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IMF Country Report No. 07/21

Chad: 2006 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Chad

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with Chad, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended in June 2006, 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 in September 1, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a staff supplement of December 11, 2006 updating information on recent developments;
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its December 18, 2006 discussion of the staff report that concluded the Article IV consultation; and
- a statement by the Executive Director for Chad.

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

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

CHAD

Staff Report for the 2006 Article IV Consultation

Prepared by the African Department
(In consultation with the Finance, Fiscal Affairs, Legal, Policy Development and Review, and Statistics Departments)

Approved by David Andrews and Michael Hadjimichael

September 1, 2006

- The Article IV consultation discussions started in August 2005 and were completed in June 2006. The teams included Mr. van den Boogaerde (head, 2005), Mr. Snoek (head, 2006), Ms. Dabán, and Ms. Lacoche (all AFR); Mr. Mattina, Mr. Hélis, and Mr. Buissé (all FAD); Ms. Redifer (PDR); and Mr. Camard, the IMF's resident representative in Chad. The August 2005 mission met with the president and the prime minister; subsequent missions met with the ministers of Finance, Economy and Planning, and Petroleum; the national director of the Bank for the Central African States; other senior officials; private sector representatives; and donors.

- The last Article IV consultation was held on March 19, 2004, at which time the Executive Board also discussed the Ex Post Assessment of Performance under IMF-supported programs.

- The Executive Board approved a three-year PRGF arrangement for SDR 25.2 million (45 percent of quota) in February 2005. Expenditure overruns and uncertainty about the fiscal outlook stemming from differences with the World Bank over oil revenue management have stalled the completion of the first review under the PRGF.

- Chad reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in May 2001, at which time the net present value (NPV) of the debt-to-exports ratio was 214 percent and committed HIPC debt relief amounted to US$170 million (29 percent of the end-2000 NPV debt stock). Attainment of the completion point has been delayed, mainly because of unsatisfactory fiscal performance.

- Chad has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement; its exchange system remains free of restrictions for current international transactions. Chad is a member of the Central African Economic and Monetary Union (CEMAC). The staff reports on the regional discussions on the common policies of the CEMAC (Country Report No. 06/317, June 20, 2006), which is an integral part of the current Article IV consultation with Chad, and the CEMAC Financial System Stability Assessment (Country Report No. 06/320, June 15, 2006) were discussed by the Executive Board on July 10, 2006. A recent data ROSC mission noted severe weaknesses in macroeconomic statistics.

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Executive Summary

- **Rising oil revenue provides an opportunity to accelerate development in one of the poorest countries in the world.** However, management of these resources poses major challenges for Chad's weak administration and political system.

- **Despite the sharp rise in oil revenue, weak public finance management and budget segmentation have resulted in increased domestic debt and arrears.** In 2005 oil revenue rose to almost 8 percent of GDP, the overall domestic fiscal surplus increased, and earmarked oil deposits were accumulated. However, the non-oil budget faced serious financing constraints, including a sharp fall in budget support, resulting in additional central bank (BEAC) borrowing and new arrears.[1]

- **In January 2006, the authorities unilaterally amended the petroleum revenue management law (PRML), breaching agreements with the World Bank under the oil pipeline project.** Consequently, the World Bank froze Chad's oil offshore escrow account, which led to an interruption in oil revenue receipts. In April, the World Bank and the authorities reached an interim agreement, focusing on the use of petroleum revenue in 2006 and steps to strengthen public financial management. A subsequent agreement in July, which led to the lifting of all contractual remedies, dealt with the use of an expected temporary surge in oil revenue in 2007. Discussions on a new petroleum revenue management program (PRMP) covering all oil revenue will begin latter this year and be finalized in the context of the preparation of a new Poverty Reduction Strategy Paper (PRSP) in 2007.

- **Oil revenue is projected to rise from 14 percent of GDP in 2006 to 45 percent of GDP in 2007**, before falling to an average of less than 20 percent of GDP during 2008–09 and then falling more gradually until the fields are exhausted by the early-2030s.

- **Against this background, the Article IV consultation discussions focused on the impact of the oil windfall on recent macroeconomic developments, with an emphasis on competitiveness and inflation, structural factors that constraint non-oil sector growth, and fiscal management and the challenges posed by the oil revenue outlook.**

    - The oil revenue will only lead to lasting poverty reduction if its use takes into account macroeconomic and administrative absorptive capacity. A key pre-requisite in this regard will be the formulation and annual updating, in close cooperation with the World Bank, the Fund, and other partners, of a realistic medium-term expenditure framework.

    - Fiscal policy should be set within a framework for long-term fiscal sustainability, including a policy to save part of the initial peak in oil receipts. Policies to

[1] All ratios to GDP in this report concern non-oil GDP, unless otherwise stated.

promote non-oil growth and measures to increase non-oil revenue should support this strategy.

- Public finance management (PFM) is in urgent need of strengthening. It is important that Chad builds up a track record of sound policy implementation and political stability to secure the crucial external support for the government's action plan to strengthen PFM.

The authorities wish to resume discussions on the first review under the PRGF arrangement in the near future. They feel that a close relationship with the Fund in the context of the PRGF arrangement is critical in view of the extraordinary macroeconomic challenges as well as to ensure progress toward the HIPC completion point. Satisfactory implementation of the revised 2006 budget and measures to improve PFM would facilitate resuming discussions on completing the first review under the PRGF arrangement later this year. Such discussions would have to include a new medium-term macroeconomic framework taking the new revenue outlook into account and a convincing structural reform agenda.

I. Background

1. **Chad is one of the poorest countries in the world.** Landlocked and largely desert with a low population density, it has suffered repeated periods of armed domestic conflict since independence in 1960. Weak institutions and a lack of infrastructure, have further hindered economic development. In the 1990s annual per capita GDP growth averaged only 0.4 percent,[2] despite progress in macroeconomic stabilization and reform under Fund-supported reform programs. However, investment in the oil sector led to high growth rates in the early 2000s.[3] Since the oil era began annual per capita GDP growth averaged almost 9 percent. Although oil production accounts for almost half of GDP, the bulk of the population depends on cotton, livestock, and small-scale agriculture and is vulnerable to external and climatic shocks. Chad ranks 173 of 177 countries in the United Nation's 2005 Human Development Index.

Chad: Selected Economic Indicators, 1994–2006

	1994	1994–2000	2001–2004	2005	2006
		Average			
Real GDP	5.5	2.6	16.5	12.2	0.1
Real Oil GDP	...	74.4	395.3	0.4	-8.2
Real non-oil GDP	5.5	2.8	5.5	17.9	3.5
Of which primary sector contribution	...	1.0	0.9	4.4	1.3
Of which secondary sector contribution	...	0.8	0.0	8.3	-0.8
Of which tertiary sector contribution	...	0.7	4.5	5.1	3.0
Real non-oil GDP growth per capita	0.0	-0.7	1.3	15.0	0.9
CPI Inflation (average)	41.3	9.0	2.6	7.9	7.9
		(Percent of non-oil GDP)			
Overall fiscal balance (commitment basis, incl.grants)	-4.7	-4.7	-6.0	-0.7	-1.4
Revenue	4.9	7.1	9.8	17.3	23.1
Of which oil revenue:	...	...	2.1	7.8	13.8
Expenditure	19.0	18.1	22.2	24.2	29.8
Gross domestic investment	13.4	15.8	51.3	37.4	39.4
Of which non-oil:	...	3.6	31.1	16.2	16.8
Gross domestic savings	11.0	7.9	1.0	38.9	37.8
External current account (excl. grants)	-18.6	-14.0	-53.3	-2.2	-4.2
Of which non-oil:	-18.0	-11.8	-16.5	-14.2	-15.2

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

2. **After a period of relative political stability beginning in the early 1990s, the last two years have seen several coup attempts**.[4] Attacks from across the Sudanese border occurred in late 2005 and early 2006. Chad harbors about 250,000 refugees and 50,000 internally displaced people from the Darfur conflict and about 40,000 refugees from the northern part of the Central African Republic. President Deby won in the elections on May 3, 2006, which were boycotted by the opposition, and was inaugurated for a third term on August 8; efforts to engage the opposition in forming a government of national unity were unsuccessful.

3. **Rising oil revenue provides an opportunity to accelerate development, but also poses major challenges for Chad's weak administration and political system.** The management and use of oil revenue was therefore a central theme in the discussions for the Article IV consultation (Box 1).[5] Expenditure overruns and uncertainty about the fiscal outlook—stemming from the

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[2] See the accompanying paper "Chad: Selected Issues and Statistical Appendix," Section "Sources of Economic Growth."

[3] See "Chad: 2003 Article IV Consultation; and Ex Post Assessment of Performance Under ESAF/PRGF Programs," April 2004 (http://imf.org/external/pubs).

[4] For a detailed discussion on recent political developments and their background, see, for example, International Crisis Group, "Chad—A Return to War?," Africa Report no. 111, June 1, 2006 (http://www.crisisgroup.org).

[5] "Selected Issues," op. cit. provides further information on Chad's petroleum sector.

differences between the authorities and the World Bank over petroleum revenue management—have also stalled the completion of the first review under the PRGF arrangement, approved in February 2005 (Box 2).

Box 1. The Petroleum Sector and Petroleum Revenue Management

Chad is among the newest and smallest African oil producers. Construction of the Chad–Cameroon pipeline and the development of the Doba region oil fields began in 2001. Production started in 2003, and the pipeline reached its maximum capacity of 225,000 barrels per day by the end of 2004. Average daily production has since declined because of unexpected water flows, and, unless exploration identifies other economically viable reserves, production is expected to continue declining over the next 15–20 years. Doba oil trades at a US$10–12 discount from Brent crude. Oil revenue consists of exploration fees, signature bonuses, income tax on oil companies, dividends, and royalties; recently concluded exploration agreements in other areas also envisage payments in oil.

Oil sector in Sub-Saharan Africa 2005–10

	Angola	Cameroon	**Chad**	Congo	Equat. Guinea	Gabon	Nigeria	**SSA Average**
Oil production (millions of barrels per year)	692.2	28.3	**53.8**	105.4	143.4	94.7	973.5	**298.8**
Oil production/ Total GDP (percent)	76.8	6.0	**51.9**	77.7	98.3	48.5	49.8	**58.4**
Oil exports/total exports (percent)	92.3	25.2	**86.2**	97.5	99.8	78.0	80.3	**79.9**
Oil Revenue/Total GDP (percent)	33.7	3.9	**17.0**	35.0	32.5	17.3	43.4	**26.1**
Oil revenue/Total Revenue (percent)	79.9	22.3	**63.8**	96.7	90.9	88.7	79.9	**74.6**

Sources: Chadian authorities, and IMF *oil database.*

The World Bank played a catalytic role in developing the oil sector; as a condition for its participation, the loan agreement on the pipeline project includes a petroleum revenue management plan (PRMP) to ensure transparent use of oil revenue for priority sectors. Under the PRMP, all revenue from the project should pass through an offshore escrow account. After deduction of debt service to the World Bank and the European Investment Bank, *direct revenue* (royalties and dividends) is earmarked as follows: (i) 10 percent for a Future Generations Fund (FGF); (ii) 72 percent of royalties and 76.5 percent of dividends for priority spending;[1/] and (iii) 4.5 percent of royalties for the Doba region. The remainder—13.5 percent of royalties and dividends—is not earmarked. Furthermore, 42.6 percent of expenditure not financed by earmarked oil revenue needs to be allocated to priority spending to ensure additionality compared to the 2002 budget. An autonomous joint government-civil society oversight body (the *Collège*) authorizes and monitors oil-financed priority spending. *Indirect oil revenue,* mainly income taxes, was not earmarked under the PRMP. The PRMP was the basis for the Petroleum Revenue Management Law (PRML).

Chad modified the PRML in January 2006. The revision abolished the FGF, widened the definition of priority sectors (to include justice, territorial administration, and security), increased the share of non-earmarked oil revenue from 13½ to 30 percent, allowed the list of priority sectors to be changed by decree, and extended the law to all oil fields. The unilateral change contravened the loan agreement, and the World Bank suspended all disbursements in Chad and froze the flow of oil revenue from the escrow account.

The relations between the World Bank and Chad were normalized in July 2006. In April, an interim agreement focused on the use of oil revenue in a revised 2006 budget and on measures to strengthen public finance management and oversight. In July, the parties reached agreement on the use of oil revenue in the 2007 budget, including on allocating at least 70 percent of all budgetary resources (excluding oil revenue in excess of absorptive capacity) to an extended list of priority sectors, including governance. The list, as well as the design of a new PRMP, will be revised during an update of the PRSP in 2007.

[1]Priority sectors are health and social welfare, education, infrastructure (including energy), rural development (agriculture and livestock), environment, and water resources.

Box 2. 2005 Performance Under the PRGF Arrangement

Most quantitative performance criteria through June 2005 were not observed, owing to above-programmed payments on wages and 2004 arrears (Table 11). However, the performance criterion on the non-oil primary balance and the indicative target for non-oil revenue were met. Despite some progress in the cotton sector, the structural agenda lagged. Performance improved during the second half of 2005, following a tighter supplementary budget, a revised cash-flow plan, transfer of the stock of arrears to the Debt Department, and the clearance of external arrears. By end-December 2005, the performance criteria on the non-oil primary balance, external arrears, and new external debt were met, but the criterion on the wage bill was exceeded by a large margin. Reflecting weaknesses in PFM, the composition of payments on domestic debt is difficult to ascertain, but there are indications that the performance criterion on repayment of conventional debt was not met as repayments were offset by the use of BEAC advances. The three measures constituting structural performance criteria for end-December 2005 were not observed, but two were implemented, at least partially, with delays (Table 12).

Chad: Selected Fiscal Operations, 2004–05
(Percent of non-oil GDP, unless otherwise indicated)

	2004	2005			
		End June		End Dec.	
	Est.	Prog.	Est.	Prog.	Est.
Revenue	14.4	9.0	7.3	20.1	17.3
Oil 1/	4.2	4.3	3.0	9.2	7.8
Non-oil 2/	10.2	4.8	4.4	10.9	9.5
Expenditure	24.5	14.6	12.8	30.4	24.2
Of which: wages	5.8	2.9	3.0	5.9	6.0
Arrears	1.6	-0.6	-1.3	-1.1	0.3
Errors and omissions	-0.3	0.0	0.2	0.0	-1.4
Overall balance (cash, excl.grants)	-8.8	-6.2	-6.5	-11.4	-8.0
Non-oil primary balance (commitment)	-3.9	-3.0	-2.4	-5.7	-5.1
Financing	8.8	6.2	6.5	11.4	8.0
Grants 3/	5.0	4.7	4.1	8.7	6.2
Domestic financing (incl. privatization)	-1.2	-0.9	0.3	-2.5	-1.4
External financing	4.9	2.5	2.1	5.2	3.2
Non-oil GDP (billions of CFAF)	1,375.2	1,493.3	1,676.3	1,493.3	1,676.3

Sources: Chadian authorities; and IMF staff estimates.
1/ Royalties and dividends.
2/ Including revenue from the oil share premium and exploration permit.
3/ Including HIPC grants.

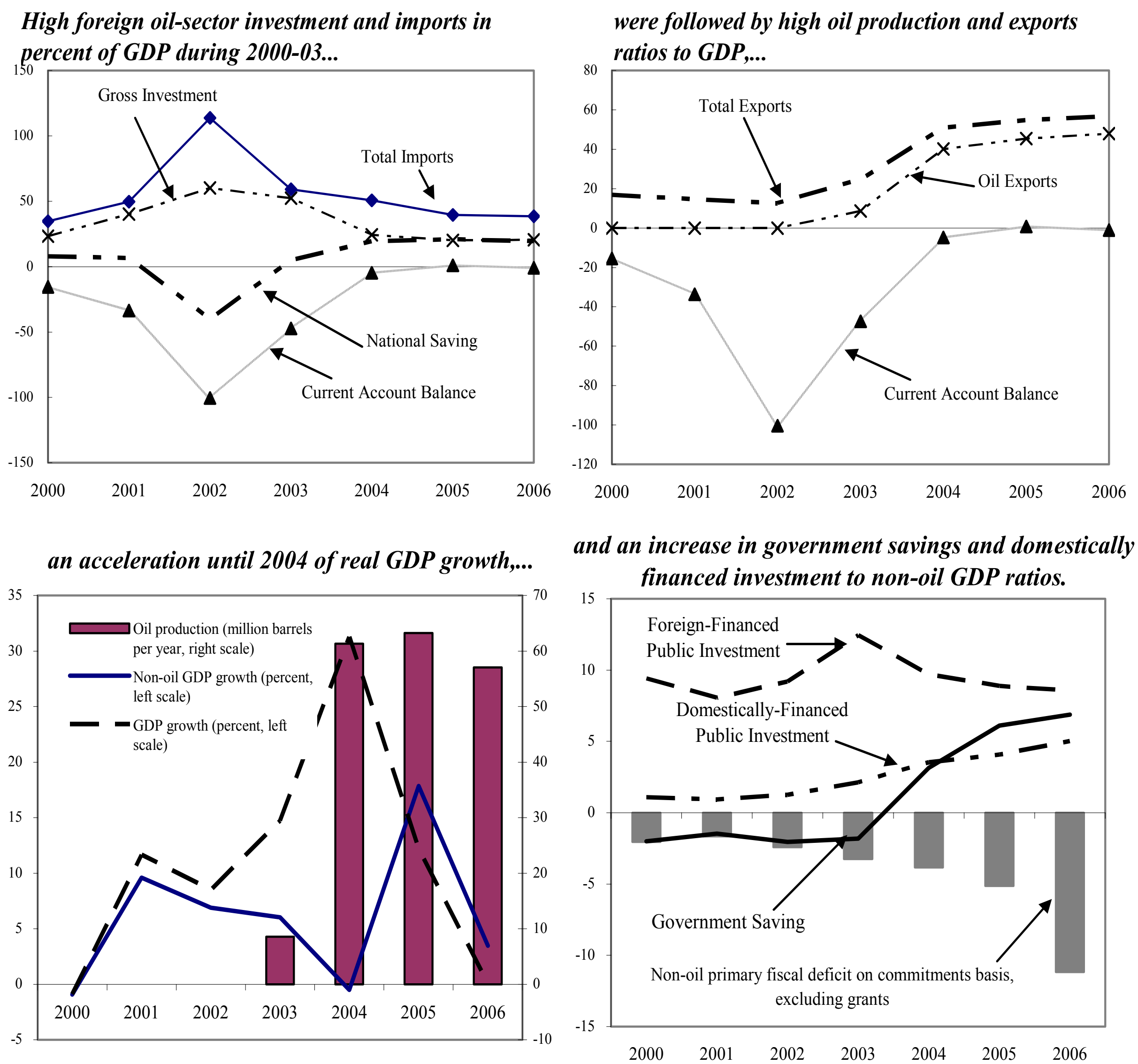
II. Recent Developments

4. **Growth has slowed after an initial surge from development of the oil sector.** Construction of the oil pipeline and exploitation infrastructure—financed by a temporary surge in foreign direct investment as the current account deficit widened sharply—and rising oil production pushed average total real GDP growth to over 16 percent during 2000–04 (Table 1 and Figure 1). In 2005 non-oil GDP rebounded sharply, reflecting more favorable weather conditions for agriculture following a drought in 2004 and recovery in cotton ginning, which benefited from an increase in cotton producer prices. However, overall growth slowed to 12 percent as oil production stagnated. Modest non-oil growth and a decline in oil output will likely leave real GDP unchanged in 2006 (Table 1).[6]

[6] Data provision for surveillance purposes is still adequate overall, although severe weaknesses and shortcomings in most macroeconomic statistics affected staff's analysis; a recent ROSC data module made recommendations for improvements (Appendix III).

5. **External sector developments were also dominated by the oil sector.** Following the completion of the construction phase of the oil project, the current account deficit declined, as investment-related investment imports fell, and oil exports started (Table 6). The terms of trade improved by 112 percent during 2002-05 with a further gain of 24 percent projected for 2006 and the current account balance shifted from a deficit of 100 per cent of GDP in 2002 to a surplus of 1 percent of GDP in 2005 (Table 1 and Figure 1).

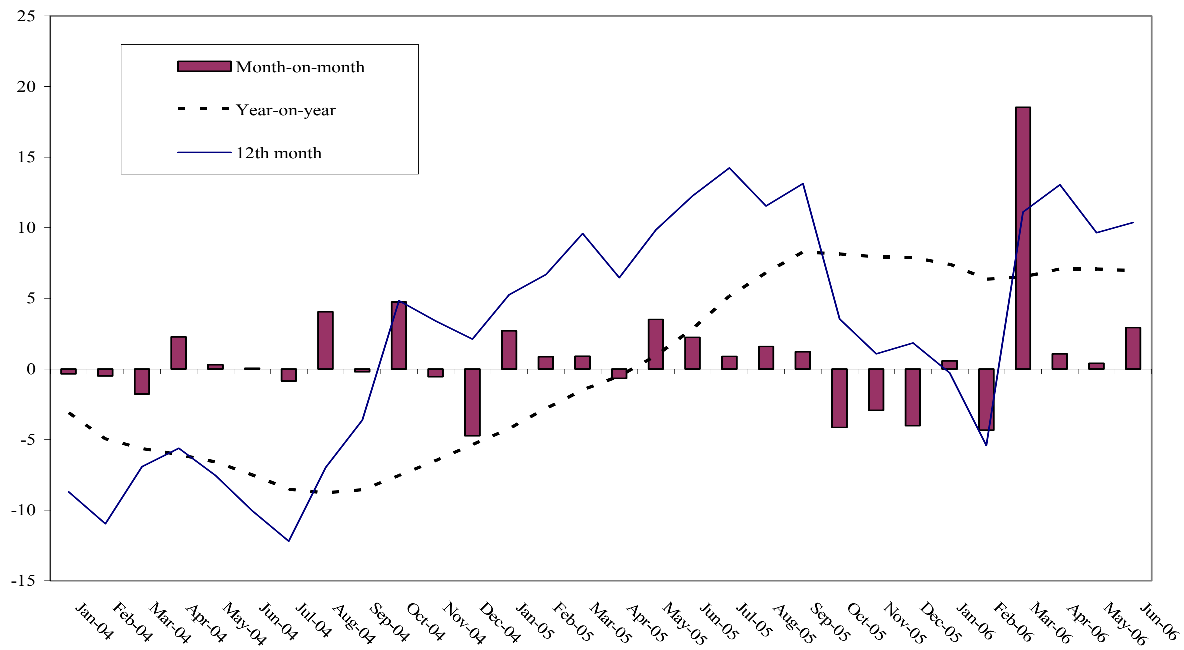
Figure 1. Chad: Selected Economic Indicators, 2000–06



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

6. **Inflation, which is very sensitive to developments in food prices, has been higher than in other members of CEMAC.** A rise in inflation to an annual average of 8 percent in 2005 (double the CEMAC average), mostly reflected the impact of the 2004 drought on food prices during the first half of 2005 (Figure 2). However, the decline in prices that started in August-September 2005—reflecting the excellent harvest—was short-lived. Inflation rebounded again in the first half of 2006; very sharp price increases for a few items within the food category and charcoal in March appear to have reflected security concerns and related supply disruptions.

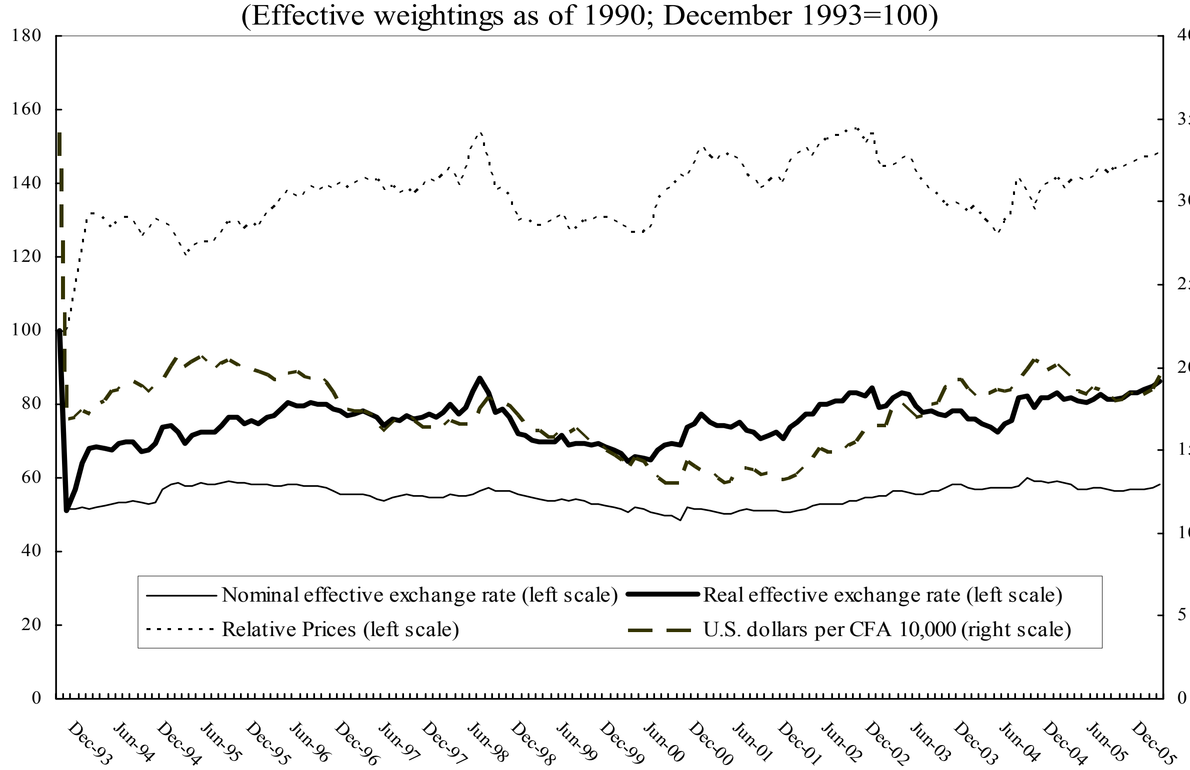
Figure 2. Chad: Inflation January 2004-June 2006



7. **The real effective exchange rate appreciated by 2 percent in 2004-2005 (Figure 3).** Indications are that, during the last few years, drought-affected fluctuations in consumer prices had some impact on the appreciation, but the main factor was the depreciation of the US dollar against the Euro.[7] The upward trend of the real effective exchange rate has eroded some of the competitiveness gains from the 1994 devaluation, although to a lesser extent than in the CEMAC region as a whole. Non-oil exports have remained relatively stable in percent of GDP; a decline in cotton exports through 2004 (reflecting financial problems of the state-owned cotton company) being offset by higher exports of livestock.

[7] "Selected Issues", op. cit., Section on *Assessing Competitiveness in Chad in Light of Oil*.

Figure 3: Chad's Exchange Rates and Relative Prices,
December 1993-May 2006
(Effective weightings as of 1990; December 1993=100)



Source: IMF, Information Notice System.

8. **After stagnating in 2003–04, broad money grew by 32 percent in 2005**, well above the 18 percent increase seen in the CEMAC as a whole and four times the program rate. While the increase at the regional level was driven by oil-related liquidity, in Chad it largely reflected a sharp expansion in net domestic assets of the banking system, driven by a rebound in credit to the cotton sector (Table 5). However, during the 12 months to May 2006, broad money growth slowed to 19 percent.

9. **Chad's financial system is among the least developed in the CEMAC region.**[8] Commercial bank services are available only in the five largest cities; the microfinance sector, though still small, has been gaining importance in recent years.[9] Of the six commercial banks,

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[8] The state of Chad's banking system and banking supervision broadly reflects those of the CEMAC region as discussed in the recent staff report on the regional Financial System Stability Assessment (Country Report No. 06/320, June 15, 2006).

[9] Selected Issues, op. cit.

only two are rated "good" by the Banking Commission of Central Africa (COBAC); moreover, the system remains vulnerable because of overexposure to parastatals.

10. **Public spending increased following the start of oil revenue**, which reached almost 8 percent of GDP in 2005. Non-oil revenue also improved, bolstered by improved revenue administration and growth in the formal sector, stimulated by oil-related investment in recent years.[10] However, a sharp drop in donor budget support—as reform momentum slowed and performance under the PRGF weakened—partly offset the higher domestic revenue.[11] The net increase in resources financed higher spending, including investment, helping to offset a decline in donor-financed investment. The overall domestic surplus (on a commitment basis, excluding foreign-financed investment) was therefore only slightly higher than before oil revenue started.

