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CHAD

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2013 ARTICLE IV CONSULTATION AND ASSESSMENT OF PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM—STAFF REPORT; PRESS RELEASE; 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 2013 Article IV Consultation and Assessment of Performance Under the Staff-Monitored program, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 21, 2014, following discussions that ended on December 19, 2013, with the officials of Chad on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 7, 2014
- A **Debt Sustainability Analysis** prepared by the Staff of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF.
- **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its February 21, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director and Alternate Executive Director** for Chad.

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

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CHAD

February 7, 2014

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND ASSESSMENT OF PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM

KEY ISSUES

Context: Chad is a fragile country with weak institutional and policy capacity, facing a trend decline in oil revenues (barring new oil discoveries), and vulnerable to oil price and regional security shocks. The country is enjoying its longest period of domestic political stability since independence and has become a beacon of stability in a very volatile region, actively contributing to international efforts to restore order in Mali and the C.A.R.. Macroeconomic policy over the last few years has achieved a gradual tightening of the underlying fiscal policy stance, despite a sizable increase in public investment. A Staff-Monitored Program (SMP) was approved in July, with the aim of sustaining recent improvements in macroeconomic outcomes and supporting the implementation of fiscal structural reforms.

Focus: Discussions focused on two key challenges: (i) ensuring fiscal and debt sustainability while implementing development plans; and (ii) how to diversify the economy and make growth more inclusive.

Outlook and risks: The economic outlook is relatively positive driven by a projected temporary uptick in oil production, with a high risk of debt distress. The main sources of risk to the outlook stem from the volatility of fiscal oil revenue and the difficult regional security situation. Negative oil price and production shocks would force downward adjustments to public investment plans and reduce the availability of foreign exchange. Regional security instability could require continued elevated levels of security spending as well as damaging investor confidence.

Recommendations: Fiscal policy should remain anchored on a sustained reduction of the non-oil primary deficit, supported by public financial management reforms (to enhance fiscal control and the quality of spending) and sizable increases in non-oil revenue collection to offset the projected exhaustion of oil revenue (through enhancements in both tax policy design and revenue and customs administrations). A more diversified and competitive economy over the medium- and long-terms will require increased efforts to improve the business environment for the private sector, promote agricultural activities, and expand access to basic and financial services.

Approved By
David Robinson and Mark Flanagan

Discussions took place in N'Djamena during December 9-19, 2013. The staff team comprised Messrs. Villafuerte (head), Nachega and Kwalingana (all AFR), Ms. Zhang (AFR), and Mr. Ghilardi (RES). Mr. Yambaye (Alternate Executive Director) and Mr. N'Sonde (Senior Advisor to the Executive Director) participated in some of the discussions. Mr. Topeur (local economist at the IMF office in N'Djamena) provided assistance to the mission. The team met with Mr. Kalzeube Payimi Deubet (Prime Minister); Mr. Haroun Kabadi (President of the National Assembly); Mr. Bedoumra Kordje (Minister of Finance and Budget); Ms. Mariam Mahamat Nour (Minister of Economy, Planning and International Cooperation); Mr. Djerassem Bemadjiel (Minister of Energy and Petroleum); Mr. Adoum Younousmi (Minister of Infrastructure and Transport); Mr. Allamine Bourma Treye (National Director of the Bank of Central African States (BEAC) for Chad); senior public administration officials; development partners; and the private sector.

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INTRODUCTION

1. **Per capita income has more than doubled since the start of oil production in 2002/03, but Chad has achieved limited progress in overall poverty reduction and in improving access to public services** (Table 8). Chad is a fragile country with weak institutional and policy capacity, faces a trend decline in oil revenues, and is vulnerable to oil price and regional security shocks. Chad was ranked 184th out of 186 countries on the UN's 2013 Human Development Index. The slow progress in human development indicators despite a decade of significant oil revenues has been due to several factors, in particular the domestic armed conflicts that plagued Chad up to 2009, a pro-cyclical fiscal policy that transmitted the volatility of oil revenue to government expenditures, poor governance, and unproductive/inefficient spending—despite substantial public investment, infrastructure quality remains among the lowest in the region. In addition, relations with the international community have been strained until very recently and Chad has failed to achieve the HIPC Completion Point despite reaching the Decision Point back in 2001.

2. **Chad has become a beacon of stability in a very volatile region**. The country continues to enjoy its longest period of domestic political stability since independence. Regional elections are scheduled to take place by 2015 and legislative and presidential elections by 2016. In the context of a relatively calm domestic political situation, Chad has had to mobilize resources in response to security tensions in neighboring countries. Chad actively contributed to international efforts to restore order in Mali and has had to step up security along the borders with most of its neighboring countries (i.e., Sudan, Libya, Niger, Nigeria, and the C.A.R.). The intervention in Mali resulted in additional budgetary outlays in the first half of 2013, but the UN has now taken over the financing of international security operations in that country. The Chadian authorities have made a request to the international community to cover the cost of replenishing military equipment deployed in Mali (estimated at CFAF 160 billion or 3.3 percent of non-oil GDP). Chad faces recurrent spending pressures from border security and assistance to refugees from Niger, Nigeria, Sudan, and, in particular, from the C.A.R., from where many Chadian citizens have had to be repatriated.

