 7/									...	16.9	14.6			10.0	8.5	7.5	7.2	6.5	5.9	

Sources: Fund estimates

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ After unconditional HIPC assistance at end-December 2000.

6/ In percent of three-year average of exports of goods and non factor services.

7/ Revenues are defined as central government revenues, excluding grants.

8/ Revised estimates take into account the updated macroeconomic framework and projections, as well as updated estimate of new borrowing.

9/ Ratios differ from those shown in the BOP. Ratios shown in the BOP reflect the legal situation. Ratios shown above reflect the situation after unconditional delivery of assistance by all creditors, following assumptions used in the decision point document.

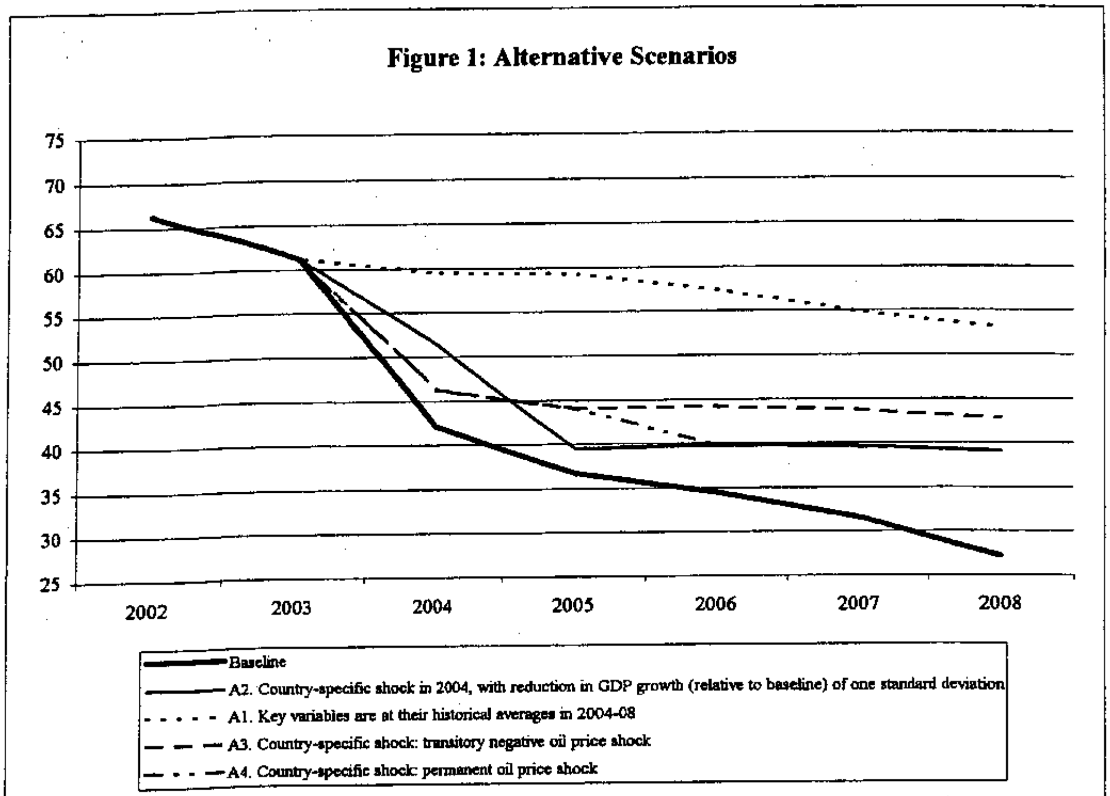


Figure 1: Alternative Scenarios
75
70
65
60
55
50
45
40
35
30
25
2002
2003
2004
2005
2006
2007
2008
Baseline
A2. Country-specific shock in 2004, with reduction in GDP growth (relative to baseline) of one standard deviation
A1. Key variables are at their historical averages in 2004-08
A3. Country-specific shock: transitory negative oil price shock
A4. Country-specific shock: permanent oil price shock