Chad: Summary of Consolidated Fiscal Operations, 2002–06
(Percent of non-oil GDP)

	2002	2003	2004	2005	2006 Supp. Budget
Resources	12.2	11.6	15.7	18.1	23.9
Oil revenue	0.0	0.0	4.2	7.8	13.9
Non-oil revenue	8.4	9.1	10.2	9.5	9.2
Budget support	3.8	2.5	1.3	0.8	0.8
Domestic expenditure 1/	10.8	12.5	14.5	16.2	20.7
Current primary	9.5	10.3	10.5	10.6	15.4
Domestic interest	0.1	0.1	0.1	0.2	0.3
Domestically financed investment	1.3	2.1	3.5	4.1	5.0
Error and omissions	-0.1	0.0	0.3	1.4	0.0
Overall balance 2/	1.4	-0.8	1.2	1.9	3.2
Oil budget	0.0	0.0	1.7	2.0	0.0
Ordinary budget	2.0	-0.1	0.5	0.1	3.2
HIPC budget	-0.6	-0.7	-0.9	-0.2	0.0
Financing	-1.2	0.7	-2.8	-2.0	-0.4
Domestic financing	0.1	1.5	-1.2	-1.4	1.3
Oil revenue accounts	0.0	0.0	-0.9	-0.6	1.3
Other 3/	0.1	1.5	-0.3	-0.8	0.0
External debt service (net)	-1.4	-0.8	-1.6	-0.6	-1.7
Net change in arrears	-0.1	0.1	1.6	0.1	-2.8
External (interest and principal)	0.4	-0.2	0.1	-0.1	0.0
Domestic	-0.5	0.3	1.5	0.3	-2.8
Previous years paid	...	...	-1.7	-2.5	-2.8
Current year	...	...	3.2	2.8	0.0
Memorandum items:					
Non-oil primary balance	-2.4	-3.2	-3.9	-5.1	-11.2
Foreign-financed investment	9.2	12.4	9.7	8.9	8.6
Total investment	10.5	14.6	13.2	13.0	13.6

Source: Chadian authorities; and IMF staff estimates and projections.
1/ Excluding foreign-financed development expenditure and interest payment on external debt.
2/ Total revenue, including budgetary grants and loans, minus domestic expenditure (current primary expenditure, domestically financed investment and domestic interest, on a commitment basis).
3/ Including IMF (net), included expected disbursement.

[10] The increase in non-oil revenue, as a percent of non-oil GDP, in 2004 reflected the impact of the drought on the informal agriculture sector, which lowered non-oil GDP but had little impact on tax collections in the formal sector. The increase was largely reversed in 2005, as the excellent harvest and a rebound in the cotton sector increased non-oil GDP.

[11] Total external assistance, including project assistance, declined from 15 percent of GDP in 2003 to less than 10 percent of GDP in 2005.

11. **Despite the rise in revenue, domestic debt and arrears continued to accumulate.** Expenditure control was complicated by poor budget discipline and weak public finance management (PFM), including:

- failure to observe legal time limits for entering into commitments at the end of the fiscal year, resulting in payments being carried over to subsequent years;

- excessive payments outside normal budgetary procedures, including automatic debits on treasury accounts with commercial banks; and

- use of different budget codes by the Budget and Treasury Departments, which complicates budget monitoring, and focuses fiscal management on the day-to-day balances in the treasury accounts, without adequate attention to commitments.

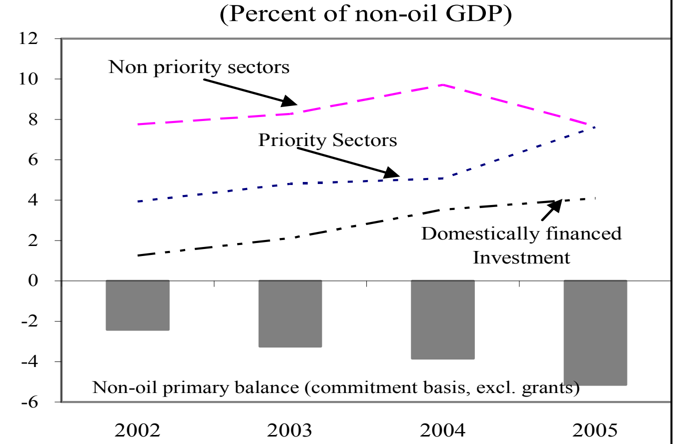
12. **Fiscal management was also complicated by segmentation of the budget and cash management resulting from earmarking provisions under the PRML (Box 3).** Reflecting the earmarking provisions, the overall domestic surplus on the consolidated budget reflected widely divergent developments in sub-budgets:

- *The overall domestic surplus occurred entirely on the "oil budget."* Capacity constraints delayed priority sector investment and there were also delays in making payments on these projects. As a result, the balance in the oil revenue accounts at the BEAC rose to about 1.5 percent of GDP by the end of 2005.

- *Pressures arose on the ordinary budget.* Although non-oil revenue rose and the ordinary budget received its 13.5 percent share of rising oil revenues, this was more than offset by the decline in budget support. Current expenditures rose, reflecting higher staffing and wage incentives in education and health. Military salaries also rose sharply in 2005 to levels prevailing in the civil service, while reductions in the excessive number of senior officers were delayed.[12]

- *Resources for debt service had to be found on the ordinary budget's financing accounts.* Thus, while deposits in the oil accounts increased, central bank advances also rose and the

Figure 4. Chad: Expenditure Composition, 2002-05
(Percent of non-oil GDP)



Sources: Chadian authorities; and IMF staff estimates.

[12] Reflecting the integration of many past rebel movements in the army, there is now one senior officer for each middle-ranking officer and each soldier.

ordinary budget incurred substantial new arrears. These were largely cleared in early-2005. Despite the subsequent circumvention of the PRML's earmarking rules, as the ordinary budget "borrowed" the equivalent of 2.4 percent of GDP from the oil accounts, new arrears were incurred and the stock of arrears increased.[13]

Box 3: Chad's Budget Framework

Chad's overall budget links different categories of resources to specific expenditure. These linked revenue and expenditure streams go through separate budgets and bank accounts, without adequate flexibility in transferring resources to allow optimal cash management. In addition to the self-financing "donor budget," the "sub-budgets" are:

- **The "ordinary budget,"** which consists mainly of the government's operational expenditure, debt service, and some domestically financed investment. An important share of this budget covers priority spending, though usually less than the mandated 42.6 percent (see Box 1).

- **The "oil budget,"** which consists of priority spending funded by earmarked oil revenue; these transactions are executed through separate commercial bank accounts. While the PRML allows earmarked oil resources to finance current priority spending, the government in 2004 and 2005 preferred to focus this budget on priority sector investment.

- **The "HIPC budget,"** whose resources arise from the difference between debt service due before and after HIPC relief, is earmarked for priority spending. The government had accumulated 0.8 percent of GDP in arrears to the HIPC budget at end-2005—which had similar supplier arrears—but reduced this share to 0.4 percent of GDP by end-May 2006.

13. **During January-May 2006, fiscal developments were again characterized by arrears and payments outside normal procedures.** The revenue shortfall arising from the freezing of the oil escrow account was initially offset by the repatriation of resources in the FGF, revenue from exploration licenses, and initial income tax payments by the oil companies. The 2006 budget did not become operational until April; wages were paid and discretionary expenditure focused on clearing 2005 arrears. The intensification of rebel attacks in March and April prompted exceptional security spending of about 1.2 percent of GDP. In

Chad: Arrears and Expenditures Outside Normal Procedures, January–May 2006
(Percent of non-oil GDP)

	Arrears	Irregular expenditure
Wages	0.4	0.0
Goods and services	0.6	0.2
Transfers	0.4	0.6
Exceptional Security	...	1.2
Investment	0.9	0.0
Domestic debt	0.0	0.8
Others	...	0.2
Total	2.3	2.8
In percent of total expenditure 1/	29.3	35.4

Source: Chadian authorities, Ministry of Finance.
1/ Cash basis.

[13] Arrears are defined as nonpaid commitments on other-than-the-current year's budget, which does not necessarily imply that payment is legally overdue.

addition, payments outside regular procedures were substantial. External debt service was halted, but arrears of 0.4 percent of GDP at end-April, to the Fund, the World Bank, and the African Development Bank (AfDB), were cleared by mid-year.

14. **Progress in alleviating Chad's serious growth constraints has been modest.** Access to education, health, potable water, and agricultural inputs improved, and the length of paved roads increased from 600 km to 900 km during 2004–05. However, progress in World Bank–supported reforms in the electricity and cotton sectors remained limited, as did progress in civil service and military sector reform.[14] Chad ranks as one of the lowest countries in both business climate and governance indicators, and there has been little follow-up on corruption cases.[15] Completing the analysis of the 2004 household survey will allow a fuller assessment of progress toward the Millennium Development Goals; however, it will take time for oil-financed priority spending to be reflected in poverty indicators.

15. **Poor fiscal performance in recent years, together with inflation pressures, have prevented Chad from meeting the convergence criteria established by the Central African Economic and Monetary Community (CEMAC).**

Chad's Compliance with CEMAC Convergence Criteria, 1999-2005 1/
(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003	Est. 2004 2/	Est. 2005 2/
Basic fiscal balance (criterion: non negative) 3/	-2.0	-3.1	-2.4	-3.2	-3.4	-0.2	1.1
Consumer price inflation (criterion: annual percentage change of 3 percent or less)	-8.0	3.8	12.4	5.2	-1.8	-5.4	7.9
Public debt (criterion: 70 percent of GDP or less) 4/	65.6	74.2	57.6	52.9	46.2	32.4	28.3
Net change in government arrears (criterion: non positive) 5/	-0.5	0.0	0.6	-0.1	0.1	0.9	0.1
Total number of criteria violations	1	3	3	2	2	2	2

Sources: Chadian authorities and IMF staff estimates.
1/ Revised criteria, valid from 2002 onward.
2/ The basic fiscal balance and public debt criteria in 2004 and 2005 are affected by the increase in GDP on account of the start of oil production.
3/ Overall budget balance on a commitment basis, excluding grants and foreign-financed investment.
4/ External debt only. The CEMAC's convergence criteria also include domestic debt, on which there is insufficient information.
5/ External and domestic arrears.

[14] Selected Issues, op. cit.

[15] See the World Bank–IFC joint report "Doing Business in 2006: Creating Jobs" (http://publications.worldbank.org/ecommerce) and the 2005 Transparency International report (http://ww1.transparency.org/).

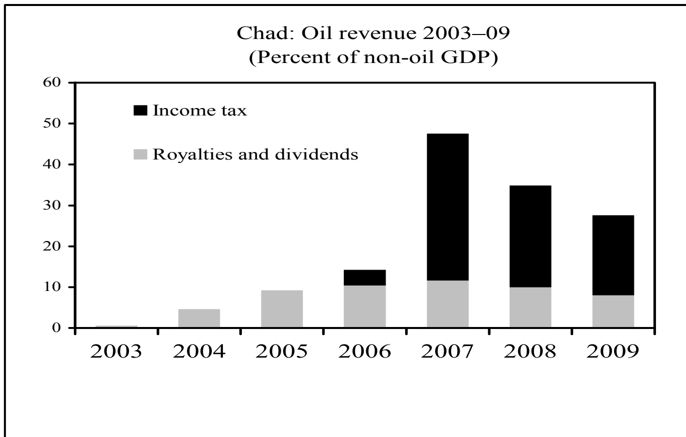
Given the delay in reaching the completion point under the HIPC Initiative, debt relief is declining. Available IMF interim relief had been used by the end of 2005, while assistance from Paris Club creditors was suspended at end-September 2005, following the delay in completing the first review under the PRGF arrangement. The AfDB provided interim assistance until early-2006 and World Bank interim assistance will reach its ceiling in 2007. Chad's external debt was equivalent to 47 percent of GDP at end-2005, and the NPV of debt-to-exports ratio is estimated at 37 percent after HIPC relief. External debt service after HIPC relief was more than 7 percent of non-oil revenue in 2005.

III. Report on The Discussions

16. **The discussions were held against the backdrop of the authorities' wish to amend the PRML and, more recently, a dramatic change in the medium-term outlook for oil revenue.** Discussions on the PRML, initiated by the government in April 2005, ultimately led to Chad's unilateral change in the law in early January 2006, followed by contractual remedies by the World Bank and subsequent discussions on how to address both sides' concerns. At the start of the discussions, most revenue was expected to fall under the PRML earmarking system for several years to come. However, early in 2006, it became clear that the rapid increase in international oil prices during 2005 would lead to very high income tax receipts from oil companies, which are not earmarked under the PRML (Box 4). It was also recognized that strengthening public expenditure management and improving policy implementation would be essential to manage this unanticipated windfall and facilitate donor support.

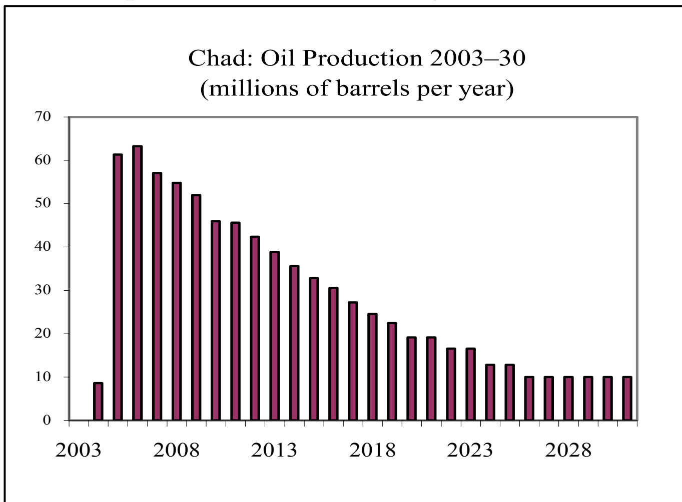
Box 4. The Petroleum Revenue Outlook

At the time of the preparation of the Doba oil project, the projected long-term "implied well-head oil price" was US$12–17 per barrel. [1] Given the high upfront investment, corporate income tax revenue from the oil sector was not expected until well after 2010. However, in 2005, the price increased to US$33 per barrel, and profits soared. As a result, the oil companies are expected to pay income tax equivalent to almost 4 percent of GDP in 2006, comprising taxes on 2005 profits (paid on March 31), plus an equal advance on 2006 income tax (paid in equal quarterly installments).[2]



Sources: Chadian authorities and IMF staff projections.

Under current trends, total oil revenue could triple in 2007, before falling back in 2008–09. Oil company profits are expected to increase in 2006 in line with a higher average oil price, leading to much higher income tax payments in 2007, including the payment of a significant advance on 2008 income taxes. Assuming a moderate decline in oil prices and production, oil companies' profits will decline in 2008-09. This would result in a small decline in oil royalties and dividends, but a sharp fall in net income tax payments, reflecting the regularization of the significant advances on income tax paid in previous years. Over the long term, production is expected to gradually decline from 63 million barrels in 2005 to about 10 million barrels around 2020, indicating that, based on current prices, the importance of oil revenue would also gradually decline.



Source: Chadian authorities and IMF staff projections.

[1] The implied well-head price is the market price after deducting transportation costs.

[2] Under Chad's tax legislation, profit tax is paid in advance in equal quarterly installments. The advance is equal to income tax liabilities over the previous year and is netted against the actual tax liability to be paid on March 31 of the following year.

Petroleum revenue management

17. **Faced with mounting financing needs on the ordinary budget, the authorities perceived the original PRML as overly rigid.** They questioned the justification for the Future Generations Fund (FGF) given the country's high current needs, pointing out that growing balances in the FGF were accompanied by new domestic borrowing. They further noted that the 2003 PRSP identified more priority areas than the PRML, including enhancing security (police and gendarmerie), de-mining, decentralization, and strengthening of the judiciary.[16] Finally, they felt that the arrangements lacked flexibility to counter the impact of declining budget support or to accommodate new priority needs, such as those stemming from the large numbers of refugees, while the earmarking had led to a complex and difficult-to-manage system.

18. **While recognizing the authorities' concerns, the staff noted that the difficulties also reflected weaknesses in PFM and a failure to adhere to established budget execution procedures.** Against this background, staff argued that PFM would need to be strengthened to protect priority spending before a possible revision of the PRML. Moreover, more time would be needed to assess the operation of the PRML, which had only become fully effective by mid-2004. In the meantime, staff recommended that the authorities use the full flexibility under the PRML to shift priority current expenditure to the oil budget to reduce pressure on the ordinary budget. When the authorities insisted on a rapid revision of the PRML, the World Bank and Fund staffs proposed an accelerated structured review of the law; however, by that time, preparations for amendments had already advanced, with the changes becoming effective in January 2006.

19. **The subsequent discussions focused on addressing the fiscal problems, while ensuring the efficient and effective use of oil revenue for poverty reduction.** At the time of a multidonor mission in April 2006, which included Fund staff, a broad range of external partners agreed that, given the high needs for security expenditure following the rebel attacks and for clearance of 2005 arrears, the 2006 budget could only be financed by allotting a larger share of oil revenue to general budget financing, as allowed under the amended PRML. Moreover, it was agreed that the list of priority sectors eligible for oil-revenue financing should be extended to better reflect the development needs identified in the PRSP.

20. **There was also broad agreement on the urgent need to strengthen PFM, including monitoring poverty-reducing expenditure.** The authorities concurred that fiscal management capacity was inadequate. They felt that assistance to build capacity in preparation of the start of oil revenue had been less successful than expected, but agreed that frequent changes in senior civil service positions and weakening budget discipline had also played an important role. Based on technical assistance from a broad range of donors and the IMF, they had prepared an

[16] "Chad: Poverty Reduction Strategy Paper," IMF Country Report No. 03/209, July 2003 (http://www.imf.org/external/pubs/cat/longres.cfm?sk=16720.0).

action plan to strengthen PFM (the *PAMFIP*), implementation of which would be accelerated.[17] The plan would be supported with measures to reinforce budget discipline, including by enforcing the application of existing rules and regulations.

Medium-term policies

21. **The medium-term fiscal policy discussions focused on the broad management challenges posed by the new oil revenue outlook.** The key issue is how to ensure that the oil revenue leads to a lasting reduction in poverty and higher economic growth, while maintaining macroeconomic stability and fiscal sustainability in a politically difficult environment and given weak technical capacity. The projected profile of initially very high revenues falling to low levels over a relatively short time further complicates the policy challenges. The staff elaborated a number of key principles, which could serve as an input in the authorities' deliberations in finalizing the 2007 update of the PRSP and in revising the PRML:

- *Expenditure should be kept within the economy's absorption capacity.* Therefore, the authorities and Chad's development partners should include macroeconomic and administrative absorption capacity considerations in the formulation of projects and sectoral development plans in the context of a medium-term expenditure framework (MTEF). Although the World Bank has the lead in this area, Fund staff should participate in the elaboration of the 2007-09 MTEF, which should be finalized in the near future to allow adequate preparations for the 2007 budget. At a minimum the MTEF should include an envelop of expenditure and indicative targets for non-oil revenue for 2007-09 consistent with the main macroeconomic and fiscal aggregates and the government's policy objectives.

- *Expenditure plans must be geared to long-term fiscal sustainability.* That is, policies should aim at ensuring that, when oil revenue runs out, non-oil revenue is able to finance the recurrent costs of oil-financed investments. A crucial element would be raising the currently very low non-oil revenue-to-GDP ratio. In addition, expenditure levels should be carefully phased over the medium term and a buffer built against possible shortfalls.

- *Fiscal policy should be supported by sound PFM practices,* through the adoption of a unified budget and asset management system that covers all government operations and that will be executed through a treasury single account at the BEAC.

- *Fiscal policy implementation should be transparent and accountable,* through the routine dissemination of fiscal policies and outcomes; the strengthening of oversight

[17] Annex I provides a summary of the short- and long-term measures to strengthen PFM as discussed and agreed between Chad and donor representatives, led by the World Bank and including Fund staff, in May 2006. Key short-term elements are reinforcing cash-flow management, moving toward a single treasury account at the BEAC, preparing a single budget nomenclature, and strengthening customs administration.

institutions and audits, including an enhanced ex-post oversight role for the *Collège*; and corrective actions to address detected irregularities.

- *The poverty reduction strategy, including the determination of the priority sectors, should be based on the PRSP.* However, the 2003 PRSP needs to be updated, including for the revised revenue outlook.

- *Finally, reforms to promote development of the non-oil sector should continue,* so that the non-oil sector can generate the resources needed for poverty reduction policies once the oil revenue runs out. Key elements include improving the efficiency of basic utilities, reforming the cotton sector, building a modern infrastructure in the finance sector and other areas, and removing barriers to trade.

22. **The authorities agreed with the broad outlines of the medium-term strategy.** They pointed out that a full assessment of development priorities and policies to promote private sector development would be undertaken as part of the PRSP update, which is expected to be completed in the second half of 2007. However, they felt that is was premature to discuss a quantitative medium-term macroeconomic framework ahead of detailed discussions about the petroleum revenue outlook, the 2007-09 medium-term expenditure framework, and the design of a stabilization policy which, under the July agreement with the World Bank, are planned for September 2006.[18] While stressing Chad's extensive social needs and the population's expectations of immediate benefits from oil revenue, they recognized the danger of exceeding technical and macroeconomic absorption capacity and the need to ensure long-term fiscal sustainability. The authorities agreed that oil revenues in excess of immediate needs and absorptive capacity should be saved for future use, but stressed that any such policy should be flexible to allow for unexpected emergencies and other needs.

23. **The authorities concurred with the conclusion of the first regional CEMAC Article IV consultation** that the regional monetary union and the exchange rate peg had served Chad and the other CEMAC countries well in the context of weak domestic institutional arrangements for monetary management and a fragile domestic banking system**.** The authorities and staff agreed that, taking into account recent export performance, there were no indications that the present level of the exchange rate was hampering development of the non-oil sector;[19] however, political instability, poor infrastructure, slow progress in structural reform and an image of weak governance remain critical impediments to private sector development.

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[18] At that time, the staff will, jointly with the World Bank, also update the debt-sustainability analysis.

[19] The staff analysis underlying the staff report on the regional discussions with the CEMAC indicated that the current CAF franc exchange rate was close to its equilibrium level. The large terms of trade gains for Chad since 2002 and the development of the oil sector tend to suggest an appreciation of the equilibrium exchange rate for Chad, but a definitive conclusion is premature and an assessment would need to take into account existing structural weaknesses.

24. **The authorities agreed on the need to promote development of the non-oil sector.** Discussions focused on the key areas for reform identified in the PRSP and the Fund-supported program:

- On trade reform, the staff recommended that the authorities be guided by recommendations of the recent Diagnostic Trade Integration Study (DTIS), including on overhauling customs administration, the removal of tariff exemptions and temporary surcharges on imports, and the elimination of export taxes.[20]

- There has been little progress toward reform of the cotton sector and the privatization of the state-owned cotton company. The authorities are looking forward to donor assistance with the preparation of a poverty and social impact analysis, which, together with a broad review of previous studies, would form the basis of a resumption of reform.

- The electricity sector continues to be characterized by supply shortfalls and high costs and the state-owned electricity company depends on budget subsidies. The authorities indicated that they intend to accelerate discussions with the World Bank on reforms, which will also include the telephone company. Further expanding the road network will also have priority.

- On the financial sector, the authorities agreed with the main recommendations of the recent regional FSAP and shared the staff's concern about the fragility of the system; they intend to cooperate with the COBAC in seeking improvements. In the short-run, they intend to discuss the implications of moving toward a single treasury account with the banks, with a view to avoid liquidity problems.

Short-term policies

25. **The discussions on short-term policies focused on a revised 2006 budget.** The supplementary budget, approved by parliament in July, incorporates oil revenues of 14 percent of GDP, with the increase of 6 percent of GDP from 2005 largely reflecting income tax receipts. Expenditures would rise correspondingly so that the non-oil primary deficit (on a commitment basis) would increase from 5 percent of GDP in 2005 to 11 percent of GDP in 2006. The staff and the authorities agreed that there was little room to accommodate additional expenditure needs identified by the multidonor mission in April 2006. However, the budget allows for a significant acceleration of domestically-financed investment in the second half of the year, especially in road building where absorption capacity is felt to be less constraining. The bulk of the increase in spending for the year as a whole reflects (i) exceptional military expenditure (almost 2 percent of GDP), most of which has already taken place; (ii) subsidies to the electricity and cotton parastatals (1.4 percent of GDP) which would be eliminated by 2008 under World Bank-supported reform programs; and (iii) more accurate budgeting of utility

[20] "Chad: Diagnostic Trade Integration Study, World Bank," Draft, November 2005.

costs to avoid arrears. The budget also provides for clearance of 2005 domestic arrears; financing would include advances from the BEAC (1 percent of GDP), use of the end-2005 balances in the oil revenue accounts (mainly from the FGF—1.3 percent of GDP) and budget support from the AfDB (almost 1 percent of GDP).

26. **Taming inflation in the rest of 2006 is a concern.** The authorities agreed that inflation developments should be monitored closely and that macroeconomic statistics must be strengthened to identify possible absorption and competitiveness problems as expenditure rises. However, they agreed with staff that the increase in prices in the first-half of 2006 reflected primarily supply side developments and security concerns, with only a minor contribution from the growth of non-oil GDP and the recovery in private sector credit:

- Higher inflation largely stemmed from higher prices for a small number of foods and charcoal, whose distribution appears to have been hampered by rising insecurity.
- Total public expenditure has been largely unchanged from 2003, despite a shift from foreign–financed projects to domestic spending.
- While monetary expansion was rapid in 2005, this followed stagnation in previous years, and velocity was only slightly lower in 2005 than in 2002. Moreover, the rise in broad money was driven by an increase in net domestic assets, which in turn reflected financing of the cotton sector. In addition, broad money growth slowed in the first half of 2006 (Table 5).

Technical assistance

27. **Chad urgently needs technical assistance in PFM and other areas to ensure adequate management of the expected oil resources.** The authorities appreciated the Fund's extensive assistance to improve PFM. However, further assistance is urgently needed to implement the PAMFIP—for which there is broad local ownership—strengthen customs, and effect other improvements. The staff also recommended that the authorities react promptly to the draft data ROSC report with a view to develop a plan to strengthen the statistical database.

Resumption of the PRGF-supported program

28. **The authorities requested a rapid resumption of the PRGF-supported program after the resolution of the dispute with the World Bank.** The staff agreed on the need for a continued close relationship, particularly given the complicated challenges facing the authorities and the temporary nature of high oil revenue. Satisfactory implementation of the revised 2006 budget and measures to improve PFM, as well as implementation of key structural reforms, could facilitate the resumption of the discussions on the first review in the near future. The authorities agreed with this approach and invited the staff to closely monitor budget execution and the efforts to strengthen PFM in the coming months.[21] The HIPC completion

[21] Letter of the Minister of Finance of July 31, 2006—see Annex II.

point could be reached after at least six months of satisfactory performance under the PRGF-supported program.

IV. Staff Appraisal

29. **Chad faces daunting challenges in taking full advantage of the opportunities provided by oil revenue**. Political stability will be essential to allow oil wealth to be used effectively for poverty reduction and growth and to enable the authorities to focus on policy implementation, including sound fiscal management. In this regard, the staff welcomes the authorities' intention to complete a comprehensive update of the PRSP during 2007.

30. **Public financial management is in urgent need of strengthening to allow the transparent, efficient, and effective use of public sector resources.** The staff supports the authorities' program of action in this area, which warrants strong assistance from the international community. The government, in turn, should commit to steady enforcement of laws and regulations and continuity in key administrative positions to promote lasting capacity.

31. **While recognizing the population's extensive needs and high expectations, the staff urges the authorities to take full account of the existing absorptive capacity in managing the anticipated oil revenue windfall.** It is essential that the government reorient budget formulation and implementation away from annual targets and more towards long-term fiscal goals, and develop a medium-term expenditure framework consistent with macroeconomic stability and administrative constraints. The staff welcomes the government's intention to save oil revenues for future years consistent with these principles and stands ready to provide assistance in developing the appropriate policies. The 2007-09 medium-term expenditure frameworks should be elaborated in time for the formulation of the 2007 budget.

32. **A key element in the PRSP should be a new PRMP, incorporating the revised revenue outlook and aimed at supporting lasting poverty reduction and growth.** The new PRMP, which would be in place for the 2008 budget, should promote long-term fiscal sustainability and macroeconomic stability, by keeping expenditure in line with Chad's absorptive capacity, and saving a share of oil revenue to insure some future financing of public spending as oil would be exhausted over time. It should also contribute to the implementation of the PRSP and include provisions for monitoring an effective execution of expenditure. Moreover, the new PRMP should promote best PFM practices through the implementation of a unified and sound budget and assets management system. In addition, the new PRMP should foster transparency and accountability.

33. **Despite the expected reductions in fiscal and financing pressures, there is no room for complacency; the implementation of ambitious structural reforms remains critical.** Chad's temporary oil windfall should be used to develop a non-oil sector that can support the continuation of the poverty reduction strategy when oil runs out. In the public sector, such efforts should include strengthening non-oil revenue as well as pursuing civil service, military, and public enterprise reform. The staff urges the authorities to intensify their efforts, in close cooperation with the World Bank and other partners, to implement the needed reforms in the electricity and the cotton parastatals quickly, also with a view to eliminating budgetary

subsidies. The staff also encourages the authorities to implement the reforms in the trade system recommended by the recent DTIS. Finally, to improve the business climate and Chad's external standing, it will be important to strengthen judiciary and anticorruption efforts, including pursuing corruption cases identified by oversight institutions.

34. **Chad's membership in the CEMAC and its fixed exchange rate regime has provided an important nominal anchor for macroeconomic policies.** However, the risks that the oil windfall could lead to some real appreciation of the exchange rate give additional urgency to structural reforms to improve competitiveness. The rebound in inflation in the first half of 2006 was concentrated in food prices and may have been driven by security concerns. Nevertheless, the staff recommends that the authorities closely monitor price developments and improve statistical information on prices and wages.