3. **A Staff-Monitored Program (SMP) was approved by Fund management in July, 2013**[1]. The SMP aims at sustaining recent improvements in macroeconomic outcomes by advancing public financial management (PFM) reforms and supporting the implementation of Chad's new Poverty Reduction Strategy. In that context, the authorities cancelled the US$2 billion non concessional Master Facility Agreement (MFA) with Eximbank China that was negatively affecting debt sustainability prospects as discussed in the 2012 Article IV Consultation report (Box 1). The SMP envisages a further reduction in the non-oil primary deficit (NOPD) and implementation of key PFM

[1] In EBS/13/103 the SMP was characterized as covering the period April to December 2013, reflecting the period during which the authorities' program described in their letter to the Managing Director was to be implemented. However, consistent with Fund practice, the track record of monitoring should begin no earlier than the point when substantive policy discussions were first held with the authorities (in this case, at the beginning of June, 2013).

reforms to improve fiscal control and debt and treasury management. Implementation of the SMP has been supported by stepped up technical assistance by the Fund.

RECENT ECONOMIC DEVELOPMENTS

4. **Macroeconomic performance continued to be stable in 2013, with some deceleration in economic growth and inflation (Figure 1).** Real GDP is projected to have grown by 3.6 percent in 2013, down from 8.9 percent in 2012. Non-oil GDP growth is forecast to have fallen from 11.6 percent in 2012 to 5 percent in 2013, mainly reflecting a return to trend agricultural production levels after the bumper harvest that took place in 2012. By contrast, oil GDP would likely contract by 4 percent in 2013 on account of a sharper than expected decline in oil production from the mature fields operated by the Esso-led consortium. Inflation fell sharply in 2013, with the annual average rate hovering around 0.4 percent toward the end of the year, compared with 7.7 percent in 2012. Such deceleration resulted mainly from a sizable fall in food prices following the high levels of agricultural production in 2012 and took place despite the fact that some prices (i.e., cement and fuel products) were liberalized and/or increased to cost recovery levels.

5. **Fiscal policy has been gradually tightened over the last few years.** The non-oil primary deficit (NOPD)[2] fell by 1 percent of non-oil GDP over 2011-12 and the 2013 budget was anchored on a further 1 percent of non-oil GDP reduction in the NOPD to 18.2 percent of non-oil GDP based on a significant increase in non-oil revenue and a lower level of security-related spending. The revised 2013 budget approved in July maintained the original NOPD target despite the addition of unexpected additional security spending in the order of 0.6 percent of non-oil GDP (linked to Chad's participation in Mali's international military campaign, provision of humanitarian assistance to refugees coming from the C.A.R., and enhanced security in the borders)[3] and a downward revision in oil and non-oil revenue projections (of about 2¼ percent and 1 percent of non-oil GDP, respectively). The resulting financing needs (of close to 7 percent of non-oil GDP) were to be accommodated through large placements of debt in regional markets, withdrawal of Treasury deposits, and a moderate cut in primary expenditure (1.4 percent of non-oil GDP).

6. **While the authorities were on track to achieve the NOPD target, a larger than expected fall in oil revenue will likely lead to a sizable overall fiscal deficit in 2013**. The NOPD over the first nine months of 2013 was 13.6 percent of annual non-oil GDP, in line with the budget annual target. Oil revenues are expected to be about CFAF 120 billion (2.4 percent of non-oil GDP) below budget target, implying an overall fiscal deficit of about 6 percent of non-oil GDP (compared to a surplus of 1.7 percent of non-oil GDP in 2012). The shortfall in oil revenues is due to a variety of

[2] Policy discussions and implementation of fiscal policy in Chad are anchored on the NOPD (as a better representation of the underlying fiscal policy stance) and a limit to the debt-to-GDP ratio (to control external financing). The NOPD concept used in Chad corresponds to the non-oil basic fiscal balance (i.e., excluding oil revenue, grants, and foreign financed investment).

[3] That amount does not include the cost of replenishing military equipment deployed in Mali (see ¶2).

factors, most of them temporary: (i) setbacks to the gas-powered electricity generation system forced the Esso-led consortium to lower its production levels and to run higher production costs by relying on diesel and fuel oil; (ii) delays in the start of production of new fields and associated technical issues linked to the operation of the pipeline; and (iii) a decision to receive royalties due from CNPC in the form of diesel for electricity generation. In that context, and exacerbated by uncertainty regarding the timing of placement of bonds in regional markets, the government signed oil sales' advance agreements with a commercial partner (Glencore Energy) for a total of US$600 million (4.5 percent of GDP) on nonconcessional terms and to be repaid against crude oil shipments over the next two years[4]. These oil advances were the primary factor behind increases in total and external public debt to 30.2 percent and 23.2 percent of GDP, respectively.

7. **The 2014 budget envisages a further reduction in the NOPD, but faces significant financing needs**. The 2014 budget was adopted by the National Assembly in late December and promulgated by the Head of State in early January. In line with the SMP, the 2014 budget targets an NOPD of 16.1 percent of non-oil GDP (down from the 18.1 percent of non-oil GDP targeted for 2013) to be achieved through non-oil revenue mobilization (0.4 percent of non-oil GDP) and a rationalization of domestic investment (1 percent of non-oil GDP) and transfers (0.7 percent of non-oil GDP). Including the scheduled servicing of the oil advances (of about 2.4 percent of non oil GDP)—not reflected in the original budget—increases financing needs to about 4.9 percent of non-oil GDP (CFAF 260 billion).