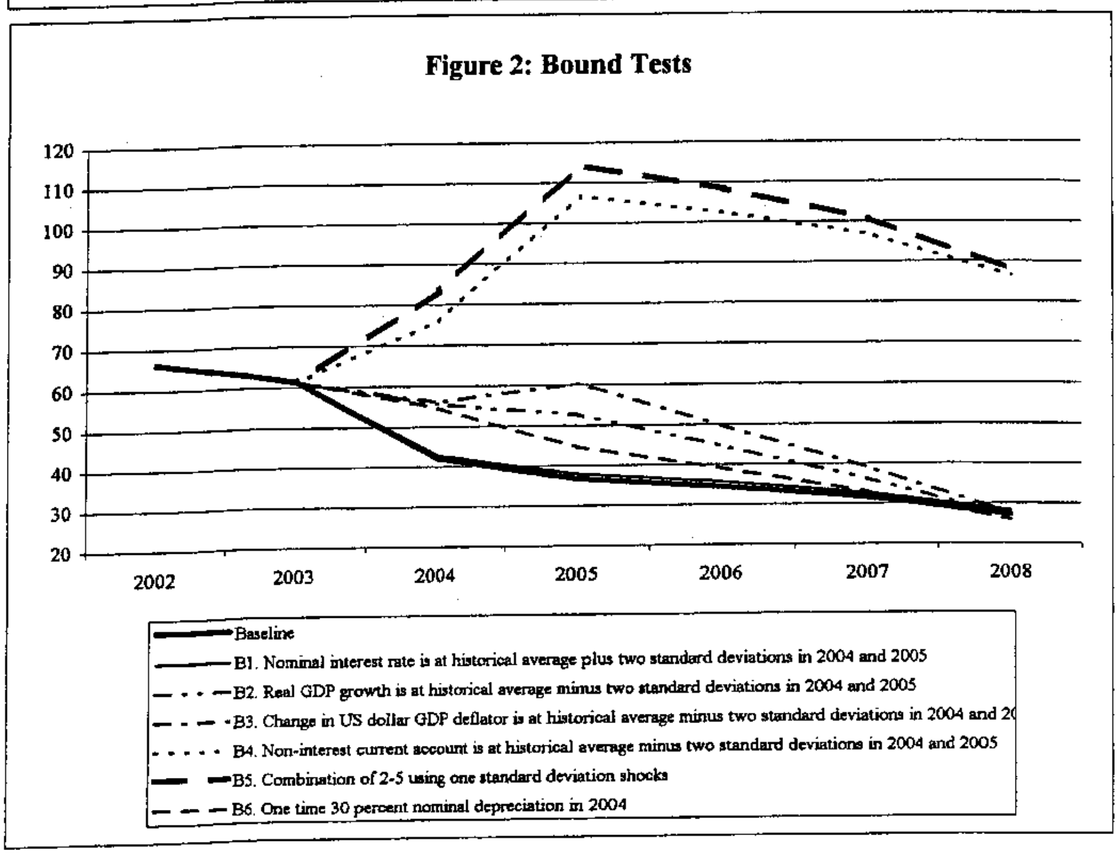


Figure 2: Bound Tests
120
110
100
90
80
70
60
50
40
30
20
2002
2003
2004
2005
2006
2007
2008
Baseline
B1. Nominal interest rate is at historical average plus two standard deviations in 2004 and 2005
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2004 and 2
B4. Non-interest current account is at historical average minus two standard deviations in 2004 and 2005
B5. Combination of 2-5 using one standard deviation shocks
B6. One time 30 percent nominal depreciation in 2004

Chad: Progress in Achieving the HIPC Initiative Completion Point Conditions

This matrix indicates progress that has been made thus far in reaching the floating completion point conditions for the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

Action	Status
Poverty reduction strategy paper (PRSP) Ensure that a fully participatory PRSP has been prepared and satisfactorily implemented for at least one year, as evidenced by the joint staff assessment of the country's annual progress report.	*In progress.* PRSP adopted on June 4, 2003; and transmitted to the Fund and the World Bank on June 6, 2003. It was endorsed by the Board of the Fund on November 17, 2003.
Macroeconomic stability Continue maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program.	*Ongoing.*
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-tracing system for primary education services.	*In progress.* Simplified expenditure and its limited computerization circuit introduced in January 2002. An Integrated Financial Management Information System (IFMIS) is being implemented. First expenditure-tracking surveys in education and health completed in May 2002. The functional expenditure-tracking system for education and health have been designed and implementation launched.
• 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 public procurement contracts granted in 2001; adopt the Budget Settlement Law for 2000 before the adoption of the Budget Law for 2002 and, similarly, adopt the Budget Settlement Law for 2001 before the adoption of the Budget Law for 2003; and nominate the judges for the commercial courts in the five largest cities.	*In progress.* The Code was approved by the Council of ministers on October 2, 2003 and submitted to the head of state's signature. Quarterly bulletins issued up to June 2003. Next issue is under preparation. The audits of the five biggest contracts awarded in 2001 and 2002 were completed in October 2002 and October 2003, respectively. The 2000 Budget Settlement Law was submitted to parliament at the same time as the 2002 Budget Law, but was not considered by parliament owing to inconsistencies in the data provided. A draft 2001 Budget Settlement Law was submitted to parliament with the Budget Law for 2003 but without the Auditor General's report, and hence could not be examined. The commercial courts are being built.
• Adopt a governance strategy and action plan in consultation with IDA and the IMF and implement it for at least one year.	*In progress.* The governance strategy and action plan were adopted in August 2002.