35. **Chad's macroeconomic statistics are in urgent need of upgrading.** The staff urges the authorities to quickly follow-up on the recommendations of the recent data ROSC. A key element in this regard is to provide adequate resources to the statistics institute. The staff recommends that the authorities seek technical assistance in strengthening the statistics, especially with regard to national accounts and prices.

36. **Satisfactory execution of the revised 2006 budget and implementation of measures to strengthen PFM would help bring the PRGF-supported program back on track.** Progress in these areas would facilitate a resumption of discussions on the first review under the PRGF arrangement and on a new medium-term macroeconomic program and a convincing structural reform agenda later in the year.

37. **It is expected that the next Article IV consultation with Chad will be held in 24 months in accordance with the provisions applying to countries under Fund arrangements.**

Table 1. Chad: Selected Economic and Financial Indicators, 2002-06

	2002 Act.	2003 Act.	2004 Act.	2005 Prog.	2005 Prel.	2006 Proj.
	(Annual percentage change, unless otherwise specified)					
National income						
GDP at constant prices	8.5	14.7	31.3	12.7	12.2	0.1
Oil GDP	84.7	253.9	292.7	26.9	0.4	-8.2
Non-oil GDP	6.9	6.0	-0.5	6.4	17.9	3.5
Consumer price index (average)	5.2	-1.8	-5.4	3.0	7.9	7.9
Real per capita GDP	5.8	4.8	28.1	10.0	9.5	-2.4
Real non-oil per capita GDP	4.3	-3.2	-2.9	3.9	15.0	0.9
Money and credit						
Net foreign assets of the banking system 1/	36.2	-16.5	6.0	22.9	13.4	...
Net domestic assets 1/	-11.0	14.3	-2.1	-15.0	19.5	...
Of which: Net claims on central government 1/	-0.9	5.9	-2.1	-20.0	1.1	...
Credit to nongovernment sector	-0.4	10.1	-2.9	10.0	19.5	...
Broad money	27.5	-3.1	3.3	8.0	31.7	...
Income velocity of money (M2) 2/	7.1	7.5	7.3	7.1	6.8	...
External sector (valued in CFA francs)						
Exports, f.o.b.	-6.8	171.8	225.9	31.2	43.5	17.4
Imports, f.o.b.	193.1	-59.1	2.0	-3.8	-7.4	2.0
Export volume	-3.4	109.6	212.9	26.8	4.9	-11.4
Of which: Non-oil-related exports	-3.4	13.7	-35.3	31.8	10.4	8.9
Import volume	196.1	-60.5	-8.1	-5.8	-14.6	-2.1
Of which: Non-oil-related imports	38.3	23.8	35.7	18.3	-25.9	1.0
Terms of trade	-0.5	60.0	2.7	-1.6	29.3	23.7
Real effective exchange rate	5.6	2.8	-4.2	...	6.2	...
	(Percent of GDP, unless otherwise specified)					
Investment and Saving						
Gross investment	60.2	52.4	24.3	19.1	20.2	20.5
Government	10.1	12.5	7.8	10.0	7.0	7.1
Private sector	50.0	39.8	16.5	9.1	13.2	13.4
Of which : Oil sector	43.8	31.6	11.3	5.9	8.7	8.7
Gross national savings	-40.2	5.0	19.5	11.6	21.0	19.5
Government	0.0	1.1	5.0	5.8	4.0	5.4
Private sector	-40.2	3.8	14.6	5.8	17.0	14.1
Current account balance, incl. official current transfers	-100.4	-47.4	-4.8	-7.5	0.9	-1.0
	(Percent of non-oil GDP, unless otherwise specified)					
Government finance						
Revenue	8.4	9.1	14.4	20.1	17.3	23.1
*Of which: N*on-oil revenue	8.4	9.1	10.2	10.9	9.5	9.2
Total expenditure	20.9	25.5	24.5	30.4	24.2	29.8
Current expenditure	10.4	11.0	11.3	12.1	11.2	16.2
Capital expenditure	10.5	14.6	13.2	18.3	13.0	13.6
Non-oil primary balance (commitment basis, excl. grants) 3/	-2.4	-3.2	-3.9	-5.7	-5.1	-11.2
Overall fiscal deficit (commitment basis,excl. grants)	-12.5	-16.4	-10.1	-10.3	-6.9	-6.7
	(Percent of GDP, unless otherwise specified)					
External sector						
Current account balance						
Excluding official current transfers	-102.3	-50.1	-7.9	-8.4	-1.2	-2.2
Excluding oil-related operations and official current transfers (percent of non-oil GDP)	-15.8	-13.8	-25.0	0.1	-14.2	-15.2
	(billions of CFA francs, unless otherwise specified)					
Nominal GDP	1,385	1,582	2,332	2,730	3,110	3,503
Nominal non-oil GDP	1,342	1,363	1,375	1,493	1,676	1,824
Nominal GDP (millions U.S. dollars)	1,995	2,728	4,421	5,143	5,907	6,707

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

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

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

3/ The non-oil primary balance is total non-oil revenue, excluding grants, minus total expenditure excluding debt-service payments and foreign-financed investment.

Table 2. Chad: Consolidated Fiscal Operations, 2002–06
(Billions of CFA francs)

	2002	2003	2004	2005		2006	
				Prog	Est.	Original Budget	Supp Budget
Revenue	112.4	124.6	198.0	299.8	289.7	341.3	421.9
Oil royalties, dividends, and income tax 2/	0.0	0.0	57.7	136.8	130.4	165.3	253.5
Non-oil tax revenue	100.9	113.4	122.0	138.2	138.9	158.8	141.9
Nontax revenue 3/	11.6	11.2	18.3	24.8	20.4	17.2	26.6
Expenditure	280.3	348.0	336.8	454.2	404.9	492.8	543.3
Current expenditure	140.0	149.4	154.7	180.9	187.3	233.1	295.5
Wages and salaries	62.1	73.6	80.1	87.7	101.2	99.0	117.7
Civil service	48.9	56.2	60.9	66.3	73.3	74.6	85.1
Military	13.2	17.4	19.2	21.5	27.9	24.5	32.5
Goods and services	34.9	42.6	32.4	37.7	34.2	48.6	49.5
Transfers	21.3	19.2	30.1	34.5	37.1	58.2	102.3
Of which: Exceptional defense spending	...	...	...	...	...	...	34.1
Food security	0.0	1.7	0.0	0.9	0.9	3.5	5.0
Elections	2.0	0.0	2.0	3.6	2.7	5.7	6.1
Other current expenditure	7.7	2.9	0.0	0.8	0.8	0.9	0.0
Interest	12.0	9.5	10.2	15.7	10.4	17.3	14.9
Domestic	1.3	0.9	1.9	3.4	3.2	5.0	5.0
External	10.6	8.6	8.2	12.3	7.2	12.3	9.9
Investment expenditure	140.3	198.6	182.1	273.2	217.7	259.7	247.8
Domestically financed	16.9	28.9	48.7	82.7	68.5	103.4	91.6
Foreign financed	123.5	169.7	133.4	190.5	149.1	156.2	156.2
Non-oil primary balance (excl. grants, commitment basis) 4/	-32.5	-44.2	-53.0	-84.9	-86.2	-143.3	-203.7
Overall balance (excl. grants, commitments)	-167.9	-223.4	-138.8	-154.4	-115.3	-151.5	-121.4
Arrears	-6.5	3.6	21.6	-16.5	4.2	0.0	-51.2
External interest	0.4	-0.5	1.0	-1.7	-0.6	0.0	0.0
Domestic arrears	-6.9	4.1	20.6	-14.8	4.8	0.0	-51.2
Previous years arrears	...	...	-23.8	-14.8	-42.5	-7.0	-51.2
Current year arrears	...	...	44.4	0.0	47.3	7.0	0.0
Errors and omissions	0.8	0.0	-3.7	0.0	-22.9	-0.8	0.0
Overall balance (excl. grants, cash)	-173.6	-219.8	-120.9	-170.9	-134.0	-152.3	-172.6
Financing	173.6	219.8	120.9	170.9	134.0	152.3	172.6
Domestic financing	1.8	20.5	-16.6	-37.5	-23.5	19.1	20.3
Central Bank (BEAC)	7.7	8.9	-12.5	-27.1	2.7	26.5	31.1
Of which: Oil revenue accounts 5/	0.0	0.0	-12.9	-22.3	-9.7	27.5	23.8
Of which: Advances (net)	0.6	0.0	11.1	-1.9	15.4	7.1	16.7
Of which: IMF (net) 6/	7.0	-6.4	-7.1	-1.7	-3.8	-8.2	-8.2
Of which: IMF provisioning	...	...	...	...	...	...	-1.4
Commercial banks	0.0	4.7	-1.4	-5.3	-6.7	0.0	-0.9
Nonbank financing 7/	-6.2	-4.9	-2.7	-7.1	-19.5	-9.7	-9.9
Privatization	0.5	11.8	0.0	2.0	0.0	2.3	0.0
Foreign financing	171.8	199.3	137.5	208.4	157.5	133.2	152.3
Grants	84.9	122.7	69.4	130.4	104.2	81.6	95.4
Budget support grants	10.5	6.8	4.6	23.0	13.1	0.0	13.8
Project grants	74.4	115.9	64.8	107.4	91.1	81.6	81.6
Loans (net)	86.8	76.6	68.0	78.0	53.3	51.5	56.9
Disbursements	89.9	81.1	81.4	90.9	58.1	74.6	74.6
Amortization	-21.9	-13.2	-20.0	-20.2	-11.5	-23.0	-21.5
External arrears (principal)	4.7	-1.8	0.3	-1.8	-1.9	0.0	0.0
Debt relief	14.2	10.5	6.4	9.1	8.7	0.0	0.5
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	3.3
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Chadian authorities; and IMF staff estimates.
1/ In the program, revenue from oil exploration permit was recorded under sale of assets. In this table, revenue from oil exploration is included in nontax revenue.
2/ Oil export price per barrel used in the budget is US$3 dollar below current *World Economic Outlook* projection with a discount for quality.
3/ Include revenue from oil exploration permit and share premium.
4/ Defined as the total revenue, excluding grants and oil revenue, minus total expenditure, excluding interest payments and foreign-financed investment.
5/ Fund for Future Generations, Stabilization, and Oil Producing Region.
6/ For 2006, shown gross of Fund disbursement.
7/ Includes restructured debt as specified in the technical memorandum of understanding under the PRGF-supported program (excluding BEAC (Bank of Central African States) and CBT (Commercial Bank of Chad)), as well as payment on new domestic debt conventions.

Table 2. Concluded. Chad: Consolidated Fiscal Operations, 2002–06
(Percent of non-oil GDP, unless otherwise indicated)

	2002	2003	2004	2005		2006	
				Prog	Est.	Original Budget	Supp Budget
Revenue	8.4	9.1	14.4	20.1	17.3	18.7	23.1
Oil royalties, dividends, and income tax 2/	0.0	0.0	4.2	9.2	7.8	9.1	13.9
Non-oil tax revenue	7.5	8.3	8.9	9.3	8.3	8.7	7.8
Nontax revenue 3/	0.9	0.8	1.3	1.7	1.2	0.9	1.5
Expenditure	20.9	25.5	24.5	30.4	24.2	27.0	29.8
Current expenditure	10.4	11.0	11.3	12.1	11.2	12.8	16.2
Wages and salaries	4.6	5.4	5.8	5.9	6.0	5.4	6.5
Civil service	3.6	4.1	4.4	4.4	4.4	4.1	4.7
Military	1.0	1.3	1.4	1.4	1.7	1.3	1.8
Goods and services	2.6	3.1	2.4	2.5	2.0	2.7	2.7
Transfers	1.6	1.4	2.2	2.3	2.2	3.2	5.6
Of which: Exceptional defense spending	...	...	...	...	...	...	1.9
Food security	0.0	0.1	0.0	0.1	0.1	0.2	0.3
Elections	0.2	0.0	0.1	0.2	0.2	0.3	0.3
Other current expenditure	0.6	0.2	0.0	0.1	0.0	0.0	0.0
Interest	0.9	0.7	0.7	1.1	0.6	0.9	0.8
Domestic	0.1	0.1	0.1	0.2	0.2	0.3	0.3
External	0.8	0.6	0.6	0.8	0.4	0.7	0.5
Investment expenditure	10.5	14.6	13.2	18.3	13.0	14.2	13.6
Domestically financed	1.3	2.1	3.5	5.5	4.1	5.7	5.0
Foreign financed	9.2	12.4	9.7	12.8	8.9	8.6	8.6
Non-oil primary balance (excl. grants, commitment basis) 4/	-2.4	-3.2	-3.9	-5.7	-5.1	-7.9	-11.2
Overall balance (excl. grants, commitments)	-12.5	-16.4	-10.1	-10.3	-6.9	-8.3	-6.7
Arrears	-0.5	0.3	1.6	-1.1	0.3	0.0	-2.8
External interest	0.0	0.0	0.1	-0.1	0.0	0.0	0.0
Domestic arrears	-0.5	0.3	1.5	-1.0	0.3	0.0	-2.8
Previous years arrears	...	...	-1.7	-1.0	-2.5	...	-2.8
Current year arrears	...	...	3.2	0.0	2.8	...	0.0
Errors and omissions	0.1	0.0	-0.3	0.0	-1.4	0.0	0.0
Overall balance (excl. grants, cash)	-12.9	-16.1	-8.8	-11.4	-8.0	-8.4	-9.5
Financing	12.9	16.1	8.8	11.4	8.0	8.3	9.5
Domestic financing	0.1	1.5	-1.2	-2.5	-1.4	1.0	1.1
Central Bank (BEAC)	0.6	0.7	-0.9	-1.8	0.2	1.5	1.7
Of which: Oil revenue accounts 5/	0.0	0.0	-0.9	-1.5	-0.6	1.5	1.3
Of which: Advances (net)	0.0	0.0	0.8	-0.1	0.9	0.4	0.9
Of which: IMF (net) 6/	0.5	-0.5	-0.5	-0.1	-0.2	-0.4	-0.4
Of which: IMF provisioning	...	...	...	...	...	...	-0.1
Commercial banks	0.0	0.3	-0.1	-0.4	-0.4	0.0	-0.1
Nonbank financing 7/	-0.5	-0.4	-0.2	-0.5	-1.2	-0.5	-0.5
Privatization	0.0	0.9	0.0	0.1	0.0	0.1	0.0
Foreign financing	12.8	14.6	10.0	14.0	9.4	7.3	8.4
Grants	6.3	9.0	5.0	8.7	6.2	4.5	5.2
Budget support grants	0.8	0.5	0.3	1.5	0.8	0.0	0.8
Project grants	5.5	8.5	4.7	7.2	5.4	4.5	4.5
Loans (net)	6.5	5.6	4.9	5.2	3.2	2.8	3.1
Disbursements	6.7	5.9	5.9	6.1	3.5	4.1	4.1
Budget support loans	3.0	2.0	0.9	0.5	0.0	0.0	0.0
Project loans	3.7	3.9	5.0	5.6	3.5	4.1	4.1
Amortization	-1.6	-1.0	-1.5	-1.4	-0.7	-1.3	-1.2
External arrears (principal)	0.4	-0.1	0.0	-0.1	-0.1	0.0	0.0
Debt relief	1.1	0.8	0.5	0.6	0.5	0.0	0.0
HIPC	0.7	0.7	0.5	0.5	0.5	0.0	0.0
Other debt relief	0.3	0.1	0.0	0.1	0.0	0.0	0.0
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Non-oil GDP (billions of CFA francs)	1,341.9	1,363.3	1,375.2	1,493.3	1,676.3	1,823.9	1,823.9

Sources: Chadian authorities; and IMF staff estimates.

1/ In the program, revenue from oil exploration permit was recorded under sale of assets. In this table, revenue from oil exploration permit is included in non tax revenue.

2/ Oil export price per barrel used in the budget is US$3 dollar below current *World Economic Outlook* projection with a discount for quality.

3/ Include revenue from oil exploration permit and share premium.

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

5/ Fund for Future Generations, Stabilization, and Oil Producing Region.

6/ For 2006, shown gross of Fund disbursement.

7/ Includes restructured debt as specified in the technical memorandum of understanding under the PRGF-supported program (excluding BEAC (Bank of Central African States) and CBT (Commercial Bank of Chad)), as well as payment on new domestic debt conventions.

Table 3. Chad: Consolidated Government Operations, 2002–06
(Additional Information and Summary Indicators)

	2002	2003	2004	2005		2006	
				Prog	Est.	Budget	Supp. Budget
Tax revenue (percent of non-oil GDP)	7.5	8.3	8.9	9.3	8.3	8.7	7.8
Income tax	3.4	4.0	4.1	3.6	3.8	3.5	3.5
Taxes on goods and services	1.5	1.5	1.9	2.5	1.6	2.2	1.4
Taxes on international trade	2.3	2.3	2.5	2.9	2.5	2.6	2.4
Other	0.4	0.5	0.4	0.2	0.5	0.4	0.4
Revenue from oil sector (billions of CFA francs)							
Oil royalties and dividends 1/	0.0	0.0	49.8	136.6	130.3	162.1	181.2
Earmarked	0.0	0.0	43.1	118.1	112.7	113.5	126.8
FFG 2/	0.0	0.0	5.0	13.7	13.0	0.0	0.0
Stabilization account for priority spending 3/	0.0	0.0	36.0	98.9	93.8	105.4	117.9
Oil producing region	0.0	0.0	2.2	5.6	5.9	8.1	8.9
Non-earmaked	0.0	0.0	6.7	18.4	17.6	48.6	54.4
Income tax	0.0	0.0	0.0	0.0	0.0	0.0	69.1
Other 4/	0.0	0.0	8.3	12.7	13.6	2.9	15.2
Exploration permits	0.0	0.0	8.3	12.7	2.1	0.0	12.6
Reimbursement share capital	0.0	0.0	0.0	0.0	11.5	2.9	2.6
Expenditure from earmarked oil revenue (commitment basis) 5/	0	0	28.2	95.8	88.7	117.2	126.8
Current expenditure	0	0	3.6	42.9	42.7	58.4	70.8
Investment expenditure	0	0	24.6	53.0	46.0	58.8	56.0
Summary indicators (percent of non-oil GDP):							
Non-oil primary balance (billions of CFA francs) 6/	-32.5	-44.2	-53.0	-84.9	-86.2	-143.3	-203.7
Non-oil primary balance	-2.4	-3.2	-3.9	-5.7	-5.1	-7.9	-11.2
Overall balance (commitment, excluding grants)	-12.5	-16.4	-10.1	-10.3	-6.9	-8.3	-6.7
Overall balance (commitment, including grants) 7/	-6.2	-7.4	-5.0	-1.6	-0.7	-3.8	-1.5
Overall balance (cash, excluding grants)	-12.9	-16.1	-8.8	-11.4	-8.0	-8.4	-9.5
Overall balance (cash, including grants) 7/	-6.6	-7.1	-3.7	-2.7	-1.8	-3.9	-4.3
Memorandum items:							
Non-oil GDP (in billions of CFA francs)	1,341.9	1,363.3	1,375.2	1,493.3	1,676.3	1,823.9	1,823.9

Sources: Chadian authorities; and IMF staff estimates.
1/ After debt service related to the financing of the pipeline. In 2003, 7.1 billion of royalties accrued to the government of Chad. Since the legal arrangements for the use of oil revenue were not finalized, revenue were accumulated in the offshore transit account and repatriated in 2004.
2/ In 2006, it does not include the use of FGF deposits.
3/ Includes earmarked oil revenue to the stabilization account, for priority sector expenditure and stabilization saving.
4/ Income from exploration permits and the reimbursement of the share premium in the pipeline companies is included under nontax revenue.
5/ Including transfer to the oil producing region, including financed by use of deposits accumulated in the special oil producing region account at the BEAC.
6/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.
7/ Grants excluding HIPC assistance grants.

Table 4. Chad: Ordinary Budget Operations, 2002—06
(Billions of CFA francs)

	2002	2003	2004	2005		2006	
				Prog 1/	Est.	Budget	Supp. Budget.
Revenue	112.4	124.6	147.9	181.4	176.9	224.6	291.9
Non-earmarked royalties and dividends	0.0	0.0	7.7	18.4	17.6	48.6	54.4
Income tax on oil companies	...	...	...	...	...	...	69.1
Tax revenue	100.9	113.4	122.0	138.2	138.9	158.8	141.9
Tax on income	45.3	54.9	56.6	54.5	63.1	64.1	63.9
Tax on goods and services	19.5	20.6	25.9	37.7	26.0	39.9	25.5
Tax on international trade	30.8	31.3	33.8	42.8	41.1	47.2	44.4
Other	5.2	6.6	5.6	3.2	8.7	7.6	8.1
Nontax revenue 2/	11.6	11.2	18.3	24.8	20.4	17.2	26.6
Share premium	0.0	0.0	0.0	0.0	11.5	2.9	2.6
Oil exploration permit 1/	0.0	0.0	8.3	12.7	2.1	0.0	12.6
Other	11.6	11.2	10.0	24.8	6.8	14.3	11.5
Expenditure	272.1	337.9	296.7	346.0	312.7	375.6	413.6
Current expenditure	135.3	146.3	147.3	138.1	143.7	174.8	221.7
Wages and salaries	60.9	72.5	80.1	81.4	92.8	72.7	87.5
Civil service	47.7	55.1	60.9	60.0	64.9	48.2	55.0
Military	13.2	17.4	19.2	21.5	27.9	24.5	32.5
Goods and services	31.4	42.1	30.0	27.7	27.3	45.5	44.3
Transfers	21.3	17.6	25.0	9.2	11.1	32.3	66.9
Of which: Exceptional defense spending	...	...	...	...	...	...	34.1
Food security	0.0	1.7	0.0	0.0	0.0	0.4	1.9
Elections	2.0	0.0	2.0	3.6	2.7	5.7	6.1
Other current expenditure	7.7	2.9	0.0	0.0	0.0	0.9	0.0
Interest	12.0	9.5	10.2	15.7	10.4	17.3	14.9
Domestic	1.3	0.9	1.9	3.4	3.2	5.0	5.0
External	10.6	8.6	8.2	12.3	7.2	12.3	9.9
Investment expenditure	136.8	191.6	149.4	207.9	169.0	200.8	191.8
Domestically financed	13.4	22.0	16.0	17.4	19.9	44.6	35.6
Foreign financed	123.5	169.7	133.4	190.5	149.1	156.2	156.2
Overall balance (excl. grants, commitments)	-159.7	-213.3	-148.8	-164.6	-135.8	-151.0	-121.6
Arrears	-6.5	3.6	7.9	-16.5	-19.2	0.0	-27.1
External interest	0.4	-0.5	1.0	-1.7	-0.6	0.0	0.0
Domestic arrears	-6.9	4.1	7.0	-14.8	-18.6	0.0	-27.1
Previous years arrears	...	...	-23.8	-14.8	-37.0	-7.0	-27.1
Current year arrears	...	...	30.7	0.0	18.4	7.0	0.0
Errors and omissions	3.2	0.0	2.2	0.0	-28.2	3.7	0.0
Overall balance (excl. grants, cash)	-163.0	-209.6	-138.7	-181.1	-183.3	-147.3	148.7
Financing	163.0	209.6	138.8	181.1	183.3	147.3	148.7
Domestic financing	0.7	19.7	-0.4	-20.6	27.9	10.9	-6.2
Central Bank (BEAC)	6.7	9.7	1.8	-10.2	51.8	-1.0	-5.9
Of which: Advances from oil revenue accounts	0.0	0.0	0.0	0.0	40.5	0.0	-9.0
Of which: Statutory Advances (net)	0.6	9.2	11.1	-1.9	15.4	7.1	16.7
Of which: IMF (net) 3/	7.0	-6.4	-7.1	-1.7	-3.8	-8.2	-8.2
Commercial banks	-0.1	3.1	0.5	-5.3	-4.4	0.0	-9.8
Non-bank financing	-6.2	-4.9	-2.7	-7.1	-19.5	-9.7	-9.9
Privatization	0.5	11.8	0.0	2.0	0.0	2.3	0.0
Use of FGF deposits	0.0	0.0	0.0	0.0	0.0	19.3	19.3
Foreign financing	162.2	189.9	139.2	201.7	155.5	136.4	155.0
Grants	84.9	122.7	69.4	130.4	104.2	81.6	81.6
Budget support grants	10.5	6.8	4.6	23.0	13.1	0.0	0.0
Project grants	74.4	115.9	64.8	107.4	91.1	81.6	81.6
Loans (net)	77.3	67.2	69.8	71.3	51.3	54.7	73.3
Disbursements	89.9	81.1	81.4	90.9	58.1	74.6	88.3
Budget support loans	40.9	27.3	12.8	7.8	0.0	0.0	13.8
Project loans	49.0	53.7	68.6	83.1	58.1	74.6	74.6
Amortization	-21.9	-13.2	-11.8	-19.9	-11.4	-19.8	-18.3
Debt service arrears (principal)	4.7	-1.8	0.3	-1.8	-1.9	0.0	0.0
Traditional debt relief	4.6	1.1	0.0	2.2	6.5	0.0	0.0
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	3.3
Residual financing gap	0.0	0.0	0.1	0.0	0.0	0.0	0.0

Sources: Chadian authorities; and IMF staff estimates.
1/ In the program, revenue from oil exploration permit was recorded under sale of assets.
2/ Include revenue from oil exploration permit and share premium.
3/ Gross of IMF disbursement in 2006.

Table 5. Chad: Monetary Survey, 2002—May 2006

	2002	2003	2004	2005					2006	
	Dec.	Dec.	Dec.	March	Jun.	Sept.	December		March	May
	Act.	Act.	Est.	Prel.	Prel.	Prel.	Prog.	Prel.	Prel.	Prel.
	(Billions of CFA francs)									
Net foreign assets	81.3	50.3	61.3	76.8	87.1	96.7	118.4	86.6	129.5	102.7
Central bank	71.6	43.7	62.4	74.0	70.4	82.9	114.4	83.9	98.6	90.7
Commercial banks	9.7	6.6	-1.1	2.7	16.7	13.8	4.0	2.6	30.9	12.0
Medium- and long-term liabilities	-2.4	-4.3	-5.5	-8.2	-6.7	-6.0	-3.7	-7.7	-14.0	-10.6
Net domestic assets	109.3	136.3	132.4	133.7	151.2	142.4	95.5	169.1	153.9	202.5
Domestic credit	155.3	185.3	176.3	184.9	193.3	187.1	137.1	215.1	201.6	253.3
Claims on the government (net) 1/	76.1	87.2	83.4	77.7	79.9	80.5	28.1	85.4	54.9	108.7
Treasury (net)	84.0	96.6	94.3	93.4	109.6	118.2	37.0	119.0	86.1	123.3
Banking sector 2/	13.4	38.6	48.2	44.2	61.4	71.8	-9.2	74.9	42.9	84.3
Fund position	70.6	57.9	46.1	49.2	48.2	46.5	46.2	44.1	43.2	39.0
Other nontreasury	-7.9	-9.3	-10.9	-15.6	-29.8	-37.7	-8.9	-33.6	-31.2	-14.7
Credit to the economy	79.1	98.1	92.9	107.2	113.4	106.6	109.0	129.6	146.7	144.7
Of which : cotton crop credit	17.8	19.8	14.5	24.3	29.0	35.3	…	37.4	52.2	54.5
Other items (net)	-46.0	-49.1	-43.8	-51.2	-42.1	-44.6	-41.6	-46.0	-47.7	-50.9
Money and quasi money	188.2	182.3	188.3	202.3	231.6	233.1	210.1	248.0	269.4	294.6
Currency outside banks	116.8	110.9	109.7	119.1	133.1	136.0	124.1	154.1	171.3	182.5
Demand deposits	59.8	60.2	65.3	67.4	80.8	78.6	69.9	77.9	80.5	95.1
Time and savings deposits	11.6	11.2	13.3	15.8	17.7	18.5	16.1	15.9	17.5	17.0
	(Changes in percent of beginning-of-period money stock, unless otherwise specified)									
Net foreign assets	36.2	-16.5	6.0	8.2	13.7	18.8	22.9	13.4	17.3	6.5
Net domestic assets	-11.0	14.3	-2.1	0.7	10.0	5.3	-15.0	19.5	-6.3	13.2
Domestic credit	-1.3	16.0	-5.0	4.6	9.0	5.7	-15.0	20.6	-5.6	15.2
Claims on the government (net) 1/	-0.9	5.9	-2.1	-3.0	-1.9	-1.5	-20.0	1.1	-12.5	9.2
Of which: Treasury (net)	-2.4	6.7	-1.2	-0.5	8.1	12.7	-20.0	13.1	-13.5	1.4
Credit to the economy	-0.4	10.1	-2.9	7.6	10.9	7.3	10.0	19.5	6.9	6.1
Money and quasi money	27.5	-3.1	3.3	7.5	23.0	23.8	8.0	31.7	8.4	18.6
Currency outside banks	15.5	-3.1	-0.7	5.0	12.5	14.0	3.7	23.6	6.6	11.1
Demand deposits	11.1	0.2	2.8	1.1	8.2	7.0	3.2	6.7	1.1	7.0
Time and savings deposits	0.9	-0.2	1.2	1.4	2.3	2.8	1.1	1.4	0.7	0.4
Memorandum items:										
Credit to the economy (annual percent change)	-0.8	23.9	-5.3	-3.2	8.9	9.4	10.0	39.6	36.9	34.9
Nominal non-oil GDP (billions of CFA francs)	1,342	1,363	1,375	…	…	…	1,493	1,676	……	...
Money velocity (non-oil GDP relative to M2)	7.1	7.5	7.3	…	…	…	7.1	6.8	……	...
Gross foreign assets (millions of euros)	212.1	152.0	166.6	188.6	195.6	198.7	246.5	195.7	217.8	200.2
Gross foreign assets (percent of M2)	73.8	54.6	58.0	61.1	55.3	55.8	76.8	56.8	52.9	44.5

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

1/ Including net use of IMF resources.