8. **Recently revised balance of payments data show that Chad has been running much larger external current account deficits**. The external current account deficit averaged 8 percent of GDP between 2009 and 2012 and is projected to have deteriorated further to 8.8 percent of GDP in 2013 on account of the drop in oil exports. These current account deficits have been largely financed by foreign direct investment, and in some years partially financed by capital transfers. The overall balance of payments recorded a deficit in 2013, the first time since 2009, bringing the international reserve coverage ratio to 1.7 months of imports of goods and services (compared to 2.4 months in 2012).

9. **Broad money and bank credit to the economy continue to grow at healthy rates**. On average, broad money increased at an annualized rate of 10 percent over the first nine months of the year, while credit to the economy recorded a 29 percent annualized growth rate over the same period. Broad money is projected to grow by 8 percent in 2013 and credit to the economy by about 20 percent. Financial intermediation levels have been improving over time but remain quite low (at end of September 2013, the ratios of broad money and credit to the economy (comprising mostly government contractors and government employees) to non-oil GDP were just about 17 percent and 10 percent, respectively compared to 14 percent and 6 percent at beginning of 2012). Financial soundness indicators have continued to improve following the recapitalization of state-owned banks

[4] The balance of the oil sales advance at the end of 2013 was about US$470 million. The oil revenue shortfall was about US$240 million and the financing shortfall from delays in domestic borrowing was about US$180 million.

in 2011: the capital to risk-weighted assets ratio increased from 6.7 percent in 2010 to 18.1 percent in 2012; while nonperforming loans dropped, liquidity increased, and profitability indicators improved (particularly for the larger banks) slightly (Table 7).

Box 1. Chad: The Implementation of the 2012 Article IV Recommendations

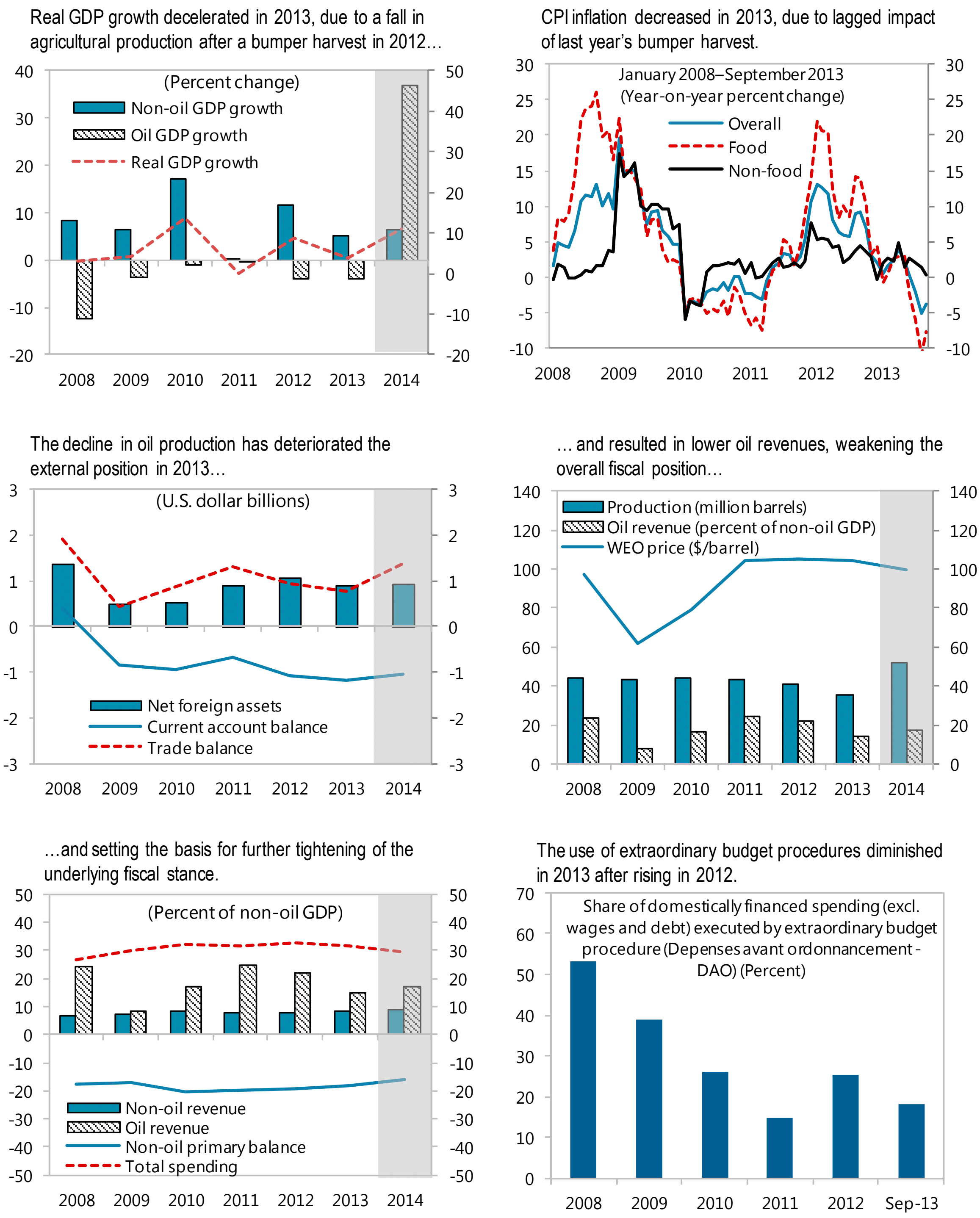
Fiscal policy and sustainability: Staff called for a gradual tightening of the NOPD over the medium-term allowing the build-up of precautionary buffers in the face of volatile and uncertain oil revenue. Staff also encouraged seeking to resolve the incompatibility between the MFA and debt sustainability objectives. The 2012 fiscal outcome, the 2013 revised budget, and the 2014 budget (as reflected in the design of the SMP) are in line with a steady reduction of the NOPD. The authorities decided to cancel the US$2 billion non concessional MFA with Eximbank China. However, US$600 million in oil sales' advances were contracted on commercial terms in 2013, keeping debt distress risks high.