Action	Status
Priority sectors[1]	
Health	
• Ensure that at least 75 percent of all health districts and health centers accross the country are operational, up from 68 percent in 1999.	*Completed.* 80 percent of all health districts and 75 percent of all health centers were operational in June 2003.
• 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.	*In progress.* DPT3 vaccination rate was estimated at 43 percent in 2000 but declined to 39 percent in 2001, before increasing to 41 percent in 2002 and 47.8 percent as of end September 2003. Assisted delivery rate in public health centers and hospitals reached 18.2 percent in October 2003.
HIV/AIDS and sexually transmitted diseases	
• Increase the sale of condoms through the social marketing project MASOCOT by at least 25 percent over the 2.2 million condoms sold in 2000.	*In progress.* 2.4 million and 4.7 million condoms were sold by MASOCOT in 2001 and 2002, and 2.4 million as of end June 2003, respectively.
• Increase the treated cases of genital ulcers to at least 30,000 per year, up from 12,000 in 1998, and the treated cases of purulent urethritis to at least 40,000 per year, up from 21,000 in 1998. Decrease the prevalence of syphilis among pregnant women from 6 percent in 1998 to at most 4 percent.	*In progress.* Treated cases of genital ulcers declined to 8,225 in 2001 and increased to 8,675 in 2002; it reached 8,173 cases as of end October 2003. Treated cases of purulent urethritis declined to 14,770 in 2000 and 13,550 in 2002, and an estimated 11,000 in 2003. Prevalence of syphilis among pregnant women fell to 5.7 percent in 2001 and 3.4 percent in 2002.
Education	
• Increase the gross enrollment rate to at least 61 percent for girls and 89 percent for boys, up from 50 percent and 85 percent, respectively, in 1998–99.	*In progress.* 2000–01 gross primary enrollment rate was 58.7 percent for girls and 88 percent for boys.
• Reduce the repeater rate from 26 percent in 1998-99 to at most 22 percent.	*In progress.* The repeater rate declined to 24 percent in 2000-2001. No progress was made in 2003.
Basic infrastructure	
Ensure that at least 50 percent of the all-year road network can be used throughout the year (80 percent of the network cannot be used for three to five months during the rainy season).	*Completed.* 54.6 percent of all-year road network could be used throughout the year as of end-2002, and 56 percent as of end October 2003, up from 43.5 percent at end-2001.
Rural development	
• Increase access to potable water to at least 32 percent, up from 27 percent in 2000.	*Completed.* Access reached 29 percent in end-2002 and 35 percent as of end October 2003.

[1] For each indicator, understanding was reached on how to measure progress.

	Action	Status
•	Increase the share of agricultural families equipped with plows from 24 percent in 2000 to at least 26 percent.	*In progress.* The share of agricultural families equipped with plows increased by 0.43 percent (3,456 plows) as of end October 2003. In addition, 7,554 plows are in the process of being sold to farmers. An additional procurement contract of 2,500 plows is being processed.
•	For livestock holders, increase the number of water points by at least 10 percent, relative to 1,138 water points in 2000.	*In progress.* The number of water points financed by HIPC Initiative funds has only increased by 1.7 percent since 2000. A contract was signed in 2002 for 37 additional water points. A contract is being processed for 5 new points to be built in 2004.

Steps to Improve Public Expenditure Management and the Financial System and Status of the Banking System and Microfinance

A. Steps to Improve Public Expenditure Management

- The table monitoring budget execution in the four stages of the expenditure process will be produced twice a month with a maximum lag of one week, starting from the first week following the effective implementation of the fully computerized budget execution system. The above-mentioned table will be augmented so as to distinguish domestically financed from foreign-financed investment starting in June 2004.

- Production of a quarterly report on the status of investment program execution, starting with the first quarter of 2004.

- Preparation of annual commitment plans for 2004 for each priority ministry within two weeks of the promulgation of the 2004 finance law. They will be monitored inter alia by the committee comprising the General Secretaries and the Administrative and Financial Directors of the Ministry of Economy and Finance and of the line ministries in the priority sectors which will produce a monthly report on the budget execution in the priority sectors and a three-month commitment and payment plan.

- The twelve-month treasury cash-flow plan for 2004 will be produced by December 15, 2003 and will be updated twice a month throughout 2004.

- Hiring 12 procurement specialists to assign in priority sector ministries to help accelerate the process of public procurement.

- Completion of the computerization of budget execution and monitoring and ensure the supply of electricity to ministries.

- Carrying out the stock-taking of its domestic arrears by end-July 2004 and implement from 2005 a plan for their progressive elimination.

B. Status of the Banking System and Microfinance, and Steps to Improve the Financial System

The financial situation of Chad's banking system is broadly satisfactory. Compliance with the regional prudential regulations set by the banking commission, the *Commission Bancaire de l'Afrique Centrale* (COBAC), is generally adequate. The main infringement relates to the limit on single credit exposures, which none of the banks respects, mainly reflecting the strong dependence of the banking system on the cotton sector. Even though four out of five banks complied with the capital adequacy ratio requirement (6 percent) at end-September 2003, the banking system nonetheless remains undercapitalized, especially with regard to the portfolio structure. The prudential norm will be aligned with the international standard of 8 percent by 2005. Meanwhile, four out of five banks easily met the liquidity ratio requirement. Overall, three banks were considered to be in good financial health, while the other two were assessed to be somewhat weaker. The main source of vulnerability seems to emanate from a high concentration of credit risks as the banks have a high exposure to a number of public sector enterprises. To begin addressing this issue, by March 2004 the government and the BEAC will prepare a plan to reduce over time the dependence of the banking system on deposits from the government and a few large institutions/companies. In addition, by end-March 2004, the BEAC will study the means to improve the workings of the money market and increase interbank activity. To strengthen bank supervision further, the COBAC will increase the rate of on-site inspections of banks, with a view to improving on the recent gains in the soundness of the Chadian banking system.

The quality of the banks' portfolios is improving. The stock of nonperforming loans (NPL) amounted to CFAF 16.8 billion at end-September 2003, equivalent to 15 percent of gross claims, compared with 17.5 percent a year earlier and 22.1 percent at end-September 2001. In tandem with their efforts towards asset recovery, banks continue to increase their provisioning, with a ratio of provisions to gross NPLs reaching 83.5 percent in 2003, compared with 73 percent in 2001. In addition, by end-2004, the government will carry out a study for putting in place a legal and regulatory framework for secured lending, and will formulate an appropriate action plan.