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

Table 6. Chad: Balance of Payments, 2002—06

	2002	2003	2004	2005		2006
	Act.	Est.	Est.	Proj	Est.	Proj.
	(Billions of CFA francs)					
Current account, incl. official current transfers	-1,390.5	-750.3	-110.9	-204.4	26.5	-34.8
Current account, excl. official current transfers	-1,417.4	-793.3	-183.8	-230.6	-35.8	-77.2
Current account, excl. oil, incl official current transfers	-185.7	-145.0	-271.0	-967.9	-175.6	-235.3
Trade balance, incl. oil sector	-978.4	-102.8	679.8	1,057.7	1,211.1	1,487.4
Trade balance, excl. oil sector	-68.5	-30.6	-148.3	-127.1	-75.9	-70.4
Exports, f.o.b. *of which:*	128.9	350.4	1,142.1	1,532.1	1,639.2	1,924.3
Cotton exports	38.9	45.1	44.7	65.1	42.2	53.5
Cattle exports	59.5	134.7	159.4	83.2	168.0	176.5
Oil and oil product exports 1/	0.0	136.8	936.3	1,343.8	1,415.0	1,679.6
Imports, f.o.b. *of which:*	-1,107.3	-453.2	-462.3	-474.4	-428.1	-436.9
Pipeline and oil production-related	-909.9	-209.0	-108.2	-159.1	-128.0	-121.7
Emergency cereal imports	0.0	0.0	-12.1	-14.6	-12.1	-8.0
Net Services	-420.4	-439.8	-674.0	-213.0	-736.2	-844.0
Net Services, excl. oil	-156.6	-159.6	-207.2	-165.6	-135.9	-149.1
Net Factor Income	-41.5	-265.3	-231.5	-1,707.4	-543.2	-749.0
Net Factor Income, excl. oil	-10.4	-12.4	-30.2	-696.5	-58.7	-86.5
Current transfers (net)	49.8	57.6	114.8	21.3	94.8	70.8
Official (net)	26.9	43.0	72.9	21.3	62.3	42.4
Of which: HIPC Initiative grants received	9.5	9.2	6.4	0.0	8.1	...
Private (net)	22.9	14.6	41.9	-4.9	32.5	28.4
Financial and capital account	1,373.8	420.1	162.2	298.1	61.4	66.8
Capital transfers	59.0	81.1	95.9	107.4	91.1	81.6
FDI	643.9	414.0	252.6	175.3	323.8	323.8
FDI linked to oil production	633.8	599.9	252.6	147.8	303.8	274.0
Other medium-and long-term investment	49.8	45.7	42.1	63.2	5.8	15.3
Public Sector	68.0	67.9	69.4	63.2	46.7	56.2
Disbursements	89.9	81.1	81.3	83.1	58.1	74.6
Amortization	-21.9	-13.2	-11.8	-19.9	-11.4	-18.3
Private Sector	-18.2	-22.2	-27.3	0.0	-40.9	-40.9
Fund for Future Generations	...	...	5.0	13.7	13.0	-19.3
Short-term capital and errors and omissions	674.2	182.8	-267.2	-47.9	-436.7	-334.7
Overall balance	36.3	-26.7	17.5	20.6	23.5	32.0
Financing	-36.3	26.7	-17.5	-52.6	-23.5	-46.3
Change in net reserves	-46.1	27.9	-18.7	-51.1	-21.5	-46.3
Of which: Use of Fund resources (net)	7.0	-6.4	-7.1	-1.7	-3.8	-4.9
Drawings	12.2	4.2	0.0	6.6	3.2	3.3
Repayments	5.2	10.7	7.1	8.3	7.0	8.2
Change in external arrears	5.1	-2.3	1.3	-3.6	-2.5	0.0
Rescheduling of debt & arrears	4.6	1.1	0.0	2.2	0.5	0.0
Committed budgetary assistance	...	...	...	32.0	0.0	14.3
HIPC and MDRI grants expected	...	...	...	1.2	...	0.5
Residual Financing Need	...	...	...	0.0	0.0	0.0
Memorandum items:	(In percent, unless otherwise indicated)					
Gross official reserves (months of imports (incl. oil sector)) 2/	1.1	1.3	1.1	2.6	1.3	1.5
Gross official reserves (months of imports (excl. oil sector)) 2/	3.6	2.3	1.6	3.6	1.7	2.0
Debt outstanding (billions of CFA francs)	732.8	731.3	756.6	849.7	880.7	...
Debt service/exports of goods and services 3/	15.2	4.4	1.5	1.9	0.2	1.8
Debt service/government revenue 3/	23.8	13.8	9.1	12.2	1.3	8.5
NPV of debt to exports after HIPC interim assistance	190.6	131.9	49.5	28.6	37.2	24.6
CFA franc-U.S. dollar (period average)	694.6	580.1	527.6	...	526.6	...
CFA franc-SDR (period average)	930.7	851.2	812.7	...	786.4	...

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

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

2/ After stock-of-debt operation.

3/ Debt service due after HIPC Initiative assistance.

Table 7. Chad: External Financing Requirements 2002—2006
(Billions of CFA francs)

	2002 Act.	2003 Act.	2004 Prel.	2005 Prog.	2005 Est.	2006 Proj.
Requirements	1,550.7	1,086.4	180.6	308.2	7.4	145.1
Current account excluding official transfers (deficit, +)	1,417.4	793.3	183.8	230.6	35.8	77.2
Debt amortization, excl. IMF	21.9	13.2	11.8	19.9	11.4	18.3
Existing debt	21.9	13.2	11.8	17.9	11.4	18.3
New debt	...	...	...	0.0	0.0	0.0
Change in net foreign assets (increase, -) 1/	-53.1	34.3	-11.6	-49.4	-17.7	-41.4
IMF repayments	5.2	10.7	7.1	8.3	7.0	8.2
Errors and omissions	53.1	303.5	-33.8	0.0	-64.5	0.0
Resources	130.2	114.1	114.8	278.0	115.0	60.5
Official transfers (excl. multilateral HIPC Initiative assistance)	26.9	43.0	72.9	120.5	62.3	42.4
Program grants	10.5	6.8	4.6	13.1	13.1	13.8
European Union	10.5	4.2	0.0	23.0	13.1	0.0
Bilateral donors	0.0	2.6	2.6	0.0	0.0	0.0
Other donors (grants)	0.0	0.0	2.0	0.0	0.0	13.8
Other transfers (excl. multilateral HIPC Initiative assistance)	16.4	36.2	68.2	20.4	49.2	28.6
Official project grants	59.0	81.1	95.9	107.4	75.2	75.2
Fund for Future Generations	...	...	5	14	13	-19
Long-term public loan disbursements	89.9	81.1	56.7	90.9	71.2	74.6
Project	49.0	53.7	68.6	83.1	58.1	74.6
Program	40.9	27.3	12.8	0.0	13.1	0.0
World Bank	29.1	24.2	0.0	0.0	0.0	0.0
African Development Bank	4.1	3.2	0.0	7.8	0.0	0.0
Other donors (loans)	7.6	0.0	0.0	0.0	0.0	0.0
Private capital (net)	-18.2	-22.2	-27.3	40.7	-40.9	-40.9
Debt relief	14.2	10.3	6.4	9.1	8.7	0.5
Multilateral HIPC Initiative assistance	7.4	7.8	5.1	5.8	7.5	0.5
Bilateral HIPC Initiative assistance	2.2	1.3	1.2	1.2	0.6	0.0
Debt rescheduling	4.6	1.1	0.0	2.2	0.5	0.0
Use of IMF resources (gross)	12.2	4.2	0.0	6.6	3.2	3.3
Change in arrears (increase, +)	5.1	-2.3	1.3	-3.6	-2.5	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:						
CFA franc per U.S. dollar (average)	694.6	580.1	527.6	...	526.6	...

Source: Chadian authorities; and IMF staff estimates and projections.
1/ Excluding the change in the net position vis-à-vis the IMF.

Table 8. Chad: Public and Publicly Guaranteed External Debt Outstanding by Creditors at End-2005

	Nominal Stock		Arrears of Principal	
	Billions of CFA francs	Percent of total	Billions of CFA francs 3/	Percent of total
Total	880.7	100.0	0.0	...
Multilateral institutions	794.2	90.2	0.0	...
IMF	45.4	5.2	0.0	...
World Bank/International Development Association	497.4	56.5	0.0	...
African Development Fund	177.3	20.1	0.0	...
EDF/EIB 1/	12.6	1.4	0.0	...
Other	61.5	7.0	0.0	...
Islamic Development Bank	25.4	2.9	0.0	...
OPEC Fund	14.6	1.7	0.0	...
BADEA 1/	12.9	1.5	0.0	...
IFAD 1/	8.7	1.0	0.0	...
Bilateral and commercial creditors	86.5	9.8	0.0	...
Paris Club official debt	21.4	2.4	0.0	...
Pre-cutoff-date debt	21.4	2.4	0.0	...
France	15.9	1.8	0.0	...
Germany	0.3	0.0	0.0	...
Italy	2.6	0.3	0.0	...
Netherlands	0.5	0.1	0.0	...
Post-cutoff-date debt	2.1	0.2	0.0	...
Non–Paris Club official debt	65.2	7.4	0.0	...
China	15.4	1.7	0.0	...
Saudia Arabia	16.9	1.9	0.0	...
Kuwait	11.2	1.3	0.0	...
Israel	0.1	0.0	0.0	...
Russia	0.8	0.1	0.0	...
Taïwan Province of China 2/	20.8	2.4	0.0	...
Commercial creditors	0.0	0.0	0.0	...

Source: Chadian authorities; and IMF staff estimates.

1/ EDF, European Development Fund; EIB, European Investment Bank; BADEA, Arab Bank for Economic Development of Africa; and IFAD, International Fund for Agriculture Development.

2/ Deferral of late payments was agreed with Taiwan, Province of China.

3/ There were not arrears of principal by the end of 2005.

Table 9. Chad: Millennium Development Goals

	1990	1995	2001	2004 1/	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day					
1. Population below US$1 a day (percent)	...	...	...	...	...
2. Poverty gap ratio at US$1 a day	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	...	...	...	...	...
Target 2. Halve, between 1990 and 2015, the proportion of people suffering from hunger					
4. Prevalence of child malnutrition (percent of children under 5)	…	*38.8*	*28.0*	*37.0*	..
5. Population below minimum level of dietary energy consumption (percent)	58.0	*49.0*	...	*33.0*	[29.0]
Goal 2. Achieve universal primary education					
Target 3. Ensure, by 2015, that children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (in percent of relevant age group)	…	40	55	*57*	[100]
7. Percentage of cohort reaching grade 5	51	59	60	*46*	[100]
8. Youth literacy rate (percent, ages 15–24)	48	...	....	38	[100]
Goal 3. Promote gender equality and empower women					
Target 4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	*41*	45	58	58	[100]
10. Ratio of young literate females to males (percent, ages 15–24)	...	...	42	42	...
11. Share of women employed in the nonagricultural sector (percent)	4	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	…	16	2	6	...
Goal 4. Reduce child mortality					
Target 5. Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate					
13. Under-5 mortality rate (per 1,000)	203	200	*200*	200	[67.7]
14. Infant mortality rate (per 1,000 live births)	118	118	*117*	117	...
15. Immunization against measles (percent of children under 12 months)	32	26	36	56	...
Goal 5. Improve maternal health					
Target 6. Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,500	1,500	*1,100*	...	[375]
17. Proportion of births attended by skilled health personnel	…	*15*	*16*	14	...

Table 9. Chad: Millennium Development Goals (concluded)

	1990	1995	2001	2004 1/	2015 Target
Goal 6. Combat HIV/AIDS, malaria, and other diseases					
Target 7. Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females percent, ages 15–24)	...	...	4	...	...
19. Contraceptive prevalence rate (percent of women ages 15–49)	…	*4*	*8*	3	...
20. Number of children orphaned by HIV/AIDS (thousands)	...	...	73	*96*	...
Target 8. Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	101	...	226	279	...
24. Tuberculosis cases detected under Directly Observed Treatment, Short course (percent)	...	37	*34*	16	...
Goal 7. Ensure environmental sustainability					
Target 9. Integrate the principles of sustainable development into policies and programs; reverse the loss of environmental resources					
25. Forest area (percent of total land area)	11	...	*10*	*9*	...
26. Nationally protected areas (percent of total land area)	...	9	9	9	...
27. GDP per unit of energy use (purchasing power parity dollars per kilogram of oil equivalent)	…	…	…	...	...
28. CO_2 emissions (metric tons per capita)	...	...	0	...	...
29. Proportion of population using solid fuels	…	…	…	95	...
Target 10. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation					
30. Access to improved water source (percent of population)	14	...	*34*	...	[57]
31. Access to improved sanitation (percent of population)	6	...	*8*	...	[59]
Target 11. Achieve by 2020 significant improvement for at least 100 million slum dwellers					
32. Access to secure tenure (percent of population)	...	...	...	...	...
Goal 8. Develop a global partnership for development 2/					
Target 16. Develop and implement strategies to provide productive work for youth					
45. Unemployment rate of population ages 15–24 (total)					
Female	...	...	...	...	...
Male	...	...	...	...	...
Target 17. Provide access to affordable, essential drugs					
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...
Target 18. Make available the benefits of new technologies, especially information and communications					
48. Fixed-line and mobile telephones (per 1,000 people)	0.7	0.8	3.8	14.4	...
48. Personal computers (per 1,000 people)	...	…	0.5	6.4	...

Sources: World Bank, *World Development Indicators database April 2006*; and UN Statistics Department, Millennium Indicators, May 2004.

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

2/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Table 10. Chad: Social and Demographic Indicators

	Latest Single Year			Same Region or Income Group	
	1970–75	1980–85	1996–2003	Sub-Saharan Africa	Low-Income Country
Population					
Total population, mid-year (millions)	4.0	5.1	8.6	702.6	2,310.3
Growth rate (percent, annual average for period)	2.0	2.7	2.8	2.1	1.8
Urban population (percent of population)	15.6	19.9	25.0	36.1	30.3
Total fertility rate (births per woman)	6.3	7.2	6.2	5.1	3.7
Poverty (percent of population)					
National headcount index	...	...	64.0	...	...
Urban headcount index	...	...	63.0	...	...
Rural headcount index	...	...	67.0	...	...
Income					
Gross national income per capita (in U.S. dollars)	230	210	250	490	450
Consumer price index (1995=100)	...	77	149	...	...
Food price index (1995=100)	...	110	15	...	...
Income/Consumption distribution	...	...	...	...	...
	...	...	...	...	...
Share of income or consumption	...	...	...	...	...
Gini index	...	...	...	...	...
Lowest quintile (percent of income or consumption)	...	...	...	...	...
Highest quintile (percent of income or consumption)	...	...	...	...	...
	...	...	...	...	...
Social indicators					
Public expenditure (percent of GDP)					
Health	...	...	2.0	2.5	1.2
Education	...	...	2.5	3.4	2.7
Social security and welfare					
Net primary school enrollment rate (percent of age group)					
Total	...	...	58	...	78
Male	...	...	70	...	84
Female	...	...	47	...	72
Access to an improved water source (percent of population)					
Total	...	...	27	58	75
Urban	...	...	31	83	90
Rural	...	...	26	45	69
Immunization rate (percent, under 12 months)					
Measles	...	7	55	58	64
DPT	...	3	40	54	64
Child malnutrition (percent, under 5 years)	...	35	28	0	44
Life expectancy at birth (years)					
Total	40	44	48	46	58
Male	39	43	47	45	57
Female	42	46	50	47	59
Mortality (per 1,000 live births)					
Infant	149	124	117	103	82
Under 5	...	225	200	174	126
Adult mortality (15-59, per 1,000 population)					
Male	554	556	449	519	319
Female	492	449	361	461	268
Maternal (modeled, per 100,000 live births)	...	...	1,100	...	...
Births attended by skilled health staff (Percent)	...	...	16	0	38

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

Table 11. Chad: Quantitative Performance Criteria and Indicative Targets Under the PRGF for the Period January 01, 2005 – December 31, 2005[1]/

(Billions of CFA francs; cumulative changes from the beginning of the calendar year, unless otherwise indicated)

	End-Dec 2004	End-March 2005		End-June 2005		End-Sep 2005		End-Dec. 2005	
		Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria	
		Prog.	Prel.	Prog.	Est.	Prog.	Prel. Est.	Prog.	Prel. Est.
A. Quantitative performance criteria									
Floor on primary fiscal balance, excluding oil revenue 2/ 3/	...	-19.3	-8.1	-44.4	-40.0	-80.8	-73.9	-97.7	-88.3
Ceiling on total wage spending (including military)	...	21.9	22.7	43.9	50.3	65.8	75.0	87.7	101.2
Stock of conventional domestic debt 4/	115.7	114.3	113.7	112.1	116.0	110.8	117.6	101.3	108.0
B. Continuous quantitative performance criteria									
Nonaccumulation of external payments arrears of the central government 5/	...	0.0	0.8	0.0	2.6	0.0	0.0	0.0	0.0
Central government's contracting or guaranteeing of new nonconcessional external debt with maturities of more than one year 6/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central governments' outstanding stock of external debt with a maturity of up to and including one year, except normal trade financing	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative targets									
Total revenue 2/	...	64.0	50.1	134.8	123.1	209.8	176.9	287.1	287.6
Oil	0.0	30.5	20.1	63.6	50.1	101.2	65.9	136.8	130.4
Non-oil	0.0	33.5	30.0	71.1	73.0	108.6	109.0	150.2	157.2
Memorandum items:									
Repayments on conventional domestic debt 4/	...	1.4	2.0	3.6	-0.3	4.9	-1.9	14.3	7.6
Budgetary aid (excluding from the IMF)	0.0	13.1	0.0	13.1	13.1	30.8	13.1	30.8	13.1
Debt relief (including HIPC Initiative assistance)	0.0	2.6	2.2	5.0	2.5	6.7	5.3	9.1	8.7

Sources: Chadian authorities; and IMF staff estimations.

1/ Performance criteria for program indicators under A and B; indicative targets otherwise.
2/ The non-oil primary balance is the difference between total non-oil revenue, excluding grants, and total expenditure, excluding interest on domestic and external debt and externally financed investments.
3/ Excluding revenue from the privatization of public enterprises and from the concession of exploitation or exploration permits of oil fields (CFAF 2 billion in 2005).
4/ Conventional debt refers to BEAC, Contonchad, CNPS, CNRT, ASECNA, CBT, "France Cable et Radio", Alcatel, subscriptions, contributions to international organizations, arrears on rents, and legal commitments. Estimates show payments, net of increase in the BEAC advances. Negative amounts indicate that increase in BEAC advance exceeded repayment on other restructured debt category. Because of weaknesses in PFM, the composition of payments on domestic debt is difficult to ascertain. The Debt Department and the Treasury have been working on procedures to improve information on domestic debt payments.
5/ Excluding external payments arrears incurred pending debt rescheduling.
6/ Excluding debt relief obtained in the form of rescheduling or refinancing.

Table 12. Chad: Structural Performance Criteria and Structural Benchmarks Under the PRGF, January 1, 2005–December 31, 2005

Measures	Expected Date of Implementation	Status of Implementation
Performance criteria		
Publication and communication to the IMF of the quarterly budget execution report, including detailed information about expenditure commitments, validation, payment orders, and cash payments.	Continuous, starting May 1, 2005	Non-observed, but implemented with a delay: The report on the first quarter of 2005 was published with a three-week delay (on May 18, 2005), and the report on the second quarter with a one-day delay. The third report was published with a two-week delay. The fourth report was produced on time.
Preparation and communication to the IMF of an action plan to eliminate treasury-verified domestic payment arrears.	End-December 2005	Non-observed; the authorities took some actions, including the measurement of the stock of the state's domestic arrears, including all treasury arrears, and an internal audit. The terms of reference for an external audit of domestic arrears has been elaborated but not yet approved; the audit is expected to be completed with the European Union's assistance by end-September 2006.
Creation of a payroll and civil service roster using the computerized system for the administrative management of civil servants and payroll, and based on the results of the civil service census scheduled for end-November 2005.	End-December 2005	Non-observed. The creation of a payroll and civil service roster using the computerized system for the administrative management of civil servants and payroll was not implemented as originally envisaged by end-December 2005, owing to the need to strengthen the security features of the payroll software.
Structural benchmarks		
Adoption by the Council of Ministers of the investment strategy for oil revenue allocated to the Fund for Future Generations.	End-June 2005	Done. The Investment Strategy was approved by the Investment Committee chaired by the Prime Minister on April 27, 2005. The Future Generations Fund was eliminated by the amended Petroleum Revenue Management Law (PRML), and its deposits were repatriated to Chad by the end of 2005.
Adoption by the Council of Ministers of the medium-term expenditure framework (MTEF) for all priority sectors (health, education, rural development, basic infrastructure, and environment) for 2006–08, prepared in consultation with the Fund and the World Bank, and consistent with the poverty reduction strategy paper.	End-September 2005	Not done. The MTEFs for 2006-08 for all priority sector ministries were prepared, but they were not adopted and transmitted with the budget based on the revised PRML that was approved by the National Assembly on February 20, 2006.
Publication of quarterly reports prepared by the Oil Revenue Control and Surveillance Board on the collection, allocation, and use of oil revenue.	Continuous	Partially done with delay. The first quarterly report was published with a few months, delay, and the second quarterly report included only partial information. The third report was published with delay. The fourth report has not yet been published.

Table 13. Chad: Progress in Achieving the HIPC Initiative Completion Point
Point Conditions, December 2005 Update

This matrix indicates progress that has been made thus far in reaching the floating completion point conditions for the 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. The first implementation progress report was finalized in December 2004 and validated in January 2005. This report indicated mixed progress in PRSP implementation, as reflected in the Bank/Fund Joint Staff Advisory Note (EDB/05/63,6/13/05). The second annual progress report on implementation has been finalized at the end of 2005 and has been transmitted to the Government for approval. The Chadian authorities have decided to proceed with a revision of the 2003 PRSP during 2006, aiming at completion in early 2007.
Macroeconomic Stability	
Continue maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program.	*Delayed*. A new PRGF was approved on February 16, 2005. The first review has been delayed, reflecting severe cash-flow crisis registered in 2005 and the uncertain fiscal outlook for 2006. The authorities wish to resume the PRGF-supported program as soon as possible.
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 of a functional expenditure-tracing system for primary education services.	*In progress*. Simplified expenditure and its limited computerization circuit introduced in January 2002. The Integrated Finance Management Information System was implemented. Interface of treasury operations, the payroll, the technology department, and the administrative and finance departments and the implementation of the SYGASPE are not yet implemented, and require additional external financing. According to diagnostic studies and the recommendations of external

Table 13. Chad: Progress in Achieving the HIPC Initiative Completion Point
Point Conditions, December 2005 Update

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

Action	Status
	consultants, implementation cannot be achieved in the timeframe in the PRGF arrangement, and additional time will be required. 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 code 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 procurement code was signed by the head of state in December 2003, and implementation decrees were adopted and published. Eight quarterly bulletins on public procurement were issued. Bidding commissions were set up in priority sectors, and are being set up in other sectors. The audits of the five biggest contracts awarded in 2001, 2002 and 2003 were completed by Ernst and Young and the Court of Account. Budget Settlements laws for 2000–2004 were presented to Parliament and adopted by the Parliament (except for 2000, due to incomplete information on investment spending). Commercial courts in N'Djamena and Bongor were built, and those of Moundou, Sahr, and Abéché are being finalized (only the N'Djamena court is operational). Judges for the courts have been appointed by decree.
• 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. The customs reform plan, adopted in early 2003 but not fully implemented due to scarce financing, has been incorporated in the donor-supported plan for modernizing the State's finance management (PAMFIP).
Priority Sectors 1/	
Health	
• Ensure that at least 75 percent of all health districts and health centers across the country are operational, up from 68 percent in 1999.	*Completed.* 89.2 percent of all health districts and 79.7 percent of all health centers were operational at end 2003.

Table 13. Chad: Progress in Achieving the HIPC Initiative Completion Point Point Conditions, December 2005 Update

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

Action	Status
• Achieve a DPT3 vaccination rate of at least 40 percent, up from 35 percent in 1999, and an assisted-delivery rate for babies of at least 20 percent, up from 15 percent in 1998.	*Completed.* At end-2004, DPT3 vaccination rate was estimated at 47 percent. Assisted-delivery rate in public health centers and hospitals was estimated at 24 percent at end-2004.
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.	*Completed.* MASOCOT sold 3168 million in 2003, an increase of 41.5 percent.
• Increase the treated cases of genital ulcers to at least 30,000 a year, up from 12,000 in 1998, and the treated cases of purulent urethritis to at least 40,000 a 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.	*Completed.* The treated cases of genital ulcers reached 44,545 per year. The treatment of purulent urethritis reached 73,419 cases per year. It is notable that in 2003–2004 there was a net reduction in the number of genital ulcers and purulent urethritis because health centers treated 274,113 cases of HIV each year since 1999.
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.	*Completed.* Gross primary enrollment rate (GPER) was 69.3 percent for girls in 2003–2004 and 105.7 percent for boys.
Reduce the repeater rate from 26 percent in 1998–99 to, at most, 22 percent.	*Completed.* The repeater rate declined to 22.05 percent in 2003–2004.
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.* At end-2004, 61 percent of all-year road network could be used throughout the year, 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 32 percent at end-2003 and 36 percent at end-2004.
• Increase the share of agricultural families equipped with plows from 24 percent in 2000 to at least 26 percent.	*Completed.* In March 2005, the Ministry of Agriculture cut the selling price of plows: all plows were bought, and the 26percent target was achieved.
• For livestock holders, increase the number of water points by at least 10 percent, relative to 1,138 water points in 2000.	*Completed.* The number of water points increased by 19.5 percent. There were 1,360 water points built at end-2004.

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

Annex I: Short- and Long-Term Measures to Strengthen Public Finance Management (PFM)

The mission assisted the authorities in forming a comprehensive and operational action plan for improving PFM over the next three years.[22] The mission cooperated with Bank staff and donor-financed experts. The plan is expected to form the basis of an update of the PAMFIP, for which several donors have committed support and whose short-term measures allow the authorities to establish the track record in PFM that would allow discussions on completing the first review under the PRGF arrangement to begin. This plan draws from (i) the PFM action plan presented by the government during the recent multidonor mission; (ii) the "discussions framework" agreed by Chad and the World Bank in the context of the interim agreement; and (iii) discussions with the Chadian authorities during this mission.

I. Short-Term PFM Measures

The implementation of the PFM measures would require significant and coordinated technical assistance, and most of them can only be completed over the medium term. In the short term, reform progress could be through the following actions:

Restore budget discipline

- Before the end of June 2006, prepare a revised budget for 2006 that incorporates all indirect oil revenue and additional expenditure needs identified by the Multi-donor Mission (MDM) (M1, O1, A1.b[23]). **Status of implementation:** Law 025/PR/2006 signed by President Deby on July 19 together with implementing decree 611/PR/PM/MF/06.

- By early June 2006, issue a ministerial order by the prime minister with a realistic timetable for 2007 budget preparation, giving the sector ministries sufficient time to adapt their budget programs to available budget envelopes. For the 2008 budget, a similar ministerial order should be issued by the end of December 2006, including adequate deadlines for macroeconomic framework completion, budget circulars dissemination, and medium-term expenditure framework (MTEF) and program budgets updates (M3, O2, A2.a,b). **Status of implementation:** Circular 843/PM/06 signed by Primer Minister Yoadimnadji on June 13, 2006.

- To limit budget overruns, restrict exceptional expenditure procedures (PSOP) to transportation and mission costs, external debt and wage payments, and exceptional cases (July 2006) (M7, O4, A4.a). A circular issued by the prime minister should

[22] This comprehensive action plan has been provided to the authorities separately. This Annex summarizes the main actions.

[23] This codification refers to the comprehensive action plan, "M" meaning "measure"; "O," "objective"; and "A," "action."

remind the administration of this issue. **Status of implementation:** Circular 006/PM/CAB/06 signed by Prime Minister Yoadimnadji on June 30, 2006.

- Engage external auditors with EU financing to audit treasury-verified domestic payment arrears, with the aim of finalizing a settlement plan for arrears and domestic debt by the end of September 2006 (M8, O1, A1.a,b). **Status of implementation:** Bid received from an audit house on August 3. The EC Delegation is checking that the bid complies with EU rules, but the contract should be approved shortly. The auditing team is expected to arrive in late August.

- Adopt a MTEF for 2007–09, consistent with both Chad's absorptive capacity and the 2007 budget, to be presented to parliament along with the 2007 budget (October 2006) (M1, O1, A1). **Status of implementation:** First version provided with the June 16, 2006 *Lettre de Cadrage.* Refinement expected following refinement of ministerial program budgets provided on July 20, 2006.