Public financial management (PFM): Staff emphasized the need to uphold the central role of the budget and avoid budget overruns, including by restricting the use of emergency spending procedures (DAO), introducing a treasury cash flow plan, observing the public procurement code, and strengthening institutional capacity. These issues were incorporated in the design of the SMP. The PFM reform agenda, which has incorporated some specific recommendations from a recent technical assistance mission from the Fund's Fiscal Affairs Department, has advanced. While the use of DAOs has shown some ups and downs, the authorities are introducing measures to both limit DAOs and systematically regularize them within the budget process. The establishment of monthly cash management plans is underway but delayed partly due to difficulties in integrating procurement plans. A sizable share of contracts continues to be awarded without competitive bidding.

Business climate: Staff advised the authorities to work closely with the business community to further the agenda outlined in the White Book of the National Council of Employers of Chad (CNPT). In terms of public enterprises, it was recommended to reduce government transfers and to increase their freedom in price-setting. Limited progress has been made in implementing the White Book apart from more regular meetings between tax authorities and the private sector to discuss issues of common interest. On pricing, it is worth noting the liberalization of cement prices and the setting of fuel prices at cost recovery levels.

Strengthening financial sector stability and development: Greater credit exposure to private companies should be encouraged, while banks should continue to hold capital buffers in excess of the required minimum 8 percent. Strengthening of the centralized credit registry would help contain credit risk and the implementation of the anti-money laundering framework would help strengthen governance. No significant progress has been made in these areas, but financial system indicators have improved.

Figure 1. Chad: Recent Economic Developments, 2008–2014[1]



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

MEDIUM-TERM OUTLOOK AND RISKS

10. The medium-term economic outlook is driven by expected swings in oil production and associated fiscal revenue. Real GDP is projected to grow at around 9 percent per year over 2014–15 as new oil-related projects come fully on-stream. To that effect, connectivity of new fields to the Chad-Cameroon pipeline is proceeding smoothly and a revised pipeline tariff schedule has been agreed that provides for reduced transport fees. Oil GDP is projected to peak in 2016 and fall steadily thereafter absent new oil discoveries. The Esso-led consortium is focusing its investment plan in smoothing the fall in production, while an expansion in exploration activities by new operators will hinge on the availability of financial resources, the stability of the fiscal regime, and the feasibility of extending the pipeline's coverage. Non-oil GDP is projected to grow by around 5 percent per year over the medium term, consistent with the average growth in recent years and driven by agriculture, commerce, and transportation. Agricultural production is projected to benefit from mechanization investments introduced as part of food security programs and the recent restructuring of Cotontchad, which is expected to lead to a sustained increase in cotton production over the medium-term.

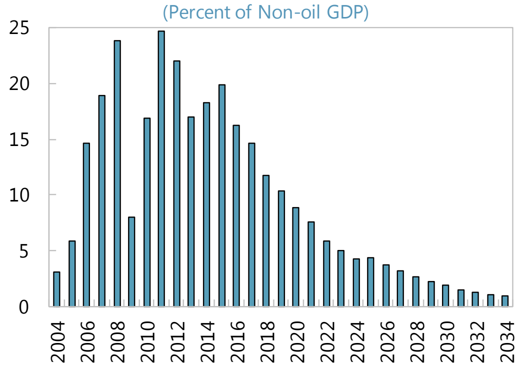
Text Table. Chad: Medium-Term Projections

	2013	2014	2015	2016	2017	2018
Real GDP growth (percent per year)	3.6	10.8	7.3	4.7	3.6	3.3
Oil	-4.0	37.0	17.6	3.2	-3.1	-5.3
Non-oil	5.0	6.5	5.1	5.1	5.1	5.2
Consumer price inflation (percent per year)	0.4	3.8	3.0	3.0	3.0	3.0
External current account balance (percent of GDP)	-8.8	-6.5	-6.8	-6.0	-6.5	-6.2
	(In percent of non-oil GDP)					
Government revenue and grants	25.6	28.7	30.4	28.3	26.6	24.5
Of which : oil revenue	14.6	17.2	18.7	16.1	14.0	11.5
Of which : grants	2.5	2.7	2.6	2.6	2.6	2.6
Government expenditure (commitment basis)	31.5	29.5	30.0	29.4	28.3	28.3
Overall fiscal balance (incl. grants; cash basis)	-6.0	-1.9	0.6	-1.0	-1.7	-3.7
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-18.2	-16.1	-15.0	-14.0	-12.5	-12.0
Memorandum items:						
Chadian crude oil price (US$/barrel)	103.4	98.2	93.5	87.8	84.9	82.3

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

Chad: Oil revenues, 2004 - 2034

(Percent of Non-oil GDP)