While the microfinance sector remains quite small in absolute terms, it has experienced rapid growth in recent years, and now serves more households than the banking sector. Little reliable data exist on the microfinance sector at the aggregate level. The sector is comprised of five major networks including about 150 entities. A typical loan is guaranteed by the deposits of the borrower, carries an interest rate of 1 percent per month, and has a repayment period of two years. In an attempt to raise the volume of deposits, the networks have developed an increasingly diversified and attractive range of instruments tailored, for instance, for women, low-income civil servants, and education loans. To support the healthy growth of microfinance it would be important to address the weaknesses in the regulatory and supervisory framework, including by making the specialized unit within the Ministry of Economy and Finance operational and subsequently coordinating its work with COBAC.

The government will continue to work in 2004 within the regional framework toward putting in place new financial instruments that will be used to access domestic savings on the part of the government and reduce its dependence on central bank financing. In this context, selected government and BEAC employees will continue receiving training in preparation for manning the issuing of government paper. In this context, the COBAC will also continue to prepare the regulatory and accounting framework for banks.

Statement by the IMF Staff Representative
March 19, 2004

1. This statement contains information that has become available since the issuance of the staff report for the 2004 Article IV consultation (2/23/04). The information pertains to the adoption and implementation of the modalities of the use of oil resources, progress in the implementation of other measures discussed with the October 2003 Fund mission and presented in the staff report, and the 2004 budget recently adopted by Parliament. While there are positive developments in some of these areas, further progress remains to be made on a number of issues. The thrust of the staff appraisal remains unchanged.

2. **A Chadian delegation, headed by the Prime Minister, visited the Fund during March 8–10, 2004.** The authorities reiterated their interest in reaching understandings on an economic program that could be supported by a new arrangement under the Poverty Reduction and Growth Facility.

3. **Today we received information that the two remaining decrees on the use of oil revenues have been promulgated.** The two decrees concern the Fund for Future Generations and the use of oil revenue by the oil producing region. The decree on the oil producing region includes the possibility of a transitory mechanism for spending the oil revenues allocated to the region (before the decentralized institutions to receive the revenues are created), and a certain definition of the oil producing region. There is a need to check the consistency of these steps with the World Bank pipeline loan agreement.

4. **A number of issues have arisen concerning the implementation of the adopted modalities of the use of oil revenues.** First, the additionality constraint[1] is not met in the 2004 budget that was adopted by Parliament. Second, the authorities are considering using earmarked oil revenue to solve temporary cash flow problems in carrying out expenditures slated to be financed by nonearmarked budget resources, which would be inconsistent with the adopted modalities. Third, they are considering having more than one commercial bank be the recipient of the oil revenues from abroad, which would be inconsistent with the provisions of the decree on sterilization of oil revenues aimed at facilitating transparency. The staff continues to advise the authorities to respect the adopted modalities of the use of oil revenues.

5. While progress has been made in implementing certain measures discussed with the October 2003 Fund mission, further progress remains to be made in several areas.

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[1] The additionality ensures that earmarked oil revenue is used to finance expenditures that would not have been undertaken in the absence of oil, by specifying that priority "baseline" expenditures must amount to at least 42.6 percent of total "baseline" expenditures. "Baseline" expenditures are those financed by resources other than earmarked oil revenue.

- **Public expenditure management.** The authorities have started, as envisaged, to take stock of domestic arrears. The authorities indicated that the completion of the computerization of the expenditure circuit is imminent. However, there have been delays regarding the production of the table of the four stages of the expenditure process, the cash flow plan for 2004, and the commitment plans in priority sectors.

- **Other areas of governance.** The 2002 budget settlement law was adopted by Parliament and the new procurement code was signed by the President. The preparation of implementation decrees of the new procurement code is behind schedule, but some progress has been made in this area. Steps remain to be taken in establishing a budget discipline court and strengthening the inspectorates of the Ministry of Finance and priority sector ministries. Some initial steps have been taken towards the implementation of the recommendations of various audits. The identification of cross debts between the government and Cotontchad was completed.

- **Revenue enhancing measures.** The action plans for customs and the Tax Directorate continue to be implemented, but the action plan for the taxation of livestock and the implementation of certain anticorruption measures have experienced delays.

6. Regarding the **fiscal outcome in 2003**, the broad fiscal balance targets were achieved, but the composition of expenditure was less favorable compared with both the original program and the revised projections reported in the staff report. Priority sector expenditures were compressed to CFAF 65.7 billion, CFAF 17.3 billion less than originally programmed, and also lower than in the revised projections reported in the staff report. Nonpriority sector spending reached CFAF 91.1 billion, about CFAF 4 billion less than in the revised projections. At the same time, expenditures for military wages were significantly higher compared to both the original program and the revised projections. Fiscal revenues were CFAF 4.5 billion lower than projected on account of shortfalls in non-tax revenues and profit taxes. The financing gap that had been projected for 2003 was closed mainly through a compression of both priority and nonpriority expenditures, accumulation of external arrears, and the use of HIPC resources.