- Put in place the opening of credits for the 2007 budget on January 1, 2007, to start budget execution at the beginning of the fiscal year (M3, O2, A2.c).

Improve cash management

- Prepare and implement a monthly cash-flow plan, based on monthly commitment plans for at least the health, education, and infrastructure ministries. The Treasury Committee will be responsible for updating the plan regularly and prepare the minutes of its weekly meetings, to be submitted to the minister of finance within 48 hours (June 2006) (M7, O1, A1.a,b). **Status of implementation:** The cash-flow plan was completed on June 15, 2006, and updated on June 29, July 25, and August 4.

- Gradually reestablish the treasury single account at the BEAC by (i) the disbursing all indirect petroleum revenue in the current account at the BEAC, from June 2006; (ii) stopping the opening of new treasury accounts with the commercial banks in N'Djamena as of end-July 2006; (iii) close all treasury accounts with the commercial banks that have a positive balance or that are not subject to a convention on debt repayment (or other binding contract for treasury transactions), by end-September 2006; (4) sign a plan by end-December 2006, to suspend transactions through accounts with the commercial banks and pay off credit balances, with the aim of closing all accounts with the commercial banks before end-June 2007. In addition, an updated list of all government accounts in commercial banks, and the respective reconciliation statements, should be made available no later than end-September 2006 (M7, O2, A2.a-d). **Status of implementation:** The June 30 payment of income tax by the oil consortium has been deposited to the BEAC; the General Directorate of the Treasury has instructed the consortium that future payments must be deposited into the BEAC.

Limit the use of uncompetitive biddings and streamline procurement

- Get procurement plans, prepared by priority line ministries, approved by the general public procurement office (end-June 2006) (M14, O1, A1.e). **Status of implementation:** Procurements plans have been provided for four ministries. Priority sector ministries are said to have provided plans for oil-financed contracts to the *College,* which have not yet received by staff.

- Issue an instruction by the prime minister restating that all noncompetitive bidding not in compliance with the procurement code is forbidden and should stop immediately (M14, O1, A1.a). **Status of implementation:** Circular 008/PR/SGG/OCMP/) signed by Primer Minister Yoadimnadji on August 1, 2006.

Monitoring budget execution

- By September 2006, audit government oil bank accounts transactions (escrow accounts and commercial bank accounts), and check the 2005 tax returns filed by oil companies by end-December 2006 (M12, O1, A1; M10, O1, A1.d).

- Review the budget nomenclature and its codification–including a fully fledged functional classification—to ensure consistency with a consolidated budget, and identify functions and subfunctions linked to the poverty reduction priorities defined in the Poverty Reduction Strategy Paper. A decree with the revised nomenclature should be issued by end-December 2006. (M3, O3, A3.a-g).

- Expand the computerized system (SYDONIA++) for custom administration—at least on the operations conducted in N'Djamena customs offices, which represent 90 percent of customs activities—to produce monthly statistics on imports and exports using harmonized code, on a detailed and consolidated basis, and by type of tax. The customs directorate should also prepare, and submit to the minister of finance, monthly reports showing reconciliation with treasury data (December 2006) (M3, O6, A6.a).

- Establish a computerized mapping table to reconcile the current treasury accounting system with the budget integrated system of expenditure (CID) in order to track spending from commitments to payments and facilitate producing the four-phase tables (December 2006) (M3, O5, A5.c(i)).

II. Long-Term PFM Measures

The main medium-/long-term objective agreed to with authorities is updating and modernizing the current framework for preparing, executing, and monitoring a consolidated public sector budget by end-December 2008, so as to reduce budget fragmentation and optimize budget allocations.

This objective will require in particular to:

Budget preparation, execution and monitoring

- Entrust the Ministry of Finance (MOF) with full responsibility for preparing and implementing a unified budget management system through the consolidation of the ordinary, oil, HIPC, and, when possible, donor budgets. Finance decisions on donor-financed projects should move from the Ministry of Planning to the MOF (2007).

- Improve tax and customs revenue collections. Although efforts have been made to collect tax and customs revenue, there is still some untapped tax revenue that could raise the level of receipts (only about 50 percent of local enterprises are taxed) (2007).

- By end-December 2007, have an established mechanism for better forecasting, accounting and controlling wages, pensions, and utility charges for each ministry that represents a large fraction of public expenditure.

- In addition to short-term measures on the "exceptional expenditure" procedures and the cash management plan, develop a strategy to gradually reduce the causes of payments arrears by regulating the use of budget appropriations; introducing mandatory mid-year budget review, limiting appropriation carryovers from year to year; and meeting, then shortening, the additional authorized accounting period (2007).

- Expand the treasury's accounting system to include all government finance transactions. In particular, it should be expanded to reflect all operations related to the oil revenue offshore account and donor-financed project funds, in a timely and reliable manner (2007).

- Streamline the ex ante control chain, by removing redundant controls exercised by finance comptrollers and the *Collège,* and strengthen ex post controls, especially on-site audits, by (i) coordinating the activities of agencies responsible for these controls, (ii) developing methodologies based on risk analysis, (iii) giving preference to auditing delivery of goods and services and combating corruption, and (iii) ensuring the sequencing, quality, and usefulness of reports and the effective application of sanctions (2007).

- In addition to closing the treasury accounts in the commercial banks, finalize the reestablishment of the Treasury Single Account (TSA) at BEAC, by integrating oil revenue bank accounts (2007) and, if possible, donors project accounts in TSA subaccounts at the BEAC (2008).

- Develop a new fully computerized treasury accounting system compatible with the CID and other Ministry of Finance applications, so as to be able to prepare comprehensive, reliable and timely budgets and finance reports tracking expenditure from commitment to payment (December 2008).

- Review the legal and accounting framework for PFM, setting a new budget organic law and public accounting regulations, including, for example, strict budget preparation rules and a timetable, harmonized budget and accounting classifications, responsibilities for expenditure and revenue forecasting, and responsibilities and processes for budget execution, control, and audit (December 2008).

- By end-December 2007, update the current computerized system for registering commitments and payment orders (CID), including the new budget classification component, and by end-December 2008, develop interfaces with the payroll, pensions, and external and internal debt management systems.

Budget execution oversight and audits

- Establish control and audit procedures for tracking, at each stage of the expenditure cycle, a well-defined sample of poverty reduction spending. The sample would be defined on a risk-analysis basis. The controls and audits embedded in the tracking system could be performed by internal control bodies and, if necessary, with the assistance of reputed external auditors. The civil society participation would be ensured through *Collège* involvement in the audits, and the organization of regular meetings for presenting and discussing the results of the initiative, with the participation of line ministries and donors (2007).

- Publish the annual reports prepared by the audit bodies (*Collège, Inspection Generale des Finance,* Ministry of State Control, and National Audit Office), and include in all control and audit reports an assessment on the implementation of previous recommendations (2007).

Oil revenue management

- Strengthen fiscal transparency, including through the *Collège's* enhanced role in assessing the implementation of priority sector programs as a whole and in increasing public awareness on the use of oil revenue (2007).

- Review the PRML to implement a simpler and transparent oil revenue management system, covering indirect oil revenue (2007).

Annex II. Letter from Minister of Finance Tolli to the Managing Director

REPUBLIC OF CHAD
OFFICE OF THE PRESIDENT OF THE REPUBLIC
OFFICE OF THE PRIME MINISTER
MINISTRY OF FINANCE
GENERAL SECRETARIAT

No. 206/MF/SG/06

N'Djamena, July 31, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund (IMF)
Washington, D.C. 20431

Dear Mr. de Rato:

I am pleased to confirm Chad's intention to cooperate with the International Monetary Fund in the area of economic policy.

The first review of the program supported by the Poverty Reduction and Growth Facility (PRGF) could not be held at the end of September 2005 as planned because of expenditure overruns and delays in concluding discussions on the 2006 budget law. These delays stemmed from uncertainty surrounding the revision of the Petroleum Revenue Management Law (PRML) and the ensuing difference of opinion with the World Bank. The World Bank and the government of Chad have now concluded a memorandum of understanding concerning the management of oil revenue.

On July 19, 2006, the National Assembly approved the supplementary budget for fiscal 2006 (Table 1). This budget law takes into account the provisions agreed to with the IMF and the World Bank, as well as the conclusions and recommendations contained in the aide-mémoire of June 20, 2006 prepared by the visiting Fund mission. The policies and measures underpinning the budget are described in the cover letter to the budget law when it was submitted to parliament. The budget law also takes into account the memorandum of understanding concluded with the World Bank. Moreover, for 2007, that memorandum calls for the allocation of 70 percent of budgetary resources to the sectors it identifies. The revised PRSP now being prepared, which is expected to be completed in 2007, will provide a new framework for the management of oil revenue based on the projected revenue trend.

Management of the windfall in oil revenue expected in coming years poses a major challenge; it will be necessary to craft a mechanism for including in expenditure an amount sufficient to make a lasting contribution to poverty reduction in Chad. Accordingly, it will be necessary to build the technical capacities of the staff of the government of Chad to ensure that the additional resources are used efficiently and rationally, because exceptional revenue raises complex macroeconomic and fiscal management issues.

The government of Chad requests IMF support to meet the challenges it faces in carrying out this program. The government hopes that discussions on the PRGF-supported program will resume as soon as possible. Chad's economic policy incorporates the fundamentals of the Memorandum of Economic and Financial Policies attached to the government's letter of February 4, 2005. Moreover, the government agrees fully with the conclusions and recommendations stated in the aide-mémoire of June 20, 2006. It will request IMF assistance for implementation and assessment of this policy, as reflected in the supplementary budget for 2006 and the general agreement concluded July 13, 2006, and is taking due account of the objectives and structural measures set out in the attached Tables 2 and 3.

Speaking on behalf of Chad, I am convinced that the policies and measures contained in the Fund missions aide-mémoire and incorporated into our supplementary budget are sufficient for the rapid resumption of discussions on the PRGF-supported program. However, in the first half of this year it has become clear that considerable doubts remain, particularly about the security situation and spending on security and other needs. Should the situation take a very different turn from the one adopted as a basic assumption in our discussions with recent missions, the IMF will be consulted on any macroeconomic and fiscal measures that may prove necessary. It will also be consulted concerning any other measure that may substantially alter Chad's economic performance in 2006, and will be given periodic updates of the cash flow plan. Data required for assessing the progress of implementation of the economic and financial policy will be reported to the IMF regularly.

Sincerely yours,

/s/

Abbas Mahamat Tolli
Minister of Finance

Attachments

Table 1: Consolidated Government Operations 2002–06
Table 2: Quantitative Targets for September, 30, 2006–December, 31, 2006
Table 3: Key Structural Measures for 2006

Table 1. Chad: Consolidated Fiscal Operations, 2002-06
(in billions of CFA francs)

	2002	2003	2004	2005		2006	
				Prog 1/	Est.	Original Budget	Supp Budget
Revenue	112.4	124.6	198.0	299.8	289.7	341.3	422.0
Oil royalties, dividends, and income tax 2/	0.0	0.0	57.7	136.8	130.4	165.3	253.5
Non-oil Tax revenue	100.9	113.4	122.0	138.2	138.9	158.8	141.9
Non-Tax revenue 3/	11.6	11.2	18.3	24.8	20.4	17.2	26.6
Expenditure	280.3	348.0	336.8	454.2	404.9	492.8	543.4
Current expenditure	140.0	149.4	154.7	180.9	187.3	233.1	295.5
Wages and salaries	62.1	73.6	80.1	87.7	101.2	99.0	117.7
Civil service	48.9	56.2	60.9	66.3	73.3	74.6	85.1
Military	13.2	17.4	19.2	21.5	27.9	24.5	32.5
Goods and services	34.9	42.6	32.4	37.7	34.2	48.6	49.5
Transfers	21.3	19.2	30.1	34.5	37.1	58.2	102.3
Of which: Exceptional defense spending	...	...	...	...	...	...	34.1
Food security	0.0	1.7	0.0	0.9	0.9	3.5	5.0
Elections	2.0	0.0	2.0	3.6	2.7	5.7	6.1
Other current expenditure	7.7	2.9	0.0	0.8	0.8	0.9	0.0
Interest	12.0	9.5	10.2	15.7	10.4	17.3	14.9
Domestic	1.3	0.9	1.9	3.4	3.2	5.0	5.0
External	10.6	8.6	8.2	12.3	7.2	12.3	9.9
Investment expenditure	140.3	198.6	182.1	273.2	217.7	259.7	247.8
Domestically financed	16.9	28.9	48.7	82.7	68.5	103.4	91.6
Foreign financed	123.5	169.7	133.4	190.5	149.1	156.2	156.2
Non-oil primary balance (excl. grants, commitment basis) 4/	-32.5	-44.2	-53.0	-84.9	-86.2	-143.3	-203.7
Overall balance (excl. grants, commitments)	-167.9	-223.4	-138.8	-154.4	-115.3	-151.5	-121.3
Arrears	-6.5	3.6	21.6	-16.5	4.2	0.0	-51.2
External interest	0.4	-0.5	1.0	-1.7	-0.6	0.0	0.0
Domestic arrears	-6.9	4.1	20.6	-14.8	4.8	0.0	-51.2
Previous years arrears	...	...	-23.8	-14.8	-42.5	-7.0	-51.2
Current year arrears	...	...	44.4	0.0	47.3	7.0	0.0
Errors and omissions	0.8	0.0	-3.7	0.0	-22.9	-0.8	0.0
Overall balance (excl. grants, cash)	-173.6	-219.8	-120.9	-170.9	-134.0	-152.3	-172.5
Financing	173.6	219.8	120.9	170.9	134.0	152.3	172.5
Domestic financing	1.8	20.5	-16.6	-37.5	-23.5	19.1	20.3
Central Bank (BEAC)	7.7	8.9	-12.5	-27.1	2.7	26.5	31.1
Of which: Oil revenue accounts 5/	0.0	0.0	-12.9	-22.3	-9.7	27.5	23.8
Of which: Advances (net)	0.6	0.0	11.1	-1.9	15.4	7.1	16.7
Of which: IMF (net) 6/	7.0	-6.4	-7.1	-1.7	-3.8	-8.2	-8.2
Of which: IMF provisioning	...	...	...	...	...	...	-1.4
Commercial banks	0.0	4.7	-1.4	-5.3	-6.7	0.0	-0.9
Non-bank financing 7/	-6.2	-4.9	-2.7	-7.1	-19.5	-9.7	-9.9
Privatization	0.5	11.8	0.0	2.0	0.0	2.3	0.0
Foreign financing	171.8	199.3	137.5	208.4	157.5	133.2	152.2
Grants	84.9	122.7	69.4	130.4	104.2	81.6	95.4
Budget support grants	10.5	6.8	4.6	23.0	13.1	0.0	13.8
Project grants	74.4	115.9	64.8	107.4	91.1	81.6	81.6
Loans (net)	86.8	76.6	68.0	78.0	53.3	51.5	56.8
Disbursements	89.9	81.1	81.4	90.9	58.1	74.6	74.6
Amortization	-21.9	-13.2	-20.0	-20.2	-11.5	-23.0	-21.5
External arrears (principal)	4.7	-1.8	0.3	-1.8	-1.9	0.0	0.0
Debt relief	14.2	10.5	6.4	9.1	8.7	0.0	0.5
Off shore account 8/	...	...	...	...	...	...	0.0
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	3.3
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Chadian authorities; and IMF staff estimates.
1/ In the program, revenue from oil exploration permit was recorded under sale of assets. Presentation of is now corrected to include revenue from oil exploration permit in non tax revenue.
2/ Oil export price per barrel used in the budget is US$3 dollar below current World Economic Outlook projection with a discount for quality.
3/ Include revenue from oil exploration permit and share premium.
4/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.
5/ Fund for Future Generations, Stabilization, and Oil Producing Region.
6/ For 2006, shown gross of Fund disbursement.
7/ Include restructured debt as specified in the technical memorandum of understanding under the PRGF-supported program (excluding BEAC (Bank of Central African States) and CBT (Commercial Bank of Chad)), as well as payment on new domestic debt conventions.

Table 1. Concluded. Chad: Consolidated Fiscal Operations, 2002-06
(In percent of non-oil GDP, unless otherwise indicated)

	2002	2003	2004	2005		2006	
				Prog	Est.	Original Budget	Supp Budget
Revenue	8.4	9.1	14.4	20.1	17.3	18.7	23.1
Oil royalties, dividends, and income tax 2/	0.0	0.0	4.2	9.2	7.8	9.1	13.9
Non-oil Tax revenue	7.5	8.3	8.9	9.3	8.3	8.7	7.8
Non-Tax revenue 3/	0.9	0.8	1.3	1.7	1.2	0.9	1.5
Expenditure	20.9	25.5	24.5	30.4	24.2	27.0	29.8
Current expenditure	10.4	11.0	11.3	12.1	11.2	12.8	16.2
Wages and salaries	4.6	5.4	5.8	5.9	6.0	5.4	6.5
Civil service	3.6	4.1	4.4	4.4	4.4	4.1	4.7
Military	1.0	1.3	1.4	1.4	1.7	1.3	1.8
Goods and services	2.6	3.1	2.4	2.5	2.0	2.7	2.7
Transfers	1.6	1.4	2.2	2.3	2.2	3.2	5.6
Of which: Exceptional defense spending	...	...	...	...	...	...	1.9
Food security	0.0	0.1	0.0	0.1	0.1	0.2	0.3
Elections	0.2	0.0	0.1	0.2	0.2	0.3	0.3
Other current expenditure	0.6	0.2	0.0	0.1	0.0	0.0	0.0
Interest	0.9	0.7	0.7	1.1	0.6	0.9	0.8
Investment expenditure	10.5	14.6	13.2	18.3	13.0	14.2	13.6
Domestically financed	1.3	2.1	3.5	5.5	4.1	5.7	5.0
Foreign financed	9.2	12.4	9.7	12.8	8.9	8.6	8.6
Non-oil primary balance (excl. grants, commitment bas	-2.4	-3.2	-3.9	-5.7	-5.1	-7.9	-11.2
Overall balance (excl. grants, commitments)	-12.5	-16.4	-10.1	-10.3	-6.9	-8.3	-6.7
Arrears	-0.5	0.3	1.6	-1.1	0.3	0.0	-2.8
External interest	0.0	0.0	0.1	-0.1	0.0	0.0	0.0
Domestic arrears	-0.5	0.3	1.5	-1.0	0.3	0.0	-2.8
Previous years arrears	...	...	...	...	-2.5	...	-2.8
Current year arrears	...	...	...	...	2.8	...	0.0
Errors and omissions	0.1	0.0	-0.3	0.0	-1.4	0.0	0.0
Overall balance (excl. grants, cash)	-12.9	-16.1	-8.8	-11.4	-8.0	-8.4	-9.5
Financing	12.9	16.1	8.8	11.4	8.0	8.3	9.5
Domestic financing	0.1	1.5	-1.2	-2.5	-1.4	1.0	1.1
Central Bank (BEAC)	0.6	0.7	-0.9	-1.8	0.2	1.5	1.7
Of which: Oil revenue accounts 5/	0.0	0.0	-0.9	-1.5	-0.6	1.5	1.3
Of which: Advances (net)	0.0	0.0	0.8	-0.1	0.9	0.4	0.9
Of which: IMF (net) 6/	0.5	-0.5	-0.5	-0.1	-0.2	-0.4	-0.4
Of which: IMF provisioning	...	...	...	...	...	...	-0.1
Commercial banks	0.0	0.3	-0.1	-0.4	-0.4	0.0	-0.1
Non-bank financing 7/	-0.5	-0.4	-0.2	-0.5	-1.2	-0.5	-0.5
Privatization	0.0	0.9	0.0	0.1	0.0	0.1	0.0
Foreign financing	12.8	14.6	10.0	14.0	9.4	7.3	8.3
Grants	6.3	9.0	5.0	8.7	6.2	4.5	5.2
Budget support grants	0.8	0.5	0.3	1.5	0.8	0.0	0.8
Project grants	5.5	8.5	4.7	7.2	5.4	4.5	4.5
Loans (net)	6.5	5.6	4.9	5.2	3.2	2.8	3.1
Disbursements	6.7	5.9	5.9	6.1	3.5	4.1	4.1
Budget support loans	3.0	2.0	0.9	0.5	0.0	0.0	0.0
Project loans	3.7	3.9	5.0	5.6	3.5	4.1	4.1
Amortization	-1.6	-1.0	-1.5	-1.4	-0.7	-1.3	-1.2
External arrears (principal)	0.4	-0.1	0.0	-0.1	-0.1	0.0	0.0
Debt relief	1.1	0.8	0.5	0.6	0.5	0.0	0.0
Off shore account 8/	...	...	...	...	...	...	0.0
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Non-oil GDP (in billions of CFA francs)	1341.9	1363.3	1375.2	1493.3	1676.3	1823.9	1823.9

Sources: Chadian authorities; and IMF staff estimates.

1/ In the program, revenue from oil exploration permit was recorded under sale of assets. Presentation of is now corrected to include revenue from oil exploration permit in non tax revenue.

2/ Oil export price per barrel used in the budget is US$3 dollar below current World Economic Outlook projection with a discount for quality.

3/ Include revenue from oil exploration permit and share premium.

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

5/ Fund for Future Generations, Stabilization, and Oil Producing Region.

6/ For 2006, shown gross of Fund disbursement.

7/ Include restructured debt as specified in the technical memorandum of understanding under the PRGF-supported program (excluding BEAC (Bank of Central African States) and CBT (Commercial Bank of Chad)), as well as payment on new domestic debt conventions.

Table 2. Chad: Quantitative Targets for the Period September 30, 2006 – December 31, 2006 1/

(In billions of CFA francs; cumulative changes from the beginning of the calendar year, unless otherwise indicated)

	End-Dec 2005	End-Sep 2006	End-Dec. 2006
		Proj.	Proj.
A. Quantitative targets			
Floor on primary fiscal base balance, excluding oil revenue 2/ 3/	...	-161.5	-216.2
Ceiling on total wage spending (including military)	...	87.7	117.7
Stock of conventional domestic debt 4/	181.2	...	...
B. Continuous quantitative targets			
Nonaccumulation of external payments arrears of the central government 5/	...	0.0	0.0
Central government's contracting or guaranteeing of new nonconcessional external debt with maturities of more than one year 6/	...	0.0	0.0
Central governments' outstanding stock of external debt with a maturity of up to and including one year, except normal trade financing	...	0.0	0.0
C. Indicative targets			
Total revenue	...	315.0	409.6
Oil		196.9	253.5
Non-oil 3/		118.1	156.0
Memorandum items:			
Repayments on conventional domestic debt 4/	...	...	...
Budgetary aid (excluding from the IMF)	...	7.8	13.8
Debt relief (including HIPC Initiative assistance)	...	0.5	0.5

Sources: Chadian authorities; and IMF staff projections.

1/ Correspond to the definition of the performance criteria under the PRGF under A and B and indicative targets otherwise.

2/ The primary base balance is the difference between total revenue and total expenditure, excluding interest on domestic and external debt and externally financed investment.

3/ Excluding revenue from the privatization of public enterprises and from the concession of exploitation or exploration permits of oil fields (CFAF 12.5 billion projected in 2006).

4/ Conventional debt refers to BEAC, Contonchad, CNPS, CNRT, ASECNA, CBT, "France Cable et Radio", Alcatel, subscriptions, contributions to international organizations, arrears on rents, and legal commitments.

5/ Excluding external payments arrears incurred pending debt rescheduling.

6/ Excluding debt relief obtained in the form of rescheduling or refinancing.

Table 3. Chad: Key Structural Measures for 2006

Measures	**Date**	**Status of Implementation**
Prior Actions for Completion of the First Review		
Adoption by the government of a revised budget for 2006 in line with the understandings reached with the mission.	End-June 2006	Done
Issuance by the Prime Minister of a cabinet circular published in the official Gazette, reinforcing the need to apply existing fiscal legislation, notably (i) adherence to the requirement that no commitments on the previous year's budget will be accepted for payment after February 28 of the current year; and (ii) requiring that the Minister of Finance execute no payments on nonsecurity-related commitments that have not been formally processed by the Budget Department, except in the case of unanticipated emergency travel and medical evacuations; extrabudgetary security expenditure would be limited to situations of imminent threats only, and be fully documented and regularized in the budget execution without undue delay.	End-June 2006	Done
Engage external auditors (with EU assistance and financing) to audit treasury-verified domestic payments arrears and paid and unpaid arrears of 2005, with the aim to finalize a settlement plan for arrears and domestic debt by September 2006.	End-July 2006	Ongoing; a bid has been received, the EC is checking compliance with EU rules.
Complete the medium-term expenditure framework (MTEF) for 2007-09. Obtain cabinet approval for the MTEF 2007-09.	End-July 2006 End-September 2006	Ongoing; first version of the MTEF submitted with the 2007 *Letter de Cadrage*
Settle external arrears.	As soon as possible, as determined in the cashflow plan.	Instructions to clear all external arrears by mid-August
Publication and communication to the IMF of the quarterly budget execution report.	Continuous[2]	Preliminary report on the second quarter of 2006 released by end-July.

[1] Column added by staff upon the reception of the letter to report on the status of implementation.
[2]These performance criteria under the PRGF arrangement were implemented, but should continue to be implemented.

Table 3. Chad: Key Structural Measures for 2006

Measures	Date	Status of Implementation
Publication of quarterly reports prepared by the Oil Revenue Control and Surveillance Board on the collection, allocation, and use of oil revenue.	Continuous[2]	Ongoing; preliminary table on the second quarter of 2006 released.
The priority sector ministries prepare procurement plans for approval by the general public procurement office.	End-July 2006	Done for four priority sector ministries.
Issue a ministerial order providing guidelines and a timetable for the preparation of the 2007 budget.	End-June 2006	Done
Avoid new external arrears; Replenish the government's SDR holding account; and Maintain the balance at a minimum equivalent to three months of debt service payments to the IMF.	Continuous Gradually, to be completed by end-October 2006 Continuous	The 28 July payment to the Fund is in the process. Cash-flow plan provides necessary coverage by mid-August.
Implement and regularly update a monthly cashflow plan.	Continuous	Completed in June 15, 2006; updated in June 29, July 25, and August 4.
Issue an instruction confirming the need to apply the new procurement law and enforce the new law, including by eliminating non-competitive bidding that is not in compliance with the law.	End-June 2006	Done
Restrict exceptional expenditure procedures to transportation and mission costs, external debt and wage payments and emergency cases.	Continuous	A letter from the Minister of Finance provides instructions to spending units.
Close all treasury accounts with the commercial banks (excluding oil revenue accounts) that have a positive balance or that are not subject to a convention on debt repayment or other binding contract for treasury transactions.	End-September 2006	
Finalize a list of all government accounts in the commercial banks.	End-September 2006	
Customs administration to provide monthly statistics on revenue collection by harmonized code and type of tax.	End-December 2006	

[2]These performance criteria under the PRGF arrangement were implemented, but should continue to be implemented.

APPENDIX I: CHAD: RELATIONS WITH THE FUND
(As of June 30, 2006)

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

II. General Resources Account:	**SDR Million**	**Percent of 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	0.25	2.66

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ESAF and PRGF arrangements	50.38	89.96

V. Finance Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
Poverty Reduction and Growth Facility (PRGF)	02/16/05	2/15/08	25.20	4.20
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

VI. Projected Obligations to the Fund

(Without HIPC Initiative assistance, in SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	5.42	9.69	8.84	8.23	7.30
Charges/interest	0.30	0.55	0.50	0.46	0.42
Total	5.72	10.24	9.34	8.68	7.72

VII. Implementation of HIPC Initiative

	Enhanced Framework
Commitment of Heavily Indebted Poor Countries (HIPC) Initiative assistance	
Decision point date	May 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	8.55
Interim assistance	8.55
Completion point	0.00
Amount applied against member's obligations (cumulative)	8.55

VIII. Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which Chad is a member. A safeguards assessment of the BEAC completed on August 30, 2004, found that the BEAC had implemented a number of measures to strengthen its safeguard framework since the 2001 safeguards assessment, but that further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include (i) preparation of finance statements in full accordance with an internationally recognized accounting framework, initially the European Central Bank guidelines; (ii) publication of the BEAC's full finance statements, together with the auditor's report, starting with the 2003 finance statements; (iii) formulation of Board-approved formal guidelines under which the BEAC governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by the BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by the internal audit department, with regular reporting to the Audit Committee and the BEAC governor.

Other priority recommendations of the assessment, but of a country-specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent overdue payment to the Fund and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the treasury balances to ensure that the balances reported by the BEAC in respect to credit to government, as reflected in the accounts of the treasuries, are in agreement with the BEAC.

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. The BEAC common currency is the CFA franc, which was formerly pegged to the French franc. Repurchase of the CFA franc banknotes exported outside the BEAC was suspended on August 2, 1993. Effective January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from F 1 = CFAF 50 to F 1 = CFAF 100. Since January 1, 1999, the CFA franc has been pegged to the euro at the fixed rate of EUR 1 = CFAF 655.97. On June 5, 2006, the rate of the CFA franc, in terms of the SDR, was CFAF 440.25 = SDR 1.