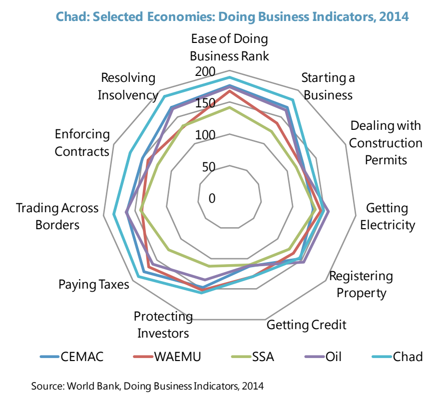
Source: Chadian Authorities, IMF

11. The main sources of risk to the outlook stem from the volatility of fiscal oil revenue and the difficult regional security situation (see Risk Assessment Matrix, Table 9). The high dependence of the economy on oil —accounting for more than 70 percent of fiscal revenues, 90 percent of total exports of goods, and 30 percent of nominal GDP—makes the outlook highly vulnerable to negative oil price and production shocks that would force downward adjustments to public investment plans and reduce the availability of foreign exchange. In addition, regional security instability could require continued elevated levels of security spending as well as damaging investor confidence, leading to reduced public and private investments and constraining the government's ability to address other pressing social needs.

12. Chad faces external stability challenges. Foreign exchange flows hinge critically on oil exports, while FDI flows have been closely linked to oil sector activities and donor support has been relatively stable but low, in part reflecting concerns about PFM. External debt sustainability prospects improved following the decision to cancel the MFA with Eximbank China, but has been negatively affected by the contracting of oil sales' advances. Reserve coverage remains low, representing about 1.7 months of imports of goods and services at the end of 2013. An analysis of external competitiveness suggests some over-valuation (Box 2). Standard empirical metrics suggest that Chad's non-oil real effective exchange rate (REER) could be over-valued, by about 15-22 percent, higher than the REER over-valuation estimated for the CEMAC as a whole (SM/13/322). Given Chad's membership in a currency union, achievement of external sustainability would require a sustained fiscal adjustment and structural competitiveness reforms. The latter are critical given Chad's weak performance in standard indicators of the business climate.

Box 2. Chad: Exchange Rate and External Competitiveness Assessment

Two empirical approaches have been used to assess Chad's external competitiveness: (i) the Bems/Carvalho (2009) approach, which estimates the current account norm on the basis of an adjusted CGER methodology relying on the application of the permanent income hypothesis (PIH) for resource-rich countries, and (ii) the external sustainability approach, which computes the current account balance norm consistent with a long-term trend in net foreign assets accounting for the oil revenue trend. These estimations take into account the recent revision to Chad's historical balance of payment figures, which imply much larger external current account deficits than the ones reported in the 2012 Article IV consultation.



Both approaches suggest significant real exchange rate overvaluations (text table). The Bems/Carvalho constant real annuity approach places Chad's REER at 22 percent deviation from equilibrium, i.e., clearly above the REER deviation in the CEMAC area as a whole (9-13 percent overvaluation, SM/13/322). The external sustainability approach suggests a somewhat lower overvaluation of 15 percent. Both estimated norms disregard the impact of investment expenditure on growth, which accentuates estimated overvaluation if the medium-term current account is heavily influenced by public investment (as is the case in Chad) provided that expenditure is productive.

Chad: Model-based current account equilibrium, 2018

	Bems/Carvalho Constant real annuity	External sustainability
Medium-term CA Norm	3.6	0.3
Underlying current account	-6.2	-6.2
Current account elasticity[1]	0.4	0.4
Overvaluation	22.2	14.8

Source: IMF staff estimates.

[1] Elasticities are based on total exports and imports.

Broader indicators also suggest competitiveness constraints. While non-oil exports have grown robustly, they remain dominated by a narrow range of products (i.e., cotton, livestock). The overall business environment lags most countries in the world and its regional peers in all dimensions (text figure).

13. Discussions under the 2013 Article IV consultation thus focused on how to address Chad's substantial development needs in the presence of resource and capacity constraints and external risks. Chad needs to address capacity bottlenecks, implement fiscal and structural reforms to create space for social priority spending, and enhance public service delivery, while dealing with external imbalances and risks. This will first require prudent oil revenue and debt management. The projected steady reduction in fiscal oil revenue over the medium- and long-terms will have to be offset by significant improvements in non-oil revenue mobilization and in the quality of public financial management. It will also require economic diversification, and more inclusive growth.

IMPLEMENTING DEVELOPMENT PLANS WHILE ENSURING FISCAL AND DEBT SUSTAINABILITY

A. The Long-Term Development Challenge

14. Chad's ability to tackle its developmental needs and poverty reduction objectives is seriously hampered by the projected oil revenue trajectory (¶11). There are two additional key issues: non-oil revenues are low, even relative to other oil exporters in the region; and, Chad's public investment process is quite weak even when compared to other LICs. These two constraints imply that the ambitious public investment plans envisaged in the NDP may not yield significantly better growth outcomes, while posing threats to debt sustainability, and leaving Chad very vulnerable to negative oil revenue shocks. Box 3 and Appendix I look in more detail into the impact of scaled-up investments on growth, pointing to the need to improve Chad's revenue-generation capability (Section C below) and investment effectiveness (Section D) to create greater fiscal space and economic upside.

15. Staff's baseline scenario, predicated on diminishing oil revenue and a gradual improvement in absorptive capacity, foresees the need for gradual fiscal adjustment. A fall in the NOPD to 12 percent of non-oil GDP by 2018 and to 6 percent by 2023 should be consistent with achieving debt sustainability (Section B). It would also allow an accumulation of some fiscal buffers—about 3 percent of non-oil GDP by 2018—to hedge against volatile oil revenue over the medium- and long terms and ensure steady spending (an important issue for effectively tackling poverty). Against this backdrop, an eventual achievement of debt relief under the HIPC initiative would provide additional fiscal space toward higher social spending and poverty reduction objectives.