7. Regarding the **use of HIPC account resources**, preliminary estimates indicate that about CFAF 10.3 billion were used for other than the intended purposes, compared with the CFAF 4.5 billion mentioned in the staff report. The authorities noted that the HIPC account will be replenished fully on the basis of a cash flow plan, which, however, has yet to be finalized. The full amount of **external arrears**, including to the Fund and the World Bank, was regularized in mid-February 2004, using a loan from the regional central bank (BEAC). However, Chad had run up new arrears of CFAF 716 million as of March 16, 2004.[2]

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[2] These new arrears have been incurred towards Instituto de Crédito Oficial (ICO), the Saudi Fund for Development, OPEC, and the French Postal System.

8. The **2004 budget approved by Parliament** continues to differ from the recommendations of the staff in the aspects mentioned in the staff report. The budget also implies a higher overall deficit, of 13.4 percent of GNP, compared with the authorities' projection of a deficit of 12.4 percent of GNP reported in the staff report. This reflects, inter alia, the postponement of HIPC and oil bonus-financed expenditures in the additional budget (equivalent to 0.8 percent of GNP) from 2003 to 2004. The higher budget deficit now envisaged for 2004 would have to be financed through a larger accumulation of domestic arrears and/or additional budgetary support.

Statement by Damian Ondo Mañe, Executive Director for Chad
March 19, 2004

We would like to thank staff for the comprehensive and well-written report on Chad. It gives a thorough description of the country's economic situation and the challenges it faces. We are appreciative of the staff's continued commitment to helping the authorities meet these challenges especially on the onset of the oil era. The Chadian economy has grown by an average of 10 percent annually in the past three years, owing not only to the boom in activities related to the construction of the oil pipeline but also to the expansion of the non-oil sectors which have grown significantly by regional standards (close to 7 percent in the same period). Chad remains nevertheless a very poor country with weak institutions, and will require the continued support of the international community, both at the financial and technical levels, to carry successfully the needed reforms.

I. Overview of the Chad's Economic Environment and Situation

Chad is a landlocked country whose climate is partly tropical, partly semi-arid, and mostly desertic. Under the combined pressure of political turmoil and frequent droughts, Chad has remained one of the most impoverished countries in the world.

Infrastructure remains deficient in many areas, including education, health, transportation, energy and telecommunications. As a result, all social indicators of Chad today lag the sub-Saharan African country averages. Limited institutional and administrative capacities also carry weight in the difficulties encountered by my authorities to sustain appropriate policy implementation and structural reform agenda, highlighting the need for financial and technical support for their current efforts. Faced with this difficult environment, and especially following decades-long political turbulence, civil unrest, and widespread poverty, the country has held presidential and parliamentary elections in 1996-97. As part of consolidating the peace process, the authorities are undertaking the integration of former rebels into the regular army.

My authorities have engaged in policies to maintain macroeconomic stability, and they have initiated a national strategy to reduce poverty. The economic developments in 2002 and 2003 have been in large part driven by the oil pipeline construction. Real GDP has grown by almost 10 percent on annual average in the period 2001-03, while inflation has been contained in the last two years following a year of high inflation in 2001. The past two years have also seen the achievement by the authorities of the fiscal deficit targets, despite capacity problems that hamper revenue collection.

Appropriate measures to boost revenue include action plans in the customs area and the strengthening of the income and indirect tax collection, many of which have started to be implemented. Although the revenue objective for 2003 has been barely missed owing to shortfalls in taxes from companies with reduced activities following the end of Doba pipeline construction, efforts to mobilize non-oil revenue are apparent as the ratio of non-oil revenue to the fast-growing GNP has increased notably in 2002 and 2003.

On the expenditure front, my Chadian authorities acknowledge that the composition of fiscal spending can be improved towards increased outlays in priority sectors. However, despite capacity weaknesses as outlined by staff, there have been unexpected security and peace-related developments that have prompted the Chadian authorities to undertake the integration of former rebels into the national army so as to ensure a smooth implementation of the "*Accords de Paix*".

The design and adoption of a set of mechanisms that ensure transparency in the use of oil resources as well as an appropriate use of these resources put Chad at the forefront of many oil producing developing countries. These include stabilization and sterilization mechanisms, additionality of spending in the priority sectors financed by oil proceeds, the Fund for Future Generations (FFG), and a resource allocation system to ensure the development of the oil producing region. There have been delays in the adoption of implementation decrees for the last two measures, owing to administrative constraints and slowness, but my authorities have recently given assurances that the decrees are at the final stage of the signature process and will be promulgated in a very short time lapse.

The encouraging results obtained recently have followed more diverse outcomes in the past. As regard the 2000-03 PRGF-supported program, the macroeconomic record and policy implementation have given some encouraging outcomes amid difficulties often stemming from the country's weak capacities. Indeed, much of this outcome is the result of budget execution difficulties, limited resources, and events outside the control of the authorities such as the historically low world cotton prices in the 2002-03 campaign.

Much progress remains to be done to improve the institutional, infrastructure and administrative capacities of the country, and strengthen the circuit of spending and public expenditure management. My authorities are greatly appreciative of the technical assistance from the Fund on these matters. While they recognize that strengthening governance, better coordinating fiscal agencies, and improving the business environment, my authorities are also eager to see technical assistance augmented in these areas and others. As acknowledged factors have hindered the implementation of TA recommendations in the fiscal area, notably the insufficient physical and human capital, limited budgetary resources to significantly improve the latter and need for private sector to develop. As for governance, corrective actions have been taken. Nevertheless, my authorities indicate that there is a need to induce appropriate budgetary allocations for TA implementation and that conditionality design should take this aspect into consideration.