X. Article IV Consultations

Chad is on the standard 12-month cycle. The last discussions for the 2003 Article IV consultation were held in N'Djamena during October 29–November 11, 2003. The staff report (IMF Country Report No. 04/115) was discussed by the Executive Board on March 19, 2004.

XI. 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 introducing a value-added tax

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

October 2004: FAD mission to provide technical advice to the authorities on the consolidation of budget management.

May–June 2005: FAD mission to provide technical advice to the authorities on the mechanisms to strengthen the transparency and integrity of government budget and accounting

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

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

XIII. Resident Representative

Mr. Camard is the Fund resident representative in N'Djamena since September 2004.

APPENDIX II: Chad: Relations with the World Bank Group

I. Partnership in Chad's Development Strategy

1. Oil provides a major opportunity for Chad to diversify its economy and break free of poverty, as long as the additional resources from oil are well managed, in particular, to avoid the "paradox of abundance" in which large inflows of oil revenue weaken the government's incentive to control its spending and undertake reforms, to the detriment of long-term growth and poverty reduction. To ensure that petroleum revenue support rapid poverty reduction, Chad, with assistance from the Bank, set up a unique regulatory and institutional framework for checks and balances in the use of petroleum revenue. The National Assembly adopted on December 30, 1998, a Petroleum Revenue Management Law (PRML) to regulate the use of the government revenue from the exploitation of the oil fields of Miandoum, Komé, and Bolobo, which started in July 2003.

2. Under the PRML, the bulk of direct oil revenue (royalties and dividends) would be allocated to road construction, health, education, rural development, and water and environment (priority sectors), with activities deemed to enhance poverty reduction. The PRML established an oversight committee, the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (CCSRP), with representatives of the government, Parliament, and civil society, to monitor the use of petroleum revenue. In addition, the law established a fund for future generations (FFG), which received 10 percent of the direct revenue, to be saved for the future. This regulatory approach was regarded as very innovative, and provided the framework under which the Bank and other donors continued to provide significant finance and technical support to Chad.

3. In late December 2005, the Government of Chad, without consultations with the Bank and other donors, revised the PRML and specifically (i) abolished the FFG and the provided for the repatriation of its balance by decree; (ii) expanded the list of priority sectors financed by earmarked oil revenue to include energy, justice, territorial administration, and domestic security, and entrusted the Government with the authority to revise the list of priority sectors; (iii) increased the share of oil revenue allocated to the general budget from 13½ percent (the original 15 percent net of the FFG) to 30 percent; (iv) extended the coverage of the PRML to all oil fields to be developed in Chad; and (v) extended the mandate of the members of the *Collège* from three to nine years.

4. While there were some positive aspects of the revision (the extension of the coverage of the PRML to all oil fields), the modifications and the process of the revision largely compromised the original objectives of the PRML. Thus, in response, on January 6, 2006, World Bank management suspended disbursements on Bank projects and froze transfers from the off-shore oil revenue escrow account. Subsequently, the Bank and the Government entered into a dialogue to resolve the impasse, and during January 29–February 1, 2006, delegations of the World Bank and the Government met in Paris to discuss options for reengagement. Following these meetings, a multipartner mission (March 24–April 6, 2006), with the participation of key partners (France, Germany, and the United States and AfDB,

EU, IMF, UNHCR, UNDP, and the World Bank), enabled Chad and its partners to share views and reach a common understanding on the major challenges in the implementation of the poverty reduction strategy, including the refugee situation in Darfur and security concerns. This prepared the groundwork for further high-level discussions the Bank and the Government of Chad. On April 25, 2006, the two parties signed an interim agreement that paved the way for a series of phased actions by both parties for the resumption of cooperation. The World Bank lifted the suspension of disbursements on its portfolio in Chad. On its side, the Government agreed to (i) adopt a 2006 revised budget law that will specify that 70 percent of oil revenue will be used for priority poverty programs (excluding security); and (ii) take parallel actions to strengthen the monitoring, transparency, and accountability of oil revenue as well as public finance resources and development assistance more broadly. The two parties also agreed to prepare a comprehensive agreement to guide the management of oil resources in Chad.

II. World Bank Country Assistance Strategy

5. 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, sound macroeconomic management, and rapid economic growth are among the five strategic axes of the PRSP. The strategy underlines the need for strong and sustained growth in the non-oil sector, improved human capital, improved living conditions for vulnerable groups, and preservation of the environment. The World Bank's assistance program in Chad is laid out in the Country Assistance Strategy (CAS), which was endorsed by the World Bank Board on December 11, 2003. The CAS supports two key strategic objectives in line with Chad's PRSP: (i) strengthening governance, including public resource management; and (ii) ensuring inclusive, broad-based growth as the country embarks on oil production.

The IDA Portfolio of Projects

6. The current IDA portfolio of projects (Annex 1) supports investments in key sectors for social and economic services (health, education, energy, rural development, and transport). Recently closed projects have supported capacity building for public expenditure management, management of the petroleum sector, local development, and environmental management; and the exploitation of Chad's petroleum resources.

7. **Support to the reform program**: The Bank provided three quick-disbursing policy reform operations for a total of US$85 million from 1996 to 1999 in support of the government's reform program. These reforms have largely focused on transparency and accountability in expenditure management, public procurement system, and promoting sustainable growth and reducing rural poverty. The last adjustment credit, the Institutional Reform Support Credit (IRSC) of US$25 million, was approved by the Board on November 30, 2004, and closed in December 2005. The IRSC, building on the previous credits (SAC IV and SAC V), supported reforms to (i) improve public sector governance through enhanced transparency, rule of law, and participation; (ii) promote a more efficient use of resources

through better management, improved procurement, and civil service reform; and (iii) promote sustainable growth in the rural sector by reforming the cotton sector. The implementation of these reforms benefited from the Management of the Petroleum Economy Project (GEEP), an IDA-supported capacity building and technical assistance project that closed in 2005.

8. **Contribution to the Petroleum Sector**: The Bank Group has made a substantial contribution to the development of the oil sector in Chad. On June 6, 2000, the Executive Board of the World Bank approved the 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 complement, the Management of the Petroleum Economy Project, in the amount of US$17.5 million, aimed at building capacity for public finance management, was approved in January 2000. The IBRD and IDA projects associated with the pipeline construction closed in June 2005. Successor capacity-building projects have been under preparation.

9. **Projects under preparation:** Two capacity-building projects are under preparation to further strengthen the management of public finance and the petroleum sector, which are scheduled for presentation to the Board of Executive Directors in FY07. The FY06–07 lending program also includes an Urban Development Project. Support to the cotton sector reform program, a budget support operation, and the demobilization and reintegration of armed rebels and soldiers are also under consideration.

Non-Lending Activities

10. In addition to these lending activities, the World Bank has been carrying out nonlending activities, including (i) annual public expenditure reviews since 2002, a Country Finance Accountability Assessment (2004) and, jointly with the IMF, the HIPC monitoring of progress in public finance management (PFM), which laid the ground for the preparation by the Government, in 2004, of a comprehensive action plan for the reform of PFM; (ii) technical support for the implementation of a medium-term expenditure framework and program budgets in the priority sectors; (iii) the preparation of an education status report; (iv) a Poverty and Social Impact Analysis of the consequences of the reforms in the cotton sector; and (v) a Diagnostic Trade Integration Study finalized and disseminated in November 2005. The Bank is also providing technical assistance to the PRSP Steering Committee for PRSP implementation and monitoring, jointly with other donors, and has launched a Development Policy Review/Poverty Assessment to be completed in FY07. This work will provide an in-depth assessment of economic and policy issues and strategic choices for promoting growth and poverty reduction over the medium-term. The Bank will produce a CAS progress report in FY07.

III. Bank-Fund Collaboration

11. The IMF takes the lead in the dialogue on the macroeconomic framework, the setting of macroeconomic objectives and targets, and revenue mobilization, notably tax polices. The Bank leads the policy dialogue in critical sectors such as education, health, electricity, water, rural development and transport. The Bank also leads the dialogue in cotton sector and energy sector reforms, in close collaboration with the Fund. The Fund focuses, in particular, on monitoring the fiscal impact of some key reform measures, for example, the increase in the wage bill and government subsidies to Cotontchad and the electricity company. 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. The dialogue pertaining to many areas of policy reforms, including on governance, oil revenue management, and public finance management is shared by the Bank and the Fund. In all these areas, the Bank and the Fund maintain close dialogue, with each institution focusing on specific components.

12. The Bank and the Fund share the responsibility 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 on macroeconomic performance, with shared responsibility for monitoring governance-related triggers. The Bank and the Fund also collaborate closely on the dialogue pertaining to the PRSP.

13. Contact person: Mr. Ali M. Khadr, Country Director for Chad

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Annex 1: Chad: IDA Portfolio			
Project	Sector	Amount Approved	Approval Date
Petroleum Sector Capacity Building	Infrastructure	US$23.7 million	June 6, 2000
National Transport Program	Transport	US$67 million	October 26, 2000
Health Sector Support	Health	US$41.5 million	April 27, 2000
Second Population and AIDS	Multisector	US$24.6 million	July 12, 2001
Electricity and Water Services	Infrastructure	US$54.8 million	October 10, 2002
Education Sector Reform	Education	US$42.3 million	March 18, 2003
Agricultural Services and Producers Organization	Agricultural/Cotton	US$26.5 million	December 11, 2003
Local Development	Multisector	US$23 million	September 16, 2004
Emergency Locust Project	ESSD	US$10.8 million	November 30, 2004

APPENDIX III: Chad: Statistical Issues

While data provision for surveillance is still adequate overall, staff's analysis was affected by shortcomings in balance of payments, government finance, and monetary statistics. A ROSC data module mission that visited N'Djamena during May–June 2005, found that Chad's statistical system continues to be weak and suffers from a shortage of both finance and human resources. More specifically, the ROSC mission identified a number of weaknesses, such as inadequate funding for the INSEED, weak source data for national accounts, insufficient coverage of government finance and monetary statistics, improper sectorization of public entities in all datasets, absence of dissemination of government finance statistics by the Ministry of Economy and Finance, and generally limited data and metadata accessibility.

The compilation of macroeconomic statistics is decentralized, involving several government ministries and the national directorate of the BEAC. The statistics directorate at the National Institute of Statistics, Economic, and Demographic Studies (INSEED) is in charge of the national accounts and the consumer price index (CPI), as well as the production and dissemination of statistics on the population and certain social indicators. The Ministry of Finance is responsible for compiling fiscal data. The BEAC is responsible for monetary statistics and the balance of payments statistics. The CPI is published biweekly, and other data are disseminated by the authorities on a periodic basis. Each month, the BEAC disseminates Chad's available monetary and finance statistics through its website (www.beac.org) and re-disseminates other macroeconomic statistics on a regular basis.

During the recent ROSC mission, the authorities expressed a strong interest in reforming the statistical system but said they lacked the resources—both human and finance—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 for collecting and disseminating statistical data.

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. However, Chad has not made annual updates to the metadata and, as a result, plans for improvements are outdated.

Real Sector

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. According to the ROSC assessment, source data for national accounts compilation remain a weak area, which is related to inadequate funding for the compiling agency. In addition, dissemination of data and metadata to the public could be improved by more timely releases and more detailed information. 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 countries be continued with the assistance of the regional statistical office (AFRISTAT), and that the planned household consumption survey be completed.

Public finance

Chad has not yet been able to resume reporting of detailed data for publication in the *Government Finance Statistics Yearbook*. Annual fiscal data to 2001 have been reported and published in the *International Finance 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, 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

The BEAC regularly reports monetary, interest rates, and exchange rate statistics for publication in *IFS,* but their timelines needs to be improved. There are significant delays in the compilation of data by the national agency of the BEAC, and its communication to the headquarters of the BEAC. In addition, the coverage of monetary statistics for Chad is limited to the central bank and active commercial banks. Microfinance corporations, a growing source of finance in Chad, are excluded, together with other units in the finance sector. The monetary and fiscal indicators on net credit to government cannot be reconciled, owing to differences in the institutional coverage of units in general government and the public sector. In addition, accuracy is affected by large cross-border movements of currency among CEMAC member countries. About 34 percent of banknotes issued in Chad by the national BEAC directorate circulate in Cameroon, while currency in circulation in Chad includes some 15 percent of banknotes from Cameroon and 6 percent of notes from the Central African Republic.

In addition to the recent ROSC data module and the May 2005 multisector statistics missions to Chad, STA has provided technical assistance in monetary statistics on a regional basis to the BEAC, including support of the BEAC's migration path to the Monetary and Finance Statistics Manual. The migration will involve an expansion in both the institutional coverage and the availability of detailed information by instrument. STA has participated in regional BEAC monetary statistics workshops and offered its regional training seminars in monetary and finance statistics biannually in French at the Joint Africa Institute.

Balance of payments

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 finance 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. Tighter coordination among the CEMAC, DSEED, and other agencies is required in order to improve the data coverage. The 2000 multisector technical assistance mission, the first STA mission to Chad in 10 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

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).

COUNTRY CHAD: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of July 27, 2006)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Daily	Daily	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr. 2006	June 2006	M	M	M
Reserve/Base Money	Apr. 2006	June 2006	M	M	M
Broad Money	Apr. 2006	June 2006	M	QM	M
Central Bank Balance Sheet	Apr. 2006	June 2006	M	M	M
Consolidated Balance Sheet of the Banking System	Apr. 2006	June 2006	M	M	M
Interest Rates[2]	Apr. 2006	June 2006	MI	QM	M
Consumer Price Index	June 2006	June 2006	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	June 2006	July 2006	Q	Q	
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June 2006	July 2006	Q	Q	
External Current Account Balance	2004	Aug. 2005	A	A	A
Exports and Imports of Goods and Services	2004	Aug. 2005	A	A	A
GDP/GNP	2005	June 2006	A	A	A
Gross External Debt	1/15/2005	1/21/05	Bi-M	Bi-M	

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

CHAD

Staff Report for the 2006 Article IV Consultation
Supplementary Information

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

Approved by David Andrews and Michael Hadjimichael

December 11, 2006

1. **This supplement reflects discussions with the authorities during a mission to conclude the 2006 Article IV consultations from October 26 to November 15**.[24] It presents an update on developments since the issuance of the attached staff report and provides a description and analysis of the medium-term macroeconomic framework, the budget for 2007, and an updated Debt Sustainability Analysis (Country Report No. 05/74), for which adequate data were not available at the time the staff report was issued. The staff appraisal has been updated in light of these discussions and recent developments.

V. Recent Developments

2. **Chad's political and security situation is precarious**. The armed opposition escalated attacks after the end of the rainy season in August, prompting the government to declare a State of Emergency and the UN to declare security phase IV for Eastern Chad and Phase III for N'Djamena. The conflict is also becoming more regional in character; the Darfur war is spilling over into eastern Chad, causing many casualties and additional refugee flows, while rebel activity in the north-east of the Central African Republic reportedly includes Chadian groups.

3. **The growth outlook for 2006 is better than anticipated at the time of the staff report, but inflation remains a concern.** The higher real GDP growth in 2006 (1.3 percent) reflects higher non-oil growth offsetting a somewhat larger fall in oil production than envisaged earlier. The main cause of the high inflation (15 percent during October 2005–06) was a 67 percent rise in meat prices over the same period, which was attributed to higher meat exports to neighboring countries following avian flu concerns and a shift from imports to domestic supply by oil-sector workers. Excluding meat, inflation amounted to 4.4 percent in the 12 months to October.

[24] The mission consisted of Mr. Snoek (Head), Mr. Camard (Resident Representative), Mr. Melhado, Ms. Lacoche (all AFR), and Mr. Buissé (FAD). The mission worked closely with a concurrent World Bank mission.

4. **The settlement of an income tax dispute with two of the three companies in the consortium producing Chad's oil resulted in additional revenue equivalent to 8 percent of non-oil GDP** (most of which was paid in October).[25] The extra revenue coupled with the release of funds from the World Bank controlled escrow account allowed a further expansion in most categories of expenditure, raising the non-oil primary deficit to 16.6 percent of GDP in 2006, compared with a target of 11.2 percent of GDP. The general wage increase was extended retroactively to the first half of the year (contributing to an expected excess in the wage bill compared with the end-2006 target of 0.3 percent of GDP). New exceptional security expenditure is estimated at 2.5 percent of GDP, bringing the annual total to 4.3 percent of GDP. Spending on other transfers and goods and services was also increased. Some allocations for capital spending that were cut in the June 2006 revised budget were restored; and domestically-financed capital spending increased by 1.3 percent of GDP. Despite these increases in spending, the authorities expect to repay the 2005 exceptional advances from the central bank (BEAC) and some other domestic debt. A second revised budget for 2006, reflecting the above changes would result in an end-year surplus in the oil revenue account of about 1.7 percent of GDP. On the structural side, steps are being taken to close the 2006 budget year promptly to avoid excessive expenditure carry-overs; to improve monitoring of the utility costs; to enhance coordination with the procurement office; and to strengthen the Ministry's oversight role. However, the move towards a Treasury Single Account is slow. Chad has also not maintained a balance in its SDR account equivalent to at least three months of Chad's financial obligations falling due to the Fund.

5. **The authorities intend to establish an oil-revenue stabilization mechanism before end-2006.** The mechanism is consistent with the medium-term expenditure needs of Chad, which are frontloaded. It would be lodged at the central bank (BEAC) and would include an oil account that is fully integrated in the budget process. Annual transfers from the oil account, which would be made progressively during the year, would be limited to amounts approved in the budget and could only be changed after parliamentary approval of a revised budget.[26] Initially, the arrangement agreed with the staffs of the World Bank and the IMF would continue to provide for a separation of tax and royalty flows to reflect the current petroleum revenue management law and facilitate the oversight body's (college) monitoring the use of oil royalties. The arrangement could be reviewed and simplified following discussions on a new oil revenue management program—including a revised role of the college—in the context of the preparation of an updated poverty reduction strategy paper during 2007.

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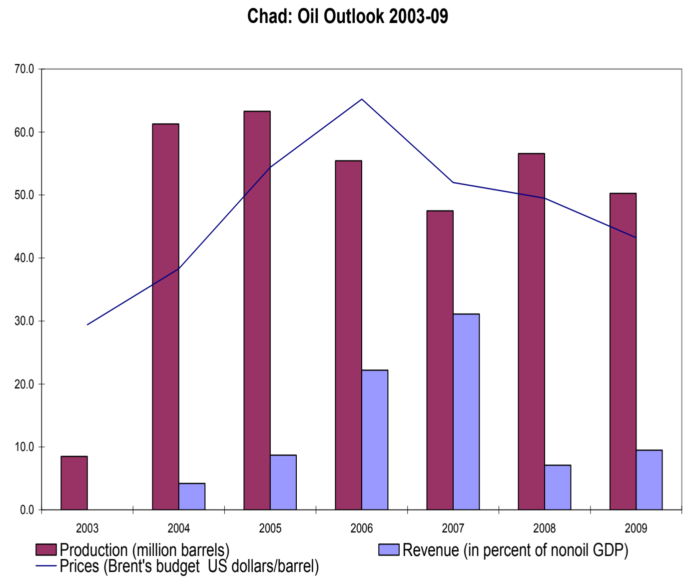
[25] Unless otherwise stated, all ratios to GDP are to non-oil GDP.

[26] The annual planned withdrawals will determine the maximum amount of oil revenue that may be transferred to the treasury to finance programs that have been included in the relevant budget law.

VI. THE MEDIUM-TERM MACROECONOMIC FRAMEWORK



6. **The discussions on the medium-term macroeconomic framework focused on the sustainable use of the expected oil revenue.** Based on prudent oil price projections and expectations of a gradual decline in oil production, the government's oil revenues are expected to rise to 31 percent of GDP in 2007 before falling to about 8.5 percent of GDP on average in the following two years (Figure).[27] The staff recommended that the bulk of the 2007 oil revenue be saved—and thus not transferred to the budget—for gradual use over the long term. This approach would promote long-term fiscal sustainability by allowing time to raise low non-oil revenues, to improve public financial management to better manage higher expenditure, and to help ensure that spending is in line with absorptive capacity. While agreeing with these broad principles, the authorities argued that the country's immense development needs, and the population's expectations of immediate benefits from the oil revenue, called for resources to be used more quickly to address urgent legitimate needs, especially in building the country's infrastructure, which would promote higher growth in the future. Based on these discussions, the medium-term framework allows for a further small increase in the non-oil primary deficit (excluding exceptional security expenditure) in 2007, that would be followed by subsequent adjustments in 2008-09, notably in current spending. External grants and concessional project assistance are expected to decline further from 7.6 percent of GDP in 2006 to 6.3 percent in 2007 and 5.1 percent in 2009, but would still remain an important component to finance the spending program.

7. **Real non-oil growth is projected to be robust over the medium term, in part reflecting the higher level of government expenditure.** Specifically, non-oil growth is expected to rise to about 6 percent by 2007, and then stabilize around 4.5 percent in subsequent years. Government savings, driven by the oil windfall, would substantially

[27] The lower projection for 2007 compared with Box 4 of the staff report (over 40 percent of GDP) reflects lower projections for prices and production based on recent developments and the large advances on 2006 income taxes paid by the oil companies following the resolution of the recent tax dispute.

increase in 2007, but decrease sharply in subsequent years mirroring the decline in oil revenues. Government investment would increase over the medium term in line with the medium-term expenditure framework. The external current account would register a small surplus in 2007, but it is expected to deteriorate over the medium term as oil revenues decrease and imports, fueled by the expansion of economic activity, increase. The framework is based on a decline in inflation to the CEMAC target by end-2007.

8. **The authorities' medium-term fiscal policies aim at a substantial medium-term adjustment and subsequent continued fiscal consolidation.** The framework would be fully financed through 2009, assuming the projected aid inflows which remain sizable. During this period, the savings from the exceptional oil revenue in 2007 would be gradually used up; additional oil revenues above the present estimates would be saved. This would be supported by policies to strengthen non-oil revenue, which is projected to increase from 7.9 percent of GDP in 2006 to 8.5 percent in 2009, and, on the expenditure side, civil service and military reform and structural reform in the cotton and electricity sectors to gradually eliminate large subsidies (amounting to 2 percent of GDP in 2007). The medium-term fiscal framework also includes a gradual repayment of domestic debt (a settlement plan will be prepared following the completion of an European Union-financed external audit).

9. **A joint Bank-Fund Debt Sustainability Analysis (DSA) shows that even though Chad's debt situation has improved considerably in recent years, the outlook remains fragile and Chad faces a high risk of debt distress.** While the baseline scenario appears sustainable, it entails significant risks, including further delays in Chad's receipt of full debt relief associated with the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative. In particular, the debt sustainability outlook would deteriorate significantly if export values were to drop through a sharper-than-expected decline in oil prices, or if fiscal discipline were not to prevail in the near to medium term.

10. **The 2007 budget was formulated in line with this medium-term framework.[28]** The authorities' initial budget proposal for 2007 entailed significantly higher spending, but they agreed on the need to plan expenditures in line with the principles laid out above. Current expenditures in 2007, excluding exceptional security outlays, would exceed the 2006 expected outturn by about 1 percent of non-oil GDP. This rise reflects subsidies to CotonTchad and the electricity company,[29] higher outlays for education and health considered appropriate by the World Bank, as well as an overall increase in goods and services (especially utilities) and transfers, which were under funded in the past. Given the

[28] It also allocates at least 70 percent of budgetary resources to priority sectors, in line with the Memorandum of Understanding between Chad and the World Bank of July 2006.

[29] Partly to pay CotonTchad's previous debt and to support the operations of a new energy station at Farcha.

security outlook, the budget includes a contingency for exceptional security expenditure of 1.1 percent of GDP (compared with an expected level of 4.3 percent of GDP in 2006), which would result in a non-oil primary deficit of about 14.5 percent of GDP. Overall investment expenditure would decline by about 0.7 percent of GDP compared with 2006, as an increase in domestically-financed capital spending would be more than offset by a fall in foreign-financed investment. The non-oil deficit would allow the accumulation of an amount equivalent to 15 percent of non-oil GDP in the oil revenue account.

11. **Absorptive capacity and the maintenance of macroeconomic stability were key considerations in the development of the budget for 2007.** Half of the domestically-financed capital spending concerns road infrastructure (of which much is co-financed by donors), where donors' sector specialists feel that macroeconomic and technical absorption capacity constraints are less acute, stemming from the high import content of the spending and the proven government's capacity to execute road projects. Preservation of macroeconomic stability is also supported by the containment of current spending, notably the wage bill, and the nature of projects aimed at raising the quality of public spending.

VII. Staff Appraisal

12. **The regrettable resurgence of conflict has again underlined the daunting challenges to Chad's effective use of oil revenues.** Large expenditure overruns in 2006, which in part reflected higher security expenditures, are a cause for concern. The authorities' agreement on a mechanism to save future excess oil revenues is welcome, but political stability will be essential to allow this oil wealth to be channeled to the priority sectors.

13. **The 2007 budget and the medium-term fiscal framework are fully-financed, but the fiscal outlook is subject to several risks.** Specifically, risks arise from frontloading public spending, particularly when the assessment of absorptive capacity is hampered by the limited availability of data. The current unsettled environment also poses risks to the 2007 budget. While the staff understands the urgent needs and high expectations, the government's strategy of high up-front expenditure will require vigilance to ensure spending does not exceed absorptive capacity constraints, as well as tight controls on new medium-term investment projects to ensure fiscal sustainability. The medium-term framework will need to be reassessed in case new security expenditure exceeds the budgeted amounts.

14. **Strengthening public financial management remains crucial to ensure the quality and control of expenditures.** The staff urges the authorities to make rapid progress with implementing the action plan in this area, in close cooperation with the World Bank and other donors. In addition to improvements in all areas of fiscal administration, a key element will also have to be the strengthening of the capacity to prepare comprehensive medium-term fiscal frameworks to ensure fiscal sustainability. As the size and number of multi-year investment projects increases, close control over long-term commitments, including for counterpart funds, will be necessary.

15. **Chad's debt situation has improved, but remains fragile and the country still faces a high risk of debt distress.** To strengthen Chad's debt outlook it is important to attain the HIPC completion point and maintain macroeconomic discipline. The outlook would deteriorate substantially in the event of large drop in oil prices affecting export values or if fiscal discipline were not to prevail.