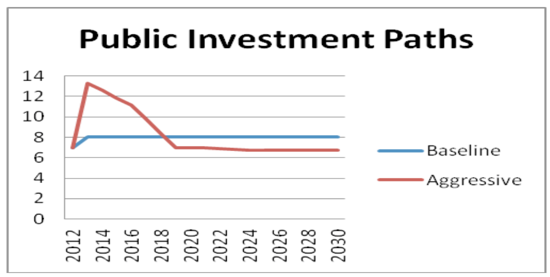
16. At the same time, the authorities must address the 2014 financing gap (¶7). Staff recommended identification of domestic and external concessional financing sources, but additional adjustment—including non-oil revenue measures and a reduced expenditure envelope (particularly on domestic public investment and transfers and subsidies)—may be needed in the event that resources cannot be identified. Any changes would need to be formalized through a revised 2014 budget. It would be important to protect social spending from any cuts (domestically-financed social spending in the budget represents 7.6 percent of non-oil GDP).

Authorities' views

17. The authorities consider staff's oil revenue projections to be overly conservative. They expect more steady oil production levels thanks to existing oil exploration activities in new fields and the potential opening of new exploration rounds after a soon to be conducted geological mapping exercise. In this context, they viewed the recommended fiscal adjustment over the medium and long terms to be too aggressive and felt that they would have additional space for public investment.

Box 3. Chad: Resource Constraints and Long-Term Public Investment Plans

The projected decline of fiscal oil revenues poses challenges in terms of designing sustainable public investment plans that can be properly financed and maximize non-oil growth. To analyze these issues in a holistic way, the DIGNAR (Debt, Investment, Growth and Natural Resources) model developed by the Fund's Research Department was applied. That model explicitly takes into account the impact of scaled-up investment on economic growth—including the indirect impact derived from their financing sources (e.g., the contractionary effects of domestic taxation)—and existing capacity constraints as represented by a relatively low public investment efficiency parameter. Simulations were made around two potential public investment paths: gradual and "aggressive" (or frontloading). Three alternative policy (or financing) scenarios were considered depending on the ability to replace oil revenue with non-oil domestic taxation (in the form of consumption and labor taxes): (i) an unconstrained tax scenario, (ii) a strongly constrained scenario and (iii) a mildly constrained tax scenario. External debt was assumed to be the residual source of financing.



The model and its simulations yielded the following main results:

- Increasing non-oil revenues is critical to ensuring public debt sustainability.
- While a strategy of frontloading investment leads to a faster buildup of capital, absorptive capacity constraints dampen the efficiency of investment. The gradual approach leads to a slower but more efficient creation of capital with reduced threats to debt sustainability.

The model also implies that improvements in public investment efficiency (as measured by the Public Investment Management Index (PIMI)) through PFM reforms and an improved procurement process would increase the growth return of public investment projects and reduce debt burdens.

B. Debt Sustainability and Debt Management

18. The baseline scenario implies that Chad continues to face a high risk of debt distress. Depending on the assumptions regarding the closing of the 2014 budget financing gap, total public debt levels would initially fall to 23-26 percent of GDP by 2018, before rising again and stabilizing at around 33 percent of GDP by the 2030s as the gradual scaling-back of non-priority government social spending and the steady increase in non-oil revenue collections would only partially offset rapidly declining oil revenue. With the exception of the Present Value (PV) of debt-to-exports ratios, other external debt indicators would remain below the DSA prudential thresholds for the projection period. The risk of debt distress would remain high on account of a breach to the DSA prudential threshold (debt to exports) under the baseline scenario. In addition, Chad's external debt burden indicators are highly sensitive to a negative shock to exports (e.g., a two-standard-deviation lower oil price over 2014-15), reflecting the lack of export diversification. However, development of new sources of growth over the long term and achievement of debt relief under the HIPC initiative (see Table 10 for a status report on key reforms and objectives to be achieved before the HIPC completion point) would help improve debt dynamics and reduce associated vulnerabilities.

19. The fragmentation of responsibilities in the approval and signature of debt operations and institutional weaknesses create risks for debt sustainability and fiscal control. The contracting of oil sales advances in 2013 is an additional example of a significant borrowing operation that lacked appropriate institutional coordination and that had not been properly recorded in debt statistics. The lack of a clear mandate in terms of borrowing authority in Chad contradicts CEMAC regulations on public debt management. In this context, the authorities' intention to reactivate and make fully operational the inter-ministerial committee in charge of approving and monitoring debt operations (National Commission for Debt Analysis, CONAD) as well as the technical unit (ETAVID) looking at the sustainability of debt is welcome. It remains critical, however, to centralize debt management operations within the debt unit of the ministry of finance to strictly control the contracting or guaranteeing of new external debt and to strengthen its human resources, institutional stability, and debt data recording and reporting capabilities.