II. Medium- to Long-term Prospects and Responding to the Challenges Ahead

My authorities have made it clear that maintaining peace and security is of paramount importance to the country, in order to create conditions favorable to macroeconomic stability and sustained development. They stand ready to make their utmost efforts to ensure peace and security in the country so as to maintain an environment favorable to the successful implementation of sound policies and appropriate reforms oriented towards sustained growth and development.

My authorities' commitment to make as much efficient and effective the use of oil resources as possible has induced the elaboration of the modalities under the Law on Petroleum Revenue Management (LPRM) and their implementation decrees which puts Chad at the forefront among oil producing countries. My authorities are aware of the risks of Dutch Disease effects and the crowding-out of yet weak non-oil sector activities. They have expressed their appreciation of the decisive contribution of the Fund and the Bank in the preparation of their national strategy of poverty reduction on the one hand, and on the other hand the elaboration of the modalities pertaining to the oil-related legislation. They remain fully committed to this core law as they have confirmed at the highest level, and they are equally committed to improving the living conditions of the Chadian population, with the building of human and physical capital and the fight against poverty. As for the use of resources from future oil fields, there is a need to take into account the tremendous social and infrastructure needs of the country highlighted above, while maintaining the spirit of the legislation on the use of oil revenue.

My authorities have also expressed their desire to improve the composition of expenditures, effectively giving more weight to priority sectors. Preparation of expenditure will be made with the view to contributing more effectively to the objectives of the national strategy of poverty reduction, ensuing macroeconomic stability and long-term fiscal sustainability while taking account of actual sectoral needs.

My authorities have been confronted with the problem of external arrears, which partially find its source in the limited budgetary resources and the non-disbursement of external assistance. As a result, the authorities have often faced the daunting prioritization choice between domestic obligations (payments of civil service salaries) and external debt servicing. More predictable external financing will alleviate these difficulties and reduce the risks associated with the closing of recurrent financial gaps. In the same vein, exogenous shocks related to events such as abrupt decline in worldwide cotton and oil prices, cotton subsidies in developed countries and other impediments to fair trade hamper the growth prospects of Chad. We call on the international community to advance multilateral - or bilateral as a second-best solution - negotiations to create the conditions for fair and efficient trade. On their part, my authorities will pursue their efforts towards regional integration within the Central African Economic and Monetary Community (CEMAC), strengthen the financial sector in the context of the satisfactory situation of the Chadian banking system as discussed with staff, advance the reform of the cotton sector, and in particular they remain committed to fulfilling their external financial obligations.

Amid these daunting challenges, my authorities have renewed their commitment to sound economic policies and appropriate structural reforms that are needed to put the country on a sustained path to growth, development and poverty alleviation. To this end however, the support of the international community and the Fund in particular will be of crucial importance. An illustration of the critical need for international support to prepare the country today for the oil era and thereafter is the exponentially-growing priority sector expenditure in contrast to the abrupt decline in oil revenues after 2010 as depicted in staff's long-term macroeconomic framework (Figure 2 of staff report). This is even more so in light of the relatively small contribution of oil revenue to the government budget, which will amount to less than one-third of total revenue in the next three years.

Policies for 2004

The 2004 budget submitted to parliament reflects in large part the discussions with and recommendations by staff. In particular, the authorities will commit to the 12.6 percent growth ceiling for the wage bill as outlined in their June 2003 Memorandum of Economic and Financial Policies. They will address the equipment problems of Société Tchadienne d'Eau et d'Electricité (STEE) which hamper electricity and water delivery, and the need to put resources in Cotontchad; as well as the financing of peace accord process.

As for the use of oil resources, the two decrees related to the Fund for Future Generations and the oil-producing region will be promulgated very soon. In this regard, the authorities will commit to the spirit of legislation governing the use of oil resources. As regard savings of earmarked oil revenue under the stabilization mechanism, the authorities have already made CFAF 6.7 billion of reserves in the fund as of mid-March 2004.

The Structural Reform Agenda

The authorities intend to pursue their broad-based agenda of structural reforms as outlined in their last MEFP, including measures aimed at strengthening expenditure management and improving accountability and transparency in the use of public resources; actions to strengthen the financial sector within the regional BEAC framework towards new financial instruments and appropriate regulatory and accounting standards; and the continuation of macroeconomic policy convergence within the CEMAC.

Concerning the strengthening of governance and transparency, my authorities have already promulgated the implementation decrees on the new procurement code which is being implemented. The authorities have also indicated that the two remaining decrees on the use of oil revenue according to the petroleum legislation will be promulgated shortly.

III. Implementation of the National Strategy of Poverty Reduction and HIPC Initative Completion Point

My authorities have started to implement their national strategy of poverty reduction which was endorsed by the Board of the Fund. The PRSP monitoring mechanism is being finalized. As regard the HIPC Initiative Completion Point conditions, progress has been made in priority sectors. Indeed, the outcomes in health, education, basic infrastructure and rural development have either reached the objectives or are in progress since 1998, including in 2003.