16. **Provided the 2007 budget is approved as agreed and security stabilizes, discussions on the first and second reviews under the PRGF arrangement could resume in early 2007.**

Table 1. Chad: Selected Economic and Financial Indicators, 2005-09

	2005	2006		2007	2008	2009
	Prel.	Staff report	Revised	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise specified)					
National income						
GDP at constant prices	8.6	0.1	1.3	-1.2	7.4	0.8
Oil GDP	2.1	-8.2	-7.7	-20.1	17.5	-11.1
Non-oil GDP	11.6	3.5	5.1	5.9	4.5	4.6
Consumer price index (average)	7.9	7.9	8.8	4.0	3.0	3.0
Real per capita GDP	5.9	-2.4	-1.2	-3.6	4.8	-1.3
Real non-oil per capita GDP	8.9	0.9	2.6	3.3	2.0	2.0
External sector (valued in CFA francs)						
Exports , f.o.b.	43.5	17.4	18.7	-10.2	-21.6	-16.5
Imports, f.o.b.	-11.4	2.0	2.6	0.6	3.9	4.0
Export volume	4.9	-11.4	-15.3	5.6	7.4	-7.9
Import volume	-18.3	-2.1	-1.4	-1.8	0.4	0.4
Terms of trade	29.6	23.7	28.8	-17.7	-22.2	-11.8
Real effective exchange rate	6.2	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)					
Investment and Saving						
Gross investment	20.2	20.5	21.5	21.1	17.7	18.3
Government	7.0	7.1	7.7	9.1	9.1	9.3
Private sector	13.2	13.4	13.8	12.1	8.6	9.1
Of which : oil sector	8.7	8.7	9.0	6.5	3.0	3.1
Gross national savings	21.3	19.5	23.4	23.5	12.3	10.2
Government	4.0	5.4	7.7	16.0	2.6	5.3
Private sector	17.3	14.1	15.7	7.5	9.7	4.9
Current account balance, incl. official current transfers	1.1	-1.0	1.8	2.4	-5.5	-8.2
	(In percent of non-oil GDP, unless otherwise specified)					
Government finance						
Revenue	17.5	23.1	30.7	39.8	16.0	18.7
of which: non-oil revenue	8.8	9.2	8.5	8.7	8.9	9.2
Total expenditure	24.5	29.8	34.2	31.3	28.8	26.9
Current expenditure	11.3	16.2	19.6	17.3	15.2	14.4
Capital expenditure	13.2	13.6	14.6	13.9	13.5	12.5
Non-oil primary balance (commitment basis, excl. grants) 1/	-6.0	-11.2	-16.6	-14.5	-12.6	-11.3
Overall fiscal deficit (commitment basis,excl. grants)	-7.0	-6.7	-3.6	8.5	-12.8	-8.2
	(In percent of GDP, unless otherwise specified)					
External sector						
Current account balance						
Excluding official current transfers	-0.9	-2.2	0.6	0.2	-7.5	-10.2
Excluding oil-related operations and official current transfers (in percent of non-oil GDP)	-12.6	-15.2	-14.0	-11.8	-12.1	-11.8
	(In billions of CFA francs, unless otherwise specified)					
Nominal GDP	3,104	3,503	3,420	3,060	3,178	3,108
Nominal non-oil GDP	1,653	1,824	1,804	1,990	2,135	2,301
Nominal GDP (in millions U.S. dollars)	5,896	6,707	6,519	5,963	6,225	6,111

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

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

Table 2. Chad: Consolidated Fiscal Operations, 2005-09
(in billions of CFA francs)

	2005	2006		2007	2008	2009
	Est.	Budget. Jun.	Est.	Budget Nov 1/	Proj.	Proj.
Revenue	289.7	421.9	553.4	792.1	341.9	430.4
Oil revenue 2/	144.0	253.5	400.1	619.1	151.0	219.0
Non-oil Tax revenue	138.9	141.9	142.6	157.0	174.7	195.8
Non Tax revenue 3/	6.8	26.6	10.7	16.0	16.2	15.6
Expenditure	404.9	543.3	617.5	622.6	614.4	619.5
Current expenditure	187.3	295.5	353.8	345.2	325.4	330.7
Wages and salaries	101.2	117.7	123.7	134.9	141.8	147.5
Civil service	73.3	85.1	89.0	100.2	105.7	110.0
Military	27.9	32.5	34.7	34.7	36.1	37.5
Goods and services	34.2	49.5	58.3	63.2	65.0	66.8
Transfers	41.5	102.3	156.9	132.1	104.0	103.3
Of which: Exceptional defense spending and contingency	...	34.1	77.5	21.9	10.7	11.5
Interest	10.4	14.9	14.9	15.0	14.6	13.2
Domestic	3.2	5.0	5.0	5.0	5.0	3.9
External	7.2	9.9	9.9	10.0	9.6	9.3
Investment expenditure	217.7	247.8	263.7	277.4	289.0	288.7
Domestically financed	68.5	91.6	113.3	131.8	148.2	152.9
Foreign financed	149.1	156.2	150.5	145.6	140.8	135.8
Non-oil primary balance (excl. grants, commitment basis) 3/ 4/	-99.8	-203.7	-298.8	-288.9	-268.1	-259.1
Overall balance (excl. grants, commitments)	-115.3	-121.4	-64.2	169.5	-272.5	-189.1
Arrears	4.2	-51.2	-34.6	0.0	0.0	0.0
Overall balance (excl. grants, cash)	-134.0	-172.6	-98.8	169.5	-272.5	-189.1
Financing	134.0	172.6	98.8	-169.5	272.5	189.1
Domestic financing	-23.5	20.3	-38.3	-295.5	145.6	72.5
Central Bank (BEAC)	2.7	31.1	-5.7	-276.7	167.5	88.4
Commercial banks	-6.7	-0.9	-12.9	0.0	0.0	0.0
Non-bank financing 5/	-19.5	-9.9	-19.7	-21.6	-21.9	-15.8
Foreign financing	157.5	152.3	137.0	126.1	126.9	116.6
Grants	104.2	95.4	83.5	80.5	75.0	75.0
Budget support grants	13.1	13.8	7.6	5.7	0.0	0.0
Project grants	91.1	81.6	75.9	74.8	75.0	75.0
Loans (net)	53.3	56.9	53.5	45.6	51.9	41.6
Disbursements	58.1	74.6	74.6	70.8	65.8	60.8
Amortization	-11.5	-21.5	-21.5	-25.2	-26.5	-29.6
External arrears (principal)	-1.9	0.0	0.0	0.0	0.0	0.0
Debt relief	8.7	0.5	0.5	0.0	12.6	10.4

Sources: Chadian authorities; and IMF staff estimates.

1/ 2007 budget proposal as agreed by the end of the mission (Nov).
2/ Oil export price based on World Bank Petroleum Revenue forecast. Comprising royalties, dividends, income tax, share premium and revenue from oil permits exploration or exploitation (before debt service on pipeline related loan).
3/ Revenue from oil exploration permit and share premiums from the oil pipeline companies are included in oil revenue.
4/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.
5/ Include restructured debt as specified in the TMU under the PRGF-supported program (excluding BEAC (Bank of Central African States) and CBT (Commercial Bank of Chad)), as well as payment on new domestic debt conventions.

Table 2. Continued. Chad: Consolidated Fiscal Operations, 2005-09
(In percent of non-oil GDP, unless otherwise indicated)

	2005	2006		2007	2008	2009
	Est.	Budget. Jun.	Est.	Budget Nov 1/	Proj.	Proj.
Revenue	17.5	23.1	30.7	39.8	16.0	18.7
Oil revenue 2/	8.7	13.9	22.2	31.1	7.1	9.5
Non-oil Tax revenue	8.4	7.8	7.9	7.9	8.2	8.5
Non Tax revenue 3/	0.4	1.5	0.6	0.8	0.8	0.7
Expenditure	24.5	29.8	34.2	31.3	28.8	26.9
Current expenditure	11.3	16.2	19.6	17.3	15.2	14.4
Wages and salaries	6.1	6.5	6.9	6.8	6.6	6.4
Civil service	4.4	4.7	4.9	5.0	5.0	4.8
Military	1.7	1.8	1.9	1.7	1.7	1.6
Goods and services	2.1	2.7	3.2	3.2	3.0	2.9
Transfers	2.5	5.6	8.7	6.6	4.9	4.5
Of which: Exceptional defense spending and contingency	...	1.9	4.3	1.1	0.5	0.5
Interest	0.6	0.8	0.8	0.8	0.7	0.6
Investment expenditure	13.2	13.6	14.6	13.9	13.5	12.5
Domestically financed	4.1	5.0	6.3	6.6	6.9	6.6
Foreign financed	9.0	8.6	8.3	7.3	6.6	5.9
Non-oil primary balance (excl. grants, commitment basis) 3/ 4/	-6.0	-11.2	-16.6	-14.5	-12.6	-11.3
Non-oil primary balance (excl. grants, exceptional defense and contingency, on a commitment basis) 3/ 4/	...	-9.3	-12.3	-13.4	-12.1	-10.8
Overall balance (excl. grants, commitments)	-7.0	-6.7	-3.6	8.5	-12.8	-8.2
Arrears	0.3	-2.8	-1.9	0.0	0.0	0.0
Overall balance (excl. grants, cash)	-8.1	-9.5	-5.5	8.5	-12.8	-8.2
Financing	8.1	9.5	5.5	-8.5	12.8	8.2
Domestic financing	-1.4	1.1	-2.1	-14.9	6.8	3.2
Central Bank (BEAC)	0.2	1.7	-0.3	-13.9	7.8	3.8
Commercial banks	-0.4	-0.1	-0.7	0.0	0.0	0.0
Non-bank financing 5/	-1.2	-0.5	-1.1	-1.1	-1.0	-0.7
Foreign financing	9.5	8.4	7.6	6.3	5.9	5.1
Grants	6.3	5.2	4.6	4.0	3.5	3.3
Budget support grants	0.8	0.8	0.4	0.3	0.0	0.0
Project grants	5.5	4.5	4.2	3.8	3.5	3.3
Loans (net)	3.2	3.1	3.0	2.3	2.4	1.8
Disbursements	3.5	4.1	4.1	3.6	3.1	2.6
Amortization	-0.7	-1.2	-1.2	-1.3	-1.2	-1.3
External arrears (principal)	-0.1	0.0	0.0	0.0	0.0	0.0
Debt relief	0.5	0.0	0.0	0.0	0.6	0.5
Memorandum items:						
Balance of oil revenue account	...	...	1.7	15.0	5.8	1.2
Non-oil GDP (in billions of CFA francs)	1652.5	1823.9	1804.2	1989.9	2135.1	2300.9

Sources: Chadian authorities; and IMF staff estimates.
1/ 2007 budget proposal as agreed by the end of the mission (Nov).
2/ Oil export price based on World Bank Petroleum Revenue forecast. Comprising royalties, dividends, income tax, share premium and and revenue from oil permits exploration or exploitation (before debt service on pipeline related loan).
3/ Revenue from oil exploration permit and share premiums from the oil pipeline companies are included in oil revenue.
4/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.
5/ Include restructured debt as specified in the TMU under the PRGF-supported program (excluding BEAC and Commercial Bank of Chad), as well as payment on new domestic debt conventions.

CHAD: ASSESSING EXTERNAL AND PUBLIC SECTOR DEBT SUSTAINABILITY

17. This assessment presents a joint IMF-World Bank debt sustainability analysis using the standard debt dynamics templates for low-income countries (LICs) to analyze, on the basis of available data, the sustainability of Chad's external and public sector debt.

Debt sustainability assessment

18. Even though Chad's debt situation has improved appreciably in recent years, the outlook remains fragile and Chad faces a high risk of debt distress. While the baseline scenario appears sustainable, it entails significant risks, including the possibility of further delays in Chad's receipt of full debt relief under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative. Moreover, the alternative scenarios and bound tests indicate that in the event of adverse shocks Chad's debt burden indicators would deteriorate substantially. In particular, the debt sustainability outlook would deteriorate significantly if export values were to drop through a sharper than expected decline in oil prices, or if fiscal discipline were not to prevail in the near to medium-term.

Recent debt developments

19. Chad is eligible for the Highly Indebted Poor Countries (HIPC) Initiative. It reached the HIPC Decision Point in 2001, at which time creditors agreed to a common reduction factor of 30 percent, resulting in HIPC debt relief of $170 million in NPV terms. While the full relief will only be delivered at the HIPC Completion Point, Chad became eligible for interim HIPC relief, from the Paris Club creditors and the IMF, IDA, and the AfDB Group. But as the Completion Point is delayed, Chad's may reach the ceilings on the provision of interim HIPC relief for some creditors. Nonetheless, Chad's debt situation has improved considerable over the past few years, thanks to the strong growth in overall GDP stemming from the oil sector and the reduced reliance by the government on external financial support. At end-2005, its external public and publicly guaranteed (PPG) debt stood at CFA 880 billion ($1.6 billion) or 27 percent of GDP, which compares with CFA 732 billion but 53 percent of GDP at end-2002. In NPV terms, the debt was only two thirds this amount since it is largely concessional: 90 percent is due to multilateral institutions and the remainder to bilateral creditors (see Staff Report Table 8).

Baseline assumptions

20. The economic baseline scenarios informing the DSAs are much influenced by the expected evolution of Chad's oil production. This is expected to peak in 2007, followed by a gradual decline to one fifth that level by 2030, based on current proven oil reserves. At the same time, oil prices are expected to decline. That, together with investment cost recovery by companies, results in a sharp decline in oil revenues for the government (see Box 1). Other key assumptions are shown in Tables 1a and 1b. The baseline assumes a steady increase in

non-oil GDP growth as oil production declines. The main source of growth is the agricultural sector which will benefit from the infrastructure investments financed from oil revenue. With the help of envisaged measures, non-oil revenues will grow as a percent of GDP, and compensate for the decline in oil revenues so that the non-oil primary balance can cover debt service. In sum, the baseline includes a substantial medium-term adjustment and subsequent continued consolidation. As for debt service, the baseline assumes that Chad will reach the HIPC Completion Point at end-2007.[30] The baseline scenario shows relatively large residuals in 2006 and 2007, which are the result of the assumption that much of the oil revenue will be used to accumulate reserves. In subsequent years, as these reserves are drawn down, the residual declines and turns negative.

Box 1. Chad: Macroeconomic Projections for the Baseline DSA 2006-2026

					Averages		
	2006	2007	2008	2009	2006-2013	2014-2026	2006-2026
Real GDP growth (%)	1.3	-1.2	7.4	0.8	2.5	4.5	3.7
Non-oil real GDP growth (%)	5.1	5.9	4.5	4.6	5.0	5.6	5.3
Nominal GDP growth (%)	10.2	-10.5	3.9	-2.2	2.7	6.9	5.3
Nominal GDP level (billions of CFAF)	3,420	3,060	3,178	3,108	3,357	5,953	4,964
Oil production (millions of barrels)	55.4	47.5	56.6	50.3	48.1	20.1	30.8
Oil prices (Brent, $ per barrel)	65.2	52.0	49.5	43.2	47.3	56.4	52.9
Oil revenues (CFAF billions)	400	619	151	219	292	219	247
Oil revenues (% of GDP)	11.7	20.2	4.8	7.0	8.8	4.2	5.9
Non-oil revenues (CFAF billions)	153	173	191	211	231	735	543
Non-oil revenues (% of GDP)	4.5	5.7	6.0	6.8	6.8	11.9	10.0
Non-oil primary balance (% of non-oil GDP)	-12.3	-13.4	-12.1	-10.8	-9.1	-3.6	-5.7
(Excluding grants and security spending)							

Sources: Chadian authorities and Fund staff estimates.

External public and publicly guaranteed debt DSA

21. For external public debt, the baseline scenario assumes that the large fiscal surpluses in 2007 and 2008 when oil revenue peaks are saved and drawn down in subsequent years in line with the economy's absorptive capacity. Throughout the forecast period, Chad continues to roll over maturing debt to help finance investment needs for poverty reduction identified in the PRSP, but borrows only on concessional terms. Moreover, Chad's anti-poverty policies would attract a steady flow of grants from external donors. The result is that the NPV of debt remains in a range of 15-20 percent of GDP, based on an average rate of growth of real GDP

[30] If Chad were to receive MDRI in 2008, the amount would be on the order $1.2 billion which translates into $574 million in NPV terms which is 9 percent of GDP and 18 percent of exports.

of about 4 percent for the period (see Tables 1a and 2a). Likewise, in terms of exports, the NPV value of debt behaves moderately, staying within a range of 50-100 percent.

7. The external debt sustainability analysis includes a comparison with two alternative scenarios, one where key variables are kept at their historical averages (calculated only over 2000-2005 due to data availability), and another where new public sector loans are contracted on less favorable terms. The NPV-of-debt ratios increase under these scenarios but not disconcertingly so (Table 1b). Under the first one, A1, the current account deficit continues at the high level of 35 percent level which it achieved in the past on average thanks to the build up of the oil sector. Even though direct investment inflows and real GDP growth are commensurately higher, a gradual build up of debt occurs. Scenario A2 assumes that the interest on new borrowing is 2 percentage points higher than in the baseline, and the result is a higher NPV value of the debt stock.

8. In addition to the alternative scenarios, the baseline projections for external public debt were subjected to six standard bound tests (Figure 1 and Table 1b). Not surprisingly, Chad's debt position is most sensitive to the external shock consisting of a one-standard deviation drop in exports proceeds in 2007 and 2008, as could result from a roughly 20 percent drop in oil prices (Test B2). The GDP drop—one standard deviation below the high historical average (Test B1)—does not show much change from the baseline, the reason being that real GDP growth in the baseline in 2007 and 2008 is already at that level.

Public debt DSA

9. In addition to its external public debt, Chad has only limited domestic public debt, equivalent to about 6 percent of GDP at end-2005, and the baseline expects the share of domestic debt in total to remain roughly the same (Table 2a). On that assumption, an analysis of the sustainability of total public debt confirms broadly the conclusions of the previous analysis, namely that Chad's debt situation remains fragile. If the assumptions of the baseline materialize, debt appears sustainable, with the NPV of debt remaining in the 20–30 percent range (Table 2b and Figure 2). The standard "no reform" alternative scenario would be "primary balance unchanged from 2006". However, given the very large and temporary surplus in that year, staff opted for a "no reform" scenario that shows primary expenditures remaining at their high 2007 level despite the subsequent decline in oil revenue (shown as "no reform" in Figure 2 and as A2 in Table 2b). The most extreme stress test turns out to be the scenario of "permanently lower GDP growth" (A3) which causes NPV of debt to GDP and to revenues to rise sharply.

Threshold comparison

10. A standard component of a LIC DSA is to assess the external debt burden indicators in relation to policy-dependent thresholds reflecting the key empirical finding that a LIC with better policies and institutions can sustain a higher level of external debt. The LIC DSA framework therefore classifies countries into three performance categories—strong, medium, poor—as assessed by the World Bank's Country Policy and Institutional Assessment (CPIA).

Corresponding to these categories, the framework establishes three indicative thresholds for each debt burden indicator. Chad's CPIA score in 2005 was 2.9 which is in the bottom quintile and therefore characterizes Chad as a poor reformer with correspondingly low threshold values (Box 2).[31] As noted above, under the baseline scenarios most indicators remain below these thresholds. However, several alternative scenarios and bound tests produce ratios that breach those thresholds (see Figures 1 and 2). In addition serious risks attach to the baseline scenario, especially whether Chad will proceed as rapidly to the HIPC Completion Point as envisaged, and whether fiscal discipline will prevail in the near term. On balance, therefore, Chad appears to face a high risk of debt distress.

Box 2. Chad: Summary of Baseline Debt Sustainability Indicators 1/

	Indicative Threshold 2/	2006	2016	2026	Average 2006-26
NPV of debt to GDP	30	16	19	15	18
NPV of debt to exports	100	27	75	113	75
NPV of debt to revenue	200	59	68	69	75
Debt service to exports	15	1	3	7	4
Debt service to revenue	25	4	3	5	5

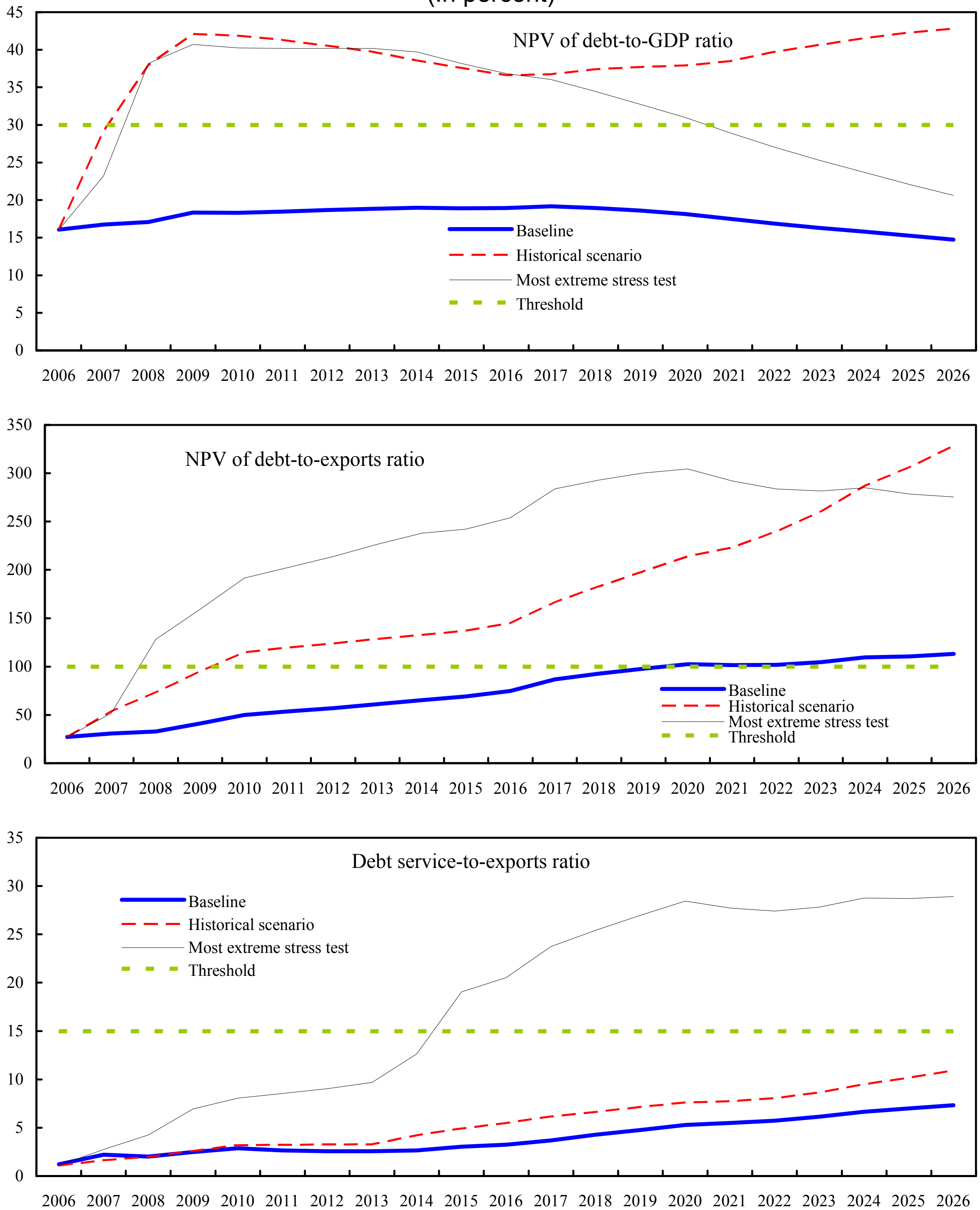
1./ The thresholds used for Chad indicate the level of debt indicators at which countries with a similar evaluation of policies and institutions would have at least a 25 percent chance of having a prolonged incident of debt distress in the coming year. Chad lies with the bottom quintile of countries ranked by the World Bank's Country Policy and Institutional Assessment Index (CPIA).

Conclusions

11. Chad's debt situation has improved in recent years but remains fragile and the country still faces a high risk of debt distress. To further solidify the debt situation, it is of utmost importance that Chad reaches soon the HIPC Completion Point. This will require maintaining macroeconomic stability in the face of sharply fluctuating oil revenues in the near to medium term. It also requires speedy progress with the structural reform agenda reflected in the HIPC Completion Point Triggers. Such policies would permit the gradual diversification of the economy that is essential to ensure growth over the long term.

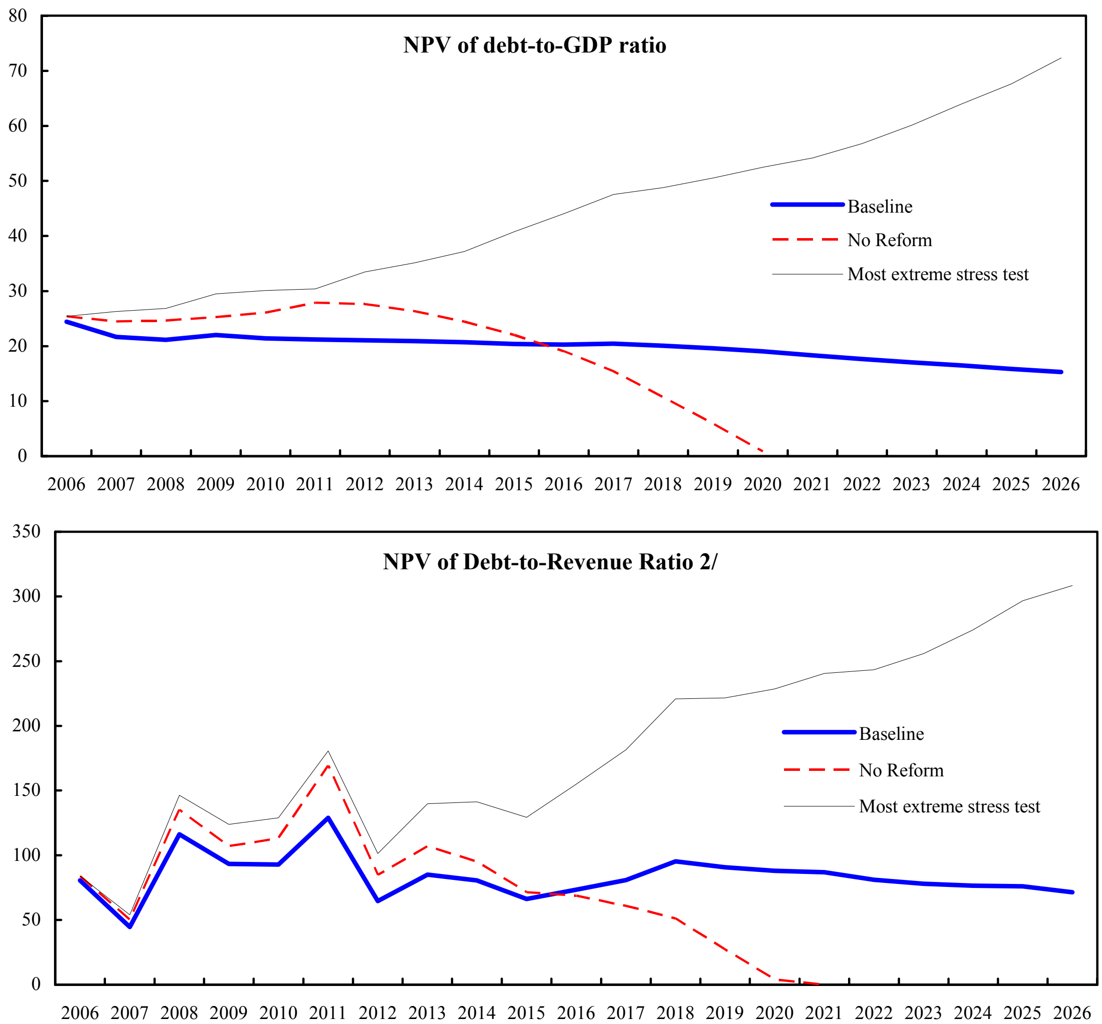
[31] Using the 2003-05 average of the CPIA would not change Chad's performance category in terms of policies and institutions. Information on the CPIA 2005 is now publicly available on the World Bank website at http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20933600~menuPK:2626968~pagePK:51236175~piPK:437394~theSitePK:73154,00.html

Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006-26
(In percent)



Source: Staff projections and simulations.
1./ Most extreme stress test is test that yields highest ratio in 2016 (B2 in all three cases).

Figure 2.Chad: Indicators of Public Debt Under Alternative Scenarios, 2006-2026 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016 (A3, A3 and B3 respectively).
2/ Revenue including grants.

Table 1a. Chad: External Debt Sustainability Framework, Baseline Scenario, 2006-2026 1/
(In percent of GDP, unless otherwise indicated)

		Actual			Historical	Standard	Projections									
	#	2003	2004	2005	Average 6/	Deviation 6/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
External debt (nominal) 1/	**...**	**50.2**	**35.0**	**27.0**			**20.5**	**24.1**	**24.4**	**26.0**	**25.8**	**26.0**		**27.6**	**27.2**	
o/w public and publicly guaranteed (PPG)	...	50.2	35.0	27.0			20.5	24.1	24.4	26.0	25.8	26.0		27.6	27.2	
Change in external debt	...	-6.8	-15.2	-8.0			-6.5	3.6	0.3	1.6	-0.3	0.2		0.5	-0.3	
Identified net debt-creating flows	...	8.6	-22.2	-18.2			-10.4	-10.7	-7.6	-1.6	3.6	4.3		5.7	1.6	
Non-interest current account deficit	**...**	**49.5**	**7.5**	**0.7**	**35.2**	**33.5**	**-0.9**	**-3.5**	**2.7**	**6.3**	**11.2**	**11.3**	4.5	**9.7**	**3.5**	6.8
Deficit in balance of goods and services	...	-9.3	-35.8	-45.9			-50.1	-44.6	-41.8	-33.6	-25.8	-23.6		-14.4	-3.4	
Exports	...	24.8	51.0	54.9			58.9	54.4	51.8	44.5	36.6	34.5		25.3	13.0	
Imports	...	15.4	15.2	9.1			8.8	9.9	10.0	10.8	10.8	10.9		10.9	9.6	
Net current transfers (negative = inflow)	...	-3.6	-4.9	-3.1	-3.6	2.0	-2.1	-3.1	-3.0	-3.0	-2.8	-2.7	-2.8	-2.0	-4.0	-3.4
Other current account flows (negative = net inflow)	...	62.5	48.2	49.6			51.3	44.1	47.4	42.9	39.8	37.6		26.0	10.9	
Net FDI (negative = inflow)	**...**	**-26.2**	**-10.8**	**-10.4**	**-21.3**	**14.6**	**-9.5**	**-7.8**	**-8.9**	**-8.1**	**-7.3**	**-6.6**	-8.0	**-3.5**	**-0.7**	-2.5
Endogenous debt dynamics 2/	**...**	**-14.7**	**-18.9**	**-8.5**			**0.0**	**0.6**	**-1.4**	**0.2**	**-0.3**	**-0.4**		**-0.5**	**-1.1**	
Contribution from nominal interest rate	...	0.6	0.4	0.2			0.3	0.3	0.3	0.4	0.3	0.3		0.4	0.3	
Contribution from real GDP growth	...	-6.1	-10.4	-2.3			-0.3	0.3	-1.7	-0.2	-0.7	-0.7		-0.8	-1.4	
Contribution from price and exchange rate changes	...	-9.2	-8.8	-6.5			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**...**	**-15.4**	**6.9**	**10.3**			**3.9**	**14.3**	**7.9**	**3.2**	**-3.8**	**-4.1**		**-5.2**	**-2.0**	
o/w exceptional financing	...	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	...	17.9			16.1	16.7	17.1	18.4	18.3	18.5		18.9	14.8	
In percent of exports	...	...	...	32.5			27.3	30.7	33.0	41.2	50.1	53.5		74.9	113.2	
NPV of PPG external debt	**...**	**...**	**...**	**17.9**			**16.1**	**16.7**	**17.1**	**18.4**	**18.3**	**18.5**		**18.9**	**14.8**	
In percent of exports	...	...	...	32.5			27.3	30.7	33.0	41.2	50.1	53.5		74.9	113.2	
Debt service-to-exports ratio (in percent)	...	5.8	1.7	1.5			1.2	2.2	2.0	2.5	2.9	2.6		3.2	7.3	
PPG debt service-to-exports ratio (in percent)	...	5.8	1.7	1.5			1.2	2.2	2.0	2.5	2.9	2.6		3.2	7.3	
Total gross financing need (billions of U.S. dollars)	...	0.7	-0.1	-0.5			-0.6	-0.6	-0.3	0.0	0.3	0.4		0.6	1.6	
Non-interest current account deficit that stabilizes debt ratio	...	56.3	22.7	8.7			5.6	-7.1	2.3	4.7	11.5	11.1		9.2	3.8	
Key macroeconomic assumptions																
Real GDP growth (in percent)	...	14.7	33.6	8.6	**12.7**	**11.5**	1.3	-1.2	7.4	0.8	2.7	2.7	2.3	3.2	5.7	4.3
GDP deflator in US dollar terms (change in percent)	...	19.2	21.3	22.8	**12.0**	**11.9**	9.1	-7.4	-2.8	-2.6	3.4	2.3	0.3	2.0	2.9	2.3
Effective interest rate (percent) 5/	...	1.4	1.2	0.8	**1.3**	**0.3**	1.2	1.5	1.5	1.5	1.3	1.3	1.4	1.4	1.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	...	166.9	233.9	43.6	**72.6**	**103.1**	18.5	-15.4	-0.7	-15.7	-12.7	-0.8	-4.5	-2.9	2.8	0.0
Growth of imports of G&S (US dollar terms, in percent)	...	48.1	59.4	-20.3	**24.0**	**33.7**	7.0	3.0	6.1	6.1	5.4	6.0	5.6	5.5	6.5	5.8
Grant element of new public sector borrowing (in percent)		...	...	...	...	...	34.6	35.8	35.8	35.8	35.8	35.8	35.6	35.8	35.8	35.8
Memorandym item:																
Nominal GDP (billions of US dollars)	...	2.7	4.4	5.9			6.5	6.0	6.2	6.1	6.5	6.8		8.8	18.0	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are derived over the period 2000-2005 due to data availability.