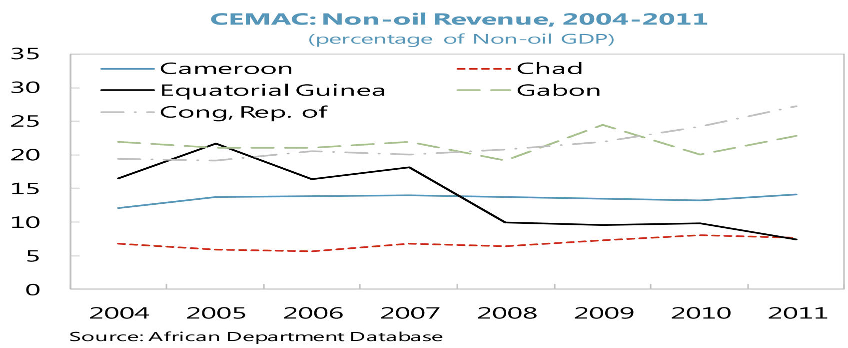
Authorities' views

20. The authorities are committed to maintaining debt sustainability and enhancing debt management. They noted that the decision to cancel the MFA with Eximbank China is a signal of the importance they attach to debt sustainability. At the same time, the authorities stressed that Chad's large development needs require access to external financing sources. In that context, efforts toward reaching the HIPC completion point are critical to obtain debt relief and to catalyze increased financing flows from international partners. The authorities acknowledged the coordination problems that arose from the borrowing operation with Glencore Energy, but noted the extraordinary circumstances (i.e., the temporary shocks to oil revenue, the urgency of meeting exceptional security-related spending, and delays in domestic financing) that forced the contracting of non-concessional borrowing to maintain budgeted spending plans. Regarding debt management, the authorities are committed to reinforce the capacities of CONAD and ETAVID and are working on a public debt management law that, among other things, should clarify the responsibilities for debt analysis, approval, signature, and monitoring. The World Bank will provide technical assistance in this area.

C. Increasing Fiscal Space

21. There is a large non-oil tax collection gap in Chad amounting to as much as 16 percent of non-oil GDP (Box 4 and Appendix II). Staff analysis suggests that, accounting for its economic and social characteristics, Chad had the potential to raise its non-oil tax revenue to as much as 24 percent of non-oil GDP in 2011, compared to actual collections of 7.6 percent of non-oil GDP. The analysis finds that the country's tax effort is only 32 percent, half the level of other CEMAC countries. Chad can improve its non-oil tax effort by undertaking reforms in both policy design and revenue administration, drawing on previous IMF recommendations. Tax policy reforms could focus on broadening the tax base, minimizing discretionary actions in tax policy design, and simplifying the tax structure. Similarly, tax administration reforms could include strengthening the operations of the large taxpayers unit, improving the selection criteria and quality of audits, simplifying and automating customs procedures, and strengthening human and financial resources at the revenue authority.

Box 4. Chad: Estimating Non-Oil Tax Potential and Effort



Chad's non-oil tax revenue collection is lower than the other countries in the CEMAC region. Between 2004 and 2011, non-oil revenue for Chad has been consistently lower than that of its peers, averaging less than 8 percent of non-oil GDP over the period, compared to more than 13 percent in the other oil-producing countries in the CEMAC region. The country also has the lowest efficiency rates in tax revenue collection in the region, as evidenced by very low C-efficiency and low ranking on the World Bank's "ease of Paying Taxes" and CPIA score on "Efficiency of Revenue Mobilization.

The current Chadian tax system is estimated to yield 32 percent of its non-oil revenue potential. By employing a stochastic frontier analysis, we estimate the maximum level of non-oil revenue that a country can collect, given its characteristics. The country's tax effort is then computed as a ratio between the actual revenue and estimated tax capacity. The lower the tax ratio, the further a country is away from the maximum level it can achieve. For Chad, a non-oil tax effort of 32 percent is the lowest in the CEMAC, which has a regional average of 67 percent. Thus, if Chad were to raise its non-oil tax effort to the CEMAC regional average, non-oil revenue would increase by 8.5 percent of non-oil GDP.

CEMAC: Non-oil Tax Effort , 2011

	Total Non-oil Revenue[1]	GDP per capita PPP 2005	Tax Capacity	Tax Effort
Cameroon	12.8	2,251.9	23.2	0.6
Central African Republic	10.8	715.6	14.5	0.7
Chad	7.6	2,313.3	24.0	0.3
Congo, Republic of	27.2	3,884.9	36.0	0.8
Gabon	22.9	17,051.5	36.2	0.6
Unweighted average for CEMAC	**16.3**	**5,243.4**	**26.8**	**0.6**
CEMAC average excluding Chad	**18.4**	**5,976.0**	**27.5**	**0.7**

Source: AFR Database, Staff Estimations
[1] as percent of non-oil GDP

Authorities' views

22. The authorities agree with staff's analysis and note that they have undertaken steps towards improving non-oil revenue over the past two years. Since 2012, they have been taking steps to reduce tax exemptions, with the ones that are in force now mostly related to concessions granted before 2012. They are also moving towards harmonizing the country's tax code, including exemptions, with that agreed at the CEMAC level. On tax administration, the authorities are currently in the process of automating major customs offices—including at the Cameroon border—following the automation of the N'Djamena office. More broadly, the Minister of Finance and Budget set up a team to formulate recommendations, due by early 2014, on how the government can mobilize non-oil revenue. The authorities are also committed to implement the recommendations from Fund technical assistance on enhancing tax revenue.

D. Strengthen Public Financial Management

23. PFM systems remain weak and need to be reinforced to enhance fiscal control and the efficiency of public spending:

- Budget execution has been hampered by issues like the extensive use of emergency spending procedures (DAOs, see Figure 1) and cash flow management difficulties stemming from the volatility of oil revenue and the irregular seasonality of spending. Moreover, despite some recent progress, the accounting process is still manual and fiscal reporting is limited (e.g., there is no formal procedure to frequently report on budget execution). A recent FAD TA mission proposed that the authorities focus on several shorter-term actions to: (i) improve spending procedures (including through a phased elimination of the budget's complementary period and the systematic regularization of DAOs); (ii) improve the reliability of accounting through computerization; (iii) enhance the quality and frequency of budget reporting tools; and (iv) improve the treasury's management and forecasting.