Concerning governance, a functional expenditure-tracking system for education and health is operational; a treasury plan will be finalized soon; commercial courts are being built and judges are already being trained abroad. The code on public procurement has been finalized and has been promulgated; audits of the some big contracts awarded in 2002 have been completed in 2003; a new computerized system to monitor the four phases of expenditure is under consideration. In addition, the statistical system in the education and health sectors are being revamped and strengthened so as to better monitor the implementation of the conditions related to the HIPC Initiative process. My authorities hope that the HIPC Initiative Completion Point will be attained as soon as possible. In light of their encouraging actions and results, it would be most useful to free more resources for poverty reduction.

IV. New PRGF Arrangement

Chad should benefit from a new oil economy. The challenges and risks highlighted above and the momentum of the policy implementation and reform measures underway, albeit with bumps due to limited capacities, demand the support of the international community, at both financial and technical levels. My authorities have repeatedly - and again recently - expressed their commitment to sound policy and appropriate reforms.

As for the Fund's highly needed contribution, a new PRGF arrangement would be best-suited to not only reinforce incentives for sound policies and reforms but also enable Chad to meet the expected financial needs necessary for the strengthening of its capacities, the preparation of the post-oil era, the long road to development and the sustained implementation of their national strategy of poverty reduction. Therefore, my authorities are hopeful that following the conclusion of this Article IV discussion, a Fund mission will soon visit Chad to initiate discussions on a program that could receive Fund support under a PRGF arrangement.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/47
FOR IMMEDIATE RELEASE
April 29, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Chad

On March 19, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Chad.[1]

Background

A three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) was approved for Chad on January 7, 2000 in an amount equivalent to SDR 36.4 million (65 percent of quota) and, after two augmentations, amounted to SDR 47.6 million (85 percent of quota). Following two extensions, the arrangement expired on January 6, 2004. Chad reached its decision point under the Enhanced Heavily Indebted Poor Country (HIPC) Initiative on May 16, 2001. Relief under the Initiative amounts to about US$170 million in net present value (NPV) terms.

Economic growth is estimated to have been around 10 percent annually in 2002 and 2003 reflecting the oil pipeline construction. Chad started to export crude oil for the first time in October 2003. After a higher-than-targeted inflation rate in 2002, a significant appreciation and a good harvest contributed to deflation in 2003. Higher imports led to a larger-than-anticipated external current account deficit in 2003. Following high growth rates in 2001 and 2002, broad money growth dropped dramatically in 2003. In 2003, as in the previous year, the fiscal deficit target was achieved, but revenue collection was somewhat weaker than programmed and expenditure composition problems persisted, with priority sector spending falling below target. Further, external arrears reemerged, including to the Fund, and resources released under the HIPC Initiative were used for other than the intended purposes.

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

On the structural front, performance has been uneven. Progress was made during 2003 towards putting in place the modalities for the use of Doba oil resources, but the work was not completed by the time the first oil receipts became available to Chad. The Council of Ministers has not yet adopted the principles of the use of revenues from potential new oil fields in the spirit of the legislation now applicable to the Doba fields. In other areas of governance, including public expenditure management, progress has been mixed. The reforms of the cotton sector and the civil service have also experienced delays.

Performance under the PRGF-supported program during 2003 remained weak. Chad did not meet four quantitative performance criteria and the structural performance criterion for the sixth review. The three structural benchmarks were also not met on time. In view of this overall weak performance, and given that there was not enough time for measures to be taken to present a sufficiently strong case for completing the review, the latter could not be completed in the short time remaining before the PRGF arrangement expired in January 2004.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal and the conclusions of the ex-post assessment of Chad's performance under Fund-supported programs since 1995. Chad has succeeded in recent years in broadly maintaining macroeconomic stability and a high growth rate of economic activity, benefiting from the oil pipeline construction.

Directors welcomed the progress made in certain areas of structural reform, but emphasized that important weaknesses remain. They referred to the need to improve governance, public administration and expenditure management, and fiscal revenue mobilization, and to further reform the cotton, domestic energy, and financial sectors, with the objective of making the economy less dependent on oil revenues, strengthening the medium-term growth prospects, and tackling poverty more effectively.

Directors noted that with growing oil revenues, Chad will be better positioned to address the large social and development needs of its population. In that vein, Directors commended the authorities for their efforts to ensure that oil revenues are used transparently and efficiently on priority poverty reduction and social expenditures. They welcomed the recent promulgation of legislation on the oil revenues policy, and emphasized the need to implement it fully and to resist pressures to depart from the agreed framework. Directors generally encouraged the government to adopt principles concerning the use of revenues from potential new oil fields that are consistent with those already applying to revenues from the Doba fields.

Directors considered that, notwithstanding the favorable prospects for the oil sector and the increase in related revenues to the government, a prudent budgetary policy would be advisable in order to prevent an erosion of the competitiveness of the non-oil sectors of the economy, especially cotton and agriculture—the sources of employment of much of the population. Directors further emphasized that resources will need to be deployed prudently, and the agreed modalities on use of oil revenues scrupulously observed. In accordance with these modalities, Directors advised the authorities to save a larger amount of earmarked oil revenues under the stabilization mechanism in 2004 than is currently envisaged, and to further increase these savings in 2005-06. To ensure that oil wealth is preserved for future generations, Directors encouraged the authorities to move expeditiously to finalize the operational arrangements for the Fund for Future Generations, including setting up its investment committee and deciding on its broad investment strategy.