Table 1b. Chad: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-26
(In percent)

	Projections							
	2006	2007	2008	2009	2010	2011	**2016**	2026
NPV of debt-to-GDP ratio								
Baseline	16	17	17	18	18	18	**19**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	16	29	38	42	42	41	**37**	43
A2. New public sector loans on less favorable terms in 2007-26 2/	16	17	18	20	20	21	**24**	-6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	16	16	18	19	19	19	**20**	15
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	16	23	38	41	40	40	**37**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	16	15	15	16	16	17	**17**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	16	18	20	21	21	21	**21**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	16	0	-19	-20	-19	-19	**-13**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	16	25	25	27	27	27	**28**	22
NPV of debt-to-exports ratio								
Baseline	27	31	33	41	50	54	**75**	113
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	27	54	73	95	115	120	**145**	328
A2. New public sector loans on less favorable terms in 2007-26 2/	27	32	35	45	56	61	**95**	-49
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	27	31	33	41	50	54	**75**	113
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	27	52	128	159	191	203	**254**	275
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	27	31	33	41	50	54	**75**	113
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	27	32	38	47	57	61	**83**	118
B5. Combination of B1-B4 using one-half standard deviation shocks	27	1	-28	-35	-41	-42	**-39**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	27	31	33	41	50	54	**75**	113
Ratio of debt service to exports								
Baseline	1	2	2	2	3	3	**3**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	1	2	2	3	3	3	**5**	11
A2. New public sector loans on less favorable terms in 2007-26 2/	1	2	2	3	3	3	**6**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	1	2	2	3	3	3	**6**	10
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	1	3	4	7	8	9	**21**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	1	2	2	3	3	3	**6**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	1	2	2	3	3	3	**6**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	1	0	0	0	**-4**	-1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	1	2	2	3	3	3	**6**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	**33**	33

Source: Staff projections and simulations.

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

Table 2a.Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2026

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average [1/]	Standard Deviation [1/]	Estimate	Projections								
	2003	2004	2005			2006	2007	2008	2009	2010	2011	Average 2006-11	2016	2026	Average 2012-26
Public sector debt [2/]	48.2	41.9	36.0			26.6	29.1	28.5	29.7	28.9	28.7		29.0	27.7	
o/w foreign-currency denominated	46.2	32.4	28.4			20.2	24.1	24.4	26.0	25.7	25.9		27.5	27.1	
Change in public sector debt	-6.3	-6.2	-6.0			-9.4	2.4	-0.5	1.2	-0.8	-0.1		0.3	-0.4	
Identified debt-creating flows	-9.6	-18.5	-12.0			-17.4	-25.8	-0.5	-3.5	-7.8	-1.8		-9.2	-2.2	
Primary deficit	5.3	-0.5	-4.9	2.4	4.2	-12.7	-28.9	0.7	-4.1	-6.2	-0.6	-8.6	-8.1	-0.3	-3.7
Revenue and grants	16.1	14.5	17.6			30.3	48.7	18.2	23.6	23.0	16.5		27.6	21.4	
of which : grants	8.3	3.2	3.6			2.5	2.6	2.7	2.7	2.7	2.8		2.8	3.1	
Primary (noninterest) expenditure	21.4	14.0	12.7			17.6	19.9	18.9	19.5	16.9	15.9		19.6	21.1	
Automatic debt dynamics	-14.2	-17.7	-6.9			-4.7	3.5	-0.7	1.0	-1.3	-1.0		-1.0	-2.0	
Contribution from interest rate/growth differential	-7.3	-12.6	-4.9			-1.0	1.2	-1.8	-0.2	-1.0	-0.9		-1.0	-1.2	
of which : contribution from average real interest rate	-0.4	-0.5	-1.6			-0.6	0.9	0.2	0.0	-0.2	-0.1		-0.1	0.3	
of which : contribution from real GDP growth	-7.0	-12.1	-3.3			-0.5	0.3	-2.0	-0.2	-0.8	-0.8		-0.9	-1.5	
Contribution from real exchange rate depreciation	-6.9	-5.1	-2.0			-3.7	2.3	1.0	1.1	-0.3	-0.1		...	...	
Other identified debt-creating flows	-0.6	-0.3	-0.3			0.0	-0.4	-0.4	-0.3	-0.3	-0.3		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.6	-0.3	-0.3			0.0	-0.4	-0.4	-0.3	-0.3	-0.3		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.3	12.2	6.0			8.1	28.3	-0.1	4.6	7.0	1.7		9.5	1.8	
NPV of public sector debt	22.6	30.9	29.0			24.5	21.7	21.2	22.0	21.4	21.2		20.3	15.3	
o/w foreign-currency denominated	20.6	21.4	21.4			18.0	16.7	17.0	18.3	18.2	18.4		18.9	14.7	
o/w external	20.6	21.4	21.4			18.0	16.7	17.0	18.3	18.2	18.4		18.9	14.7	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need [3/]	15.3	6.6	4.7			2.7	-4.0	10.0	7.3	4.6	6.5		3.1	5.8	
NPV of public sector debt-to-revenue ratio (in percent) [4/]	139.8	212.6	165.0			80.6	44.5	116.1	93.3	92.9	128.8		73.3	71.6	
o/w external	127.7	147.3	121.8			59.4	34.3	93.6	77.6	79.2	111.9		68.2	68.7	
Debt service-to-revenue ratio (in percent) [4/ 5/]	10.8	7.3	7.6			4.2	4.2	10.2	7.1	6.4	7.7		3.3	4.6	
Primary deficit that stabilizes the debt-to-GDP ratio	11.6	5.7	1.1			-3.4	-31.3	1.2	-5.3	-5.3	-0.4		-8.4	0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	14.7	33.6	8.6	12.7	11.5	1.3	-1.2	7.4	0.8	2.7	2.7	2.3	3.2	5.7	4.3
Average nominal interest rate on forex debt (in percent)	1.2	1.1	1.0	1.4	0.4	1.1	1.5	1.5	1.5	1.3	1.3	1.4	1.4	1.2	1.3
Average real interest rate on domestic currency debt (in percent)	4.8	-3.6	-17.2	0.8	0.8	-6.1	12.8	5.9	4.6	-0.2	1.9	3.2	1.5	0.5	1.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-15.0	-14.9	-6.7	-7.6	10.1	-13.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.4	10.3	22.6	8.9	8.5	8.8	-9.4	-3.3	-3.0	2.9	1.5	-0.4	2.0	2.9	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	26.7	-12.5	-1.4	6.9	15.9	40.4	11.3	2.1	4.2	-11.1	-3.4	7.3	5.6	6.2	6.3
Grant element of new external borrowing (in percent)	0.6	0.6	0.6	0.6	0.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

Sources: Country authorities; and Fund staff estimates and projections.

1/ Historical averages and standard deviations derived over the period 2000-2005 due to data availability.

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

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

4/ Revenues including grants.

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

Table 2b. Chad: Sensitivity Analysis for Key Indicators of Public Debt 2006-2026

	Projections							
	2006	2007	2008	2009	2010	2011	**2016**	2026
	.NPV of Debt-to-GDP Ratio							
Baseline	24	22	21	22	21	21	**20**	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	47	45	47	47	44	**49**	27
A2. No change in primary expenditures from 2007	25	24	25	25	26	28	**19**	-25
A3. Permanently lower GDP growth 1/	25	26	27	29	30	30	**44**	72
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	25	23	24	25	24	22	**12**	-16
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	25	29	34	36	35	34	**25**	-7
B3. Combination of B1-B2 using one half standard deviation shocks	25	52	54	56	53	51	**36**	0
B4. One-time 30 percent real depreciation in 2007	25	27	26	26	24	21	**6**	-29
B5. 10 percent of GDP increase in other debt-creating flows in 2007	25	34	33	34	31	30	**16**	-18
	NPV of Debt-to-Revenue Ratio 2/							
Baseline	81	44	116	93	93	129	**73**	72
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	84	98	256	206	213	287	**188**	145
A2. No change in primary expenditures from 2007	84	50	135	107	113	169	**69**	-115
A3. Permanently lower GDP growth 1/	84	54	146	124	129	181	**155**	309
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	84	47	131	105	102	134	**45**	-75
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	84	60	188	152	151	205	**90**	-32
B3. Combination of B1-B2 using one half standard deviation shocks	84	106	299	239	233	317	**131**	0
B4. One-time 30 percent real depreciation in 2007	84	56	142	110	103	129	**21**	-136
B5. 10 percent of GDP increase in other debt-creating flows in 2007	84	69	180	142	137	180	**58**	-84

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

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IMF Concludes 2006 Article IV Consultation with Chad

On December 18, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Chad.[33]

Background

A three-year PRGF arrangement under the Poverty Reduction and Growth Facility (PRGF) was approved for Chad in February 2005 in an amount equivalent to SDR 25.2 million (45 percent of quota). Chad reached its decision point under the Enhanced Heavily Indebted Poor Country (HIPC) Initiative in May 2001. Attainment of the completion point has been delayed, mainly because of unsatisfactory fiscal performance. Reflecting expenditure overruns and uncertainty about a final agreement with the World Bank on oil revenue management, the first and second reviews under the PRGF arrangement have been delayed.

Despite some progress in macroeconomic stabilization and reform under Fund-supported programs during the 1990s, Chad's indicators on business climate, governance, and socio-economic conditions still remain among the lowest in the world. Although the oil sector accounts for almost half of GDP, and has led to high growth rates during 2001–04, the bulk of the population still heavily depends on cotton, livestock, and small-scale agriculture.

In recent years, the resumption of armed conflict in the region has deteriorated the political and security situation. Real growth has slowed following the completion of the oil pipeline and a fall in oil production owing to technical problems. In 2006, real GDP is

[33] 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. This PIN summarizes the views of the Executive Board as expressed during the December 18, 2006 Executive Board discussion based on the staff report.

expected to grow by 1.3 percent, reflecting higher non-oil growth offsetting a somewhat larger fall in oil production than envisaged earlier. Real non-oil growth is expected to rise to about 6 percent by 2007, in part reflecting a higher level of government expenditure, and then to stabilize around 4.5 percent in subsequent years. Inflation increased to an annual average of 8 percent in 2005 owing to a drought in 2004, and, despite a better harvest, remained high in 2006 because of increasing meat prices. Mainly reflecting the appreciation of the euro against the U.S. dollar, the real effective exchange rate appreciated. After stagnating in 2003–04, broad money grew by 32 percent in 2005 owing to a rise in credit to the cotton sector, but monetary expansion slowed down to about 28 percent by late 2006. The financial health of the banking system appears broadly satisfactory, although vulnerable because of its overexposure to government deposits.

On the fiscal front, the start of oil revenue supported higher domestic spending during 2004–05, partly offsetting a sharp shortfall in budget donor support as reform momentum slowed and performance under the PRGF weakened. Despite the net rise in resources, domestic debt and arrears continued to accumulate, reflecting poor budget discipline and weak public finance management. Fiscal management was also complicated by the segmentation of the budget and cash management.

Budget execution in 2006 has been affected by a number of factors. In January, the authorities' unilateral modification of the Petroleum Revenue Management Law agreed with the World Bank resulted in contractual remedies by the Bank, including the blocking of the offshore oil revenue escrow account. The loss of revenue was partly offset by the start of income tax payments by the oil companies in March 2006. The dispute with the Bank was settled in July and, in October, the settlement of an income tax dispute with two of the three companies in the consortium producing Chad's oil resulted in additional revenue equivalent to 8 percent of non-oil GDP. This allowed a further expansion in most categories of expenditure—including on exceptional security expenditure following heavy fighting with rebels—raising the non-oil primary deficit to 16.6 percent of GDP in 2006.

Reflecting high oil prices, and the agreements to restore normal relations with the Bank, Chad's fiscal outlook has improved substantially. Under the agreements the authorities have prepared a draft budget for 2007 that allocates at least 70 percent of all budgetary resources to priority sectors (excluding security). The budget is formulated in the context of a medium-term expenditure framework, aimed at maintaining macroeconomic stability and fiscal sustainability. In support of this, the authorities formulated an action plan to strengthen public financial management, that is supported by donors. Long-term oil revenue management policies would be discussed in the context of an update of the PRSP during 2007.

Executive Board Assessment

Executive Directors noted Chad's efforts in maintaining macroeconomic stability and in channeling resources to priority sectors despite a difficult political and security environment. Nonetheless, poverty remains widespread, and the economy continues to face major impediments to growth, including inadequate infrastructure, a poor business climate, limited public financial management capacity, weak governance, and the resurgence of armed conflict in the region. In addition, political instability and capacity constraints have contributed to delays in support from donors.

Against this background, Directors urged the authorities to seize the unique—but likely short-lived—opportunity created by the oil revenue windfall to move decisively to establish the foundations for more sustained growth and lasting poverty reduction. They recognized that the authorities face daunting challenges in ensuring the efficient management of revenues while safeguarding macroeconomic stability and medium-term fiscal sustainability. Directors accordingly welcomed the authorities' intention to establish a mechanism to save future excess oil revenues, urging them to ensure that it is fully operational by the end of March 2007, when substantial oil revenue is to be received. They underlined that political stability will be essential to allow the oil wealth to be channeled to the priority sectors. Directors also stressed the crucial importance of actions to strengthen budgetary management, improve the quality and transparency of expenditures, and enhance absorptive capacity. Equally, noting the transitory nature of the oil revenues, Directors called for accelerated efforts to develop the non-oil sector.

Directors considered the 2007 budget and the medium-term fiscal framework broadly supportive of macroeconomic stability, but noted that the fiscal outlook is subject to risks arising from the frontloading of public spending and the unsettled security environment. They encouraged the authorities to remain vigilant to ensure that spending does not exceed absorptive capacity, and to impose tight controls on new medium-term investment projects to ensure fiscal sustainability. Accordingly, a considerable part of the 2007 oil revenue will need to be saved for use in subsequent years.

Directors underlined the importance of strengthening public financial management, including the steadfast enforcement of laws and regulations, in order to avoid a recurrence of unplanned spending and to raise the quality of public investment. The authorities' action plan in this area should be rapidly implemented, for which Directors urged donors to provide strong support.

Directors noted that the debt situation has improved but Chad still faces a high risk of debt distress. To strengthen the debt outlook, it will be important for Chad to aim to attain the HIPC completion point as soon as possible while maintaining macroeconomic discipline.

Directors welcomed the authorities' plan to complete a comprehensive update of the PRSP during 2007. A key element in the PRSP should be a new Petroleum Revenue Management Program (PRMP) that incorporates the revised revenue outlook, and includes provisions for monitoring an effective execution of expenditures and for promoting best practices in public financial management.

Directors considered that implementation of ambitious structural reforms will be crucial for diversifying the economy. Chad's temporary oil windfall should be used to promote the development of the non-oil sector so that it can support the continuation of the poverty reduction strategy when oil runs out. In the public sector, such efforts should include strengthening non-oil revenue as well as pursuing civil service, military, and public enterprise reform. In close cooperation with the World Bank and other partners, the authorities should quickly implement the needed reforms in the electricity and the cotton parastatals, with a view to eliminating budgetary subsidies. It will also be important to carry forward the reforms in the trade system recommended by the recent Diagnostic Trade Integration Study.

To improve the business climate and Chad's external standing, Directors called for strengthening the judiciary and anticorruption efforts. They also welcomed the authorities' intention to strengthen Chad's financial sector, in line with the recommendations of the recent regional FSAP and in cooperation with the Banking Commission of Central Africa.

Directors noted that Chad's membership in the Economic and Monetary Community of Central Africa and its fixed exchange rate regime have provided an important nominal anchor for macroeconomic policies. However, the oil windfall could lead to some real appreciation of the exchange rate. While noting that the rebound in inflation in 2006 was concentrated in food prices, Directors encouraged the authorities to monitor price developments closely and improve statistical information on prices and wages.

Directors encouraged the authorities to upgrade macroeconomic statistics and follow up on the recommendations of the recent data ROSC.

Chad: Selected Economic Indicators

	2003	2004	2005	2006 1/	2007 1/
	(Annual percentages changes)				
Economic activity and prices					
Real GDP	14.7	31.3	8.6	1.3	-1.2
Oil GDP	253.9	292.7	2.1	-7.7	-20.1
Non-oil GDP	6.0	-0.5	11.6	5.1	5.9
Consumer Prices	-1.8	-5.4	7.9	8.8	4.0
	(Annual percentage change, unless otherwise specified)				
External economy					
Exports, f.o.b.	171.8	225.9	43.5	18.7	-10.2
Imports, f.o.b.	-59.1	2.0	-11.4	2.6	0.6
Terms of Trade	60.0	2.7	29.6	28.8	-17.7
Current account deficit (percent of GDP) 2/	-50.1	-7.9	-0.9	0.6	0.2
Change in real effective exchange rate (percent) 3/	2.8	-4.2	6.2	...	...
	(Percent of GDP, unless otherwise indicated)				
Financial variables					
Gross national savings	5.0	19.5	21.3	23.4	23.5
Gross domestic investment	52.4	24.3	20.2	21.5	21.1
Overall fiscal balance, excluding grants (commitment basis)	-16.4	-10.1	-7.0	-3.6	8.5
Non-oil primary balance (in percent of non-oil GDP)	-3.2	-3.9	-6.0	-16.6	-14.5
Change in broad money (percent)	-3.1	3.3	31.7	...	...
Interest rate (percent) 4/	6.0	6.0	5.5	5.5	5.5
Total external public debt	50.2	35.0	27.0	20.5	24.1

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

1/ Staff projections.
2/ Excluding official transfers.
3/ (+) = appreciation.
4/ Bank of Central African States (BEAC) discount rate (end of period)

Statement by Laurean W. Rutayisire, Executive Director for Chad
December 18, 2006

I. Introduction and Background

On behalf of my Chadian authorities, I would like to thank the staff for the frank and constructive discussions held in N'Djamena, as well as for the well-written set of reports on Chad. The reports provide a candid assessment of the country's economic situation and the challenges ahead. My Chadian authorities are fully committed to pursuing sound economic and financial policies and to implementing structural reforms aimed at strengthening the country's economy, improving growth and reducing poverty in a sustained manner. Notably, my authorities would like to assure that the coming oil wealth contributes effectively to reducing poverty. They are hopeful that they can count on the continued support of the international community, both at the financial and technical levels, to carry out successfully the needed reforms.

Chad is a vast, landlocked country, with large arid and semi-arid zones, which has faced extremely difficult conditions since its independence in 1960, including repetitive periods of domestic armed conflict. The combined effects of poverty-related problems and frequent droughts have contributed to make this country one of the most impoverished countries in the world. As shown in the United Nations' 2005 Human Development Index, Chad ranks 173 among the 177 countries considered.

After experiencing a period of relative political stability in the 1990s, Chad's security situation deteriorated in the last two years, with spillover effects from the neighboring Darfur (Sudan) Crisis which has caused displacement of thousands of refugees into the Chadian territory. More recent attacks from across the Sudanese border occurred in late 2005 and in early 2006, then escalated in August, leading the government of Chad to declare a State of Emergency and the UN to declare security phase IV for Eastern Chad and Phase III for N'Djamena. It is also worth noting that the Darfur situation continues to have humanitarian consequences and budgetary implications for Chad. During this difficult period, support from some development partners has been critical to helping contain the conflict and its humanitarian and economic implications, and avoid that it becomes more regional in scope. Chad has held successfully Presidential elections in May 2006. Subsequently, efforts to engage the opposition in forming a government of national unity have been made though unsuccessfully.

The petroleum era has created high expectations amongst the population for a rapid economic development and for provision of adequate social services. Driven by the oil pipeline construction from 2001 and the initiation of oil production in 2003, real GDP growth averaged 11 percent in 2001-03 and reached a record level of 30 percent in 2004. Despite this recent period of rapid growth, my authorities are fully aware that the petroleum era may be short-lived based on current proven reserves, and the contribution of oil revenue to the government budget is expected to remain relatively small.

The decision of the authorities to amend the Petroleum Revenue Management Law early this year was not an expression on their part to oppose to the principle of transparency which they had proven to be committed to, nor was it a rejection of the principle agreed-upon with the Word Bank to make use of oil resources mainly for priority spending. They have clearly explained the need to adjust the mechanism that governs the management of these resources - notably with the elimination of the Fund for Future Generations (FFG)– on the grounds of required high long-term investment yields to meet Chad's daunting economic and social infrastructure needs. Moreover, faced with issues out of their control, notably the recent deterioration of the security situation, they sought merit to have the list of priority sectors to be expanded to include security-related areas identified in the 2003 PRSP. These actions not only led to the World Bank's decision to suspend its operations with Chad and to the freezing of the Chadian government's oil escrow account, but also contributed to delaying the execution of the 2006 budget. With agreements reached in April and July 2006 between the government and the World Bank, my authorities are committed to using the oil resources wisely and to strengthening the public financial management.

Despite the progress made by Chad in many economic areas under Fund-supported programs, the country still has to address considerable challenges to achieving sustainable and lasting poverty reduction. Among them is the need to consolidate security, enhance budget and cash management, increase access to financial services, and cope with exogenous shocks such as droughts and low international prices of agricultural products. Infrastructure remains deficient in many areas, including social sectors, transportation, energy and telecommunications, leading to difficulties in sustaining appropriate policy and structural reform implementation.

My authorities are cognizant of the fact that Chad's economic and financial situation remains fragile and vulnerable to external shocks. They also recognize the importance of following prudent macroeconomic policies and implementing structural reforms that can help improve the absorptive capacity of the economy. To address the numerous problems facing the country, assistance from the international community remains critical. Such renewed support will help the country achieve highly needed sustained growth required to meet the MDGs.

II. Economic Developments in 2006

In the real sector, economic developments in 2006 have been largely driven by buoyant non-oil sector activity, which is growing at an annual pace of 5.1%, while oil production declined from 63.3 in 2005 to 55.4 million of barrels in 2006 because much more water was found in the wells than expected. The oil production decline was more than offset by broad-based non-oil sector activity reflecting the recovery of grain production following the previous year drought, and strong activity in manufacturing and transportation. While real GDP has grown by 1.3% percent, the 12-month point-to-point CPI in October 2006 stood at 15 percent, resulting from an increase in meat and other food products. For a few food categories and charcoal, security concerns and related supply disruptions appeared to have played a role in the increase of inflation.

Regarding the fiscal area, Chad has registered a revenue shortfall arising from the freezing of oil escrow account, which was initially offset by the repatriation of resources in the FGF, revenue from exploration licenses, and initial income tax payments by the oil companies. The release of oil revenue from the World Bank-controlled escrow account later this year, coupled with income tax revenue from the settlement of a dispute with two foreign oil companies has improved the government's cash position. Since then, public sector wages were paid on time and the implementation of oil-financed projects has resumed. The non-oil primary deficit implied in the supplementary 2006 budget mainly reflects additional expenditures warranted by the new exceptional security situation, as well as increases in capital spending. Nevertheless, my authorities remain committed to improving the execution of prioritized expenditures.

On the financial sector front, Chad's financial system is among the least developed in the region. However, the microfinance sector, though still small, has been gaining importance in recent years. The emergence of microfinance contributed to the improvement in the population's access to financial services. The authorities attach a great importance to its development and consider it as a key tool for the implementation of their poverty reduction strategy. In compliance with the CEMAC regulations, which are now being applied to microfinance institutions, my Chadian authorities have set up a professional association for these institutions as well as a department for microfinance issues within the Ministry of Finance. The related licenses issued by this department are being verified and validated by the regional banking commission, COBAC.

Concerning petroleum management, the economic and security situation has prompted my authorities to revise the mechanism initially established regarding the allocation of oil resources. They are committed to put in place an oil-revenue stabilization mechanism which is consistent with the medium-term expenditure needs of the country. For the reasons laid out above, these expenditures are frontloaded. The mechanism would be lodged at the BEAC and would include an oil account that is fully integrated to the budget process. The College that oversees the management of oil resources will pursue its tasks. The arrangement could be reviewed and simplified following discussions on a new oil revenue management program, including a revised role of the College.

As regards structural reforms, while progress in alleviating growth constraints — especially in the electricity and cotton sectors— has been modest, access to education, health, water, and agricultural inputs has improved, and the length of paved roads increased from 600 km to 900 km during 2004-05. The modest progress in growth-enhancing structural reforms is due to the fact that the country has to address the security problem as a matter of greater priority. Indeed, my authorities are of the view that an improved security situation is essential to allow oil wealth to be channeled to growth-supporting and priority sectors.

The cotton sector, an important non-oil segment of the Chadian economy, continues to experience difficulties. The financial situation of the publicly-owned cotton company, CotonTchad, has continued to deteriorate further, owing to the decline in world prices, the weakening of the US dollar, the increase in producer prices decided to support this vulnerable segment of the population, and decreased financial support to the company on the part of the state, which itself lacks resources.

My authorities recognize that, despite achievements, much remains to be done, especially on the structural front, to improve non-oil sector growth prospects and significantly reduce poverty. They are appreciative of the technical assistance received from the Fund, and they expect to benefit from additional support, especially in public financial management, customs and other areas, to ensure adequate management of the expected oil and non-oil resources.

III. The Medium-Term Macroeconomic Framework

Building on the progress achieved thus far, my authorities are determined to cope with the many challenges ahead, including those related to the petroleum era. In so doing, they are hopeful that the international community will be supportive of their efforts.

Regarding the outlook for 2007, based on prudent oil price projections and expectations of gradual decline in oil production, my authorities reached an agreement with the World Bank on three pillars, namely a medium-term framework, a public finance management, and an oil revenue stabilization mechanism. My authorities agreed with the Fund on the broad principles of the approach to promote long-term fiscal sustainability, which allows time to raise the currently low non-oil revenues, improve public financial management, and ensure that spending is in line with absorptive capacity.

To this end, the 2007 budget was formulated in line with the medium-term framework. The initial budget for 2007 entailed higher spending, but the authorities agreed on the need to plan expenditures in line with the agreed principles. They also agree that the absorptive capacity and the maintenance of macroeconomic stability are key to the successful execution of the 2007 budget. Thus, they will pursue efforts to contain current spending, notably the wage bill. My authorities have also expressed the desire to improve the composition of expenditures, effectively continuing to give more weight to the priority sectors, with the view to reduce poverty.

With regard to the macroeconomic objectives set over the medium-term, real non-oil growth is estimated to be robust over the medium term, reflecting in part the higher level of government expenditure. Inflation is expected to decline in line with the CEMAC target by end-2007. Government savings, driven by the oil windfall, would substantially increase in 2007, then decrease in subsequent years due to the decline in oil revenues. Government investment is also expected to increase over the medium-term, in line with the medium-term expenditure framework. The latter will be fully financed through 2009, assuming the projected aid inflows to remain important. As savings from the exceptional oil revenue in 2007 is anticipated to be gradually used up and additional oil revenues above the present estimates to be saved, the authorities intend to implement policies aimed at strengthening non-oil revenue.

IV. Conclusion

As the joint Bank-Fund DSA shows, Chad’s debt situation remains unsustainable. The baseline scenario, although seemingly sustainable, entails significant risks well highlighted in the exercise. Therefore, skillful debt management on the part of my authorities is necessary. The authorities expect to repay some domestic debt as well as the 2005 exceptional advances from the BEAC, which are interest-costly. However, support from the international community in the form of debt relief will remain critical. In this regard, my authorities look forward to the Board support of their efforts, so as to enable the resumption of the PRGF program as soon as possible and, hence, lay the ground for efforts towards the HIPC completion point and qualification to the MDRI.