Directors considered that increased oil-related revenues should not be a substitute for efforts to improve non-oil revenue performance, including through a widening of the tax base and rapid implementation of the customs administration and livestock and indirect taxation action plans. This would help finance nonpriority and priority expenditures that are not covered by earmarked oil resources, and improve the prospects for maintaining fiscal sustainability after oil resources have been exhausted.

Directors welcomed the authorities' commitment, in the context of the 2004 budget, to maintain the ceiling on growth of the wage bill, and to address the operational problems of the state-owned electricity and water company. At the same time, Directors recommended that nonpriority expenditures be reduced in 2004 to a level that would respect the agreed modalities for the use of oil revenues, in order to provide room to focus on poverty reduction. In this context, they expressed concern about the deviation from the targeted composition of spending and the reemergence of extrabudgetary operations in 2003, and emphasized the need for stronger political commitment to priority poverty reduction and social sector spending.

Directors welcomed the progress made in recent years in increasing transparency in the use of public resources. However, they stressed that stronger efforts are needed to improve public expenditure management and accountability in public spending, as revealed by recent audits. In particular, procurement policies would need to be strengthened, and irregularities in procurement identified and prosecuted. In this regard, the promulgation of the new procurement code is in the right direction. Directors urged the authorities to move forward with the implementation of key measures to strengthen governance and the reform of the civil service. In light of the serious capacity constraints, Directors stressed the need for well-targeted technical assistance in these areas.

Directors commended the authorities' plans to implement further structural reforms. In the financial area, on-site bank inspections will be increased to strengthen supervision. Directors welcomed the envisaged review of the effectiveness of anticorruption legislation in the context of judicial system reform, and stressed the need to further improve the business and investment climate and foster non-oil private sector development. Directors urged the authorities to accelerate, with World Bank involvement and taking into account the results of the poverty and social impact analysis of cotton sector reform, the privatization of the state-owned company, Cotontchad, now slated for privatization in 2005.

Directors regretted the reemergence of external payments arrears. Although noting that those to the Fund have been fully cleared, they urged the authorities to eliminate all outstanding external arrears promptly and to avoid incurring new arrears. They also expressed concern about the use of HIPC interim relief for other than the intended purposes, and the lack of necessary transfers to the HIPC account; they urged the authorities to replenish the HIPC account quickly.

Directors noted that Chad's statistical system remains weak. They welcomed the improvement in the quality of real sector data, but urged the authorities to make greater efforts to improve the balance of payments, government finance, and monetary statistics.

Directors concurred with the conclusions of the ex post assessment of Chad's performance under ESAF and PRGF arrangements. Although the fundamental macroeconomic goals of the programs were broadly achieved, the formulation and implementation of macroeconomic and structural policies has shown substantial weakness, pointing to the need for improvement in program ownership and administrative capacity. Directors considered that the authorities should drive with greater determination the design and implementation of their economic policies.

Directors observed that the implementation of a strong country-owned economic reform program addressing the weaknesses under past Fund programs—while paying due regard to capacity constraints—could lay the basis for a follow-up PRGF arrangement, and pave the way for reaching the completion point under the HIPC Initiative.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2004 Article IV Consultation with Chad is also available.

Chad: Selected Economic Indicators

	1999	2000	2001	2002	2003 Est.	2004 Proj.
	(Annual percentage changes)					
Domestic economy						
Real GDP:	-0.6	-0.6	9.5	9.9	10.0	37.9
Consumer Prices (annual average)	-8.0	3.8	12.4	5.2	-1.0	3.0
Terms of trade	-11.2	0.2	19.1	-10.4	35.3	18.3
	(In billion of CFAF, unless otherwise specified)					
External economy						
Exports (fob)	115.7	130.2	138.3	119.4	274.1	969.1
Imports (fob)	164.5	196.5	379.6	565.4	521.9	422.4
Current account deficit 1/	-171.0	-210.1	-457.9	-747.2	-628.5	-303.6
Direct Investment:	15.1	81.8	338.3	628.3	474.7	145.8
Of which oil related investment	0.0	54.5	287.8	608.4	448.7	119.0
Capital and financial account balance	91.0	142.6	390.8	810.5	568.7	258.1
Current account deficit 1/ (percent of GNP)	-18.3	-21.5	-38.0	-54.5	-44.8	-19.2
Change in real effective exchange rate (in percent) 2/	-6.1	-4.3	8.8	4.3	14.6	...
	(In percent of GNP, unless otherwise indicated)					
Financial Variables						
Gross national savings	-2.2	4.3	8.0	7.1	5.4	12.2
Gross domestic investment	13.8	22.6	43.7	59.8	49.0	27.8
Overall fiscal balance, including grants	-6.1	-6.9	-5.0	-5.3	-6.8	-5.0
Current primary budget balance 3/	-0.2	-1.0	-0.8	-1.2	0.4	3.7
Change in broad money (in percent)	-2.6	18.3	22.9	24.2	4.7	10.3
Interest rate (in percent) 4/	7.6	7.0	6.5	6.4	6.3	...
Total external public debt	66.3	74.9	75.0	67.4	67.2	59.7
Actual external public debt service 5/	14.8	14.0	14.0	22.2	11.7	...

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

1/ Excluding official transfers.
2/ (+) = appreciation. For 2003, data are through November.
3/ (-) = deficit.
4/ Bank of Central African States (BEAC) discount rate (end of period).
5/ In percent of exports of goods and nonfactor services.