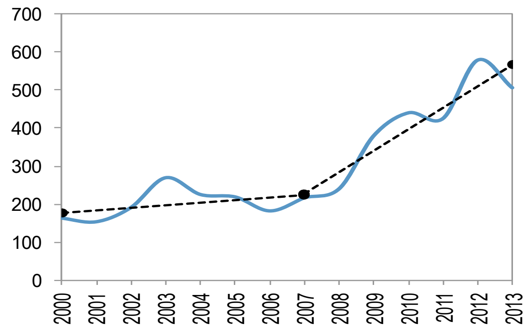
- In addition, the effectiveness of spending has been undermined by capacity weaknesses in the appraisal and selection of investment projects, a limited reliance on competitive bidding for public contracts (only 46 percent of contracts, accounting for 18 percent of the total value of contracts in 2012), and low allocation of operational and maintenance resources. As noted above, fixing these issues could give a significant boost to non-oil growth prospects.

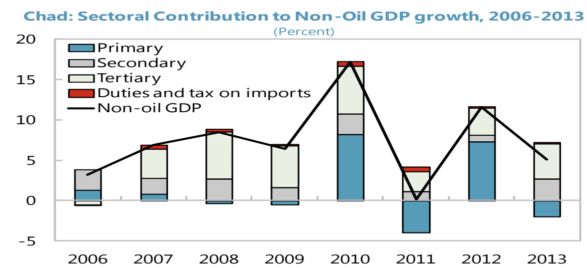
Authorities' views

24. The authorities acknowledge weaknesses in their PFM systems and are implementing a reform action plan drawing on Fund technical assistance recommendations. Regarding DAOs, efforts are being made both in terms of limiting use to true emergencies and systematically regularizing them. In order to improve cash management, the ministry of finance is proceeding to close non-essential government accounts at commercial banks. Payment automation has been successfully implemented and an accounting IT system is scheduled to be deployed in 2014. In terms of procurement, the government is committed to increase the use of competitive bidding in the award of public contracts and to restart the publication of procurement bulletins.

FOSTERING DIVERSIFICATION AND INCLUSIVE GROWTH

Chad: Public Investment. 2000-2013
(Billions of CFAF - Constant prices 2005)





A drive toward a more diversified and inclusive economy needs to be supported by a more favorable business environment, increased government effectiveness, and an expansion in financial services to the broader population.

25. Non-oil economic growth over the last decade has been relatively high, but volatile and not very inclusive (Appendix III). The volatility in non-oil activity can be partly explained by pro-cyclical fiscal policy driven by oil revenues, the vulnerability of agricultural production to climate conditions, the armed conflicts that affected the country between 2004 and 2010, and also the difficulties of the cotton sector. The latest household survey suggests that the poverty headcount rate experienced a moderate reduction (from 55 percent in 2003 to 47 percent in 2011), but the total number of poor increased as Chad has one of the highest population growth rates in the world (3.5 percent per year over 2000-10). Poverty reduction has been faster in urban than in rural areas, with poverty remaining more than twice as widespread in rural areas.[5] In addition, inequality has slightly increased (the Gini coefficient changed from 0.39 to 0.42). The government has recently focused on building infrastructure (at relatively high cost according to the 2010 World Bank's public expenditure review) and lacks specific social safety nets to help the more vulnerable (less than 1 percent of the spending envelope under the NDP is devoted to social protection).

[5] The 2011 survey results were probably affected by the impact of a drought on agricultural production.

26. The authorities' economic strategy is based on the NDP 2013 2015[6]. It aims at sustaining economic growth and improving the quality of life of the population, especially the rural population, women and the youth. To make growth more sustainable and diversified, the NDP gives priority to modernization, mechanization, and distribution of inputs to enhance productivity in the agricultural sector. It continues to rely on ambitious public investment plans in infrastructure, including in key areas like transport, energy, housing, and connective infrastructure for regional integration. Similarly, to make growth more inclusive, the NDP aims at creating decent employment opportunities through organizing the informal sector, mitigating rural-urban migration pressures, and skills development. It also aims to promote social development and achievement of the MDGs through universal access to quality basic health services, universal access to basic education, and access to water supply and sanitation services for the entire population. The NDP includes a Priority Action Plan (PAP) that identifies a list of actions and related implementation costs for each policy area. The estimated cost of implementing the PAP (excluding salaries, goods and services) is about US$7.4 billion. The authorities intend to organize a donor roundtable later in 2014 to help cover the estimated funding gap of about US$3.5 billion. This could allow them to incorporate new initiatives into their budgets and to update their macroeconomic framework and DSA. However, an increase in donor support from the current relatively low levels[7] and the growth and poverty reduction implications of those initiatives will ultimately depend on the success of the authorities' work to improve PFM and expenditure effectiveness.

A. Competitiveness and Business Environment

27. Limited progress has been achieved in improving Chad's difficult business climate. The World Bank's "Doing Business" indicators (Box 2) show that Chad trails its peers in almost all dimensions, particularly in starting a business, enforcing contracts, paying taxes, and trading across borders[8]. In addition, bottlenecks exist in terms of infrastructure, labor quality, and access to finance. Limited progress has occurred over the last year in the implementation of the initiatives proposed by the National Council of Employers of Chad (the White Book as reported in the 2012 Article IV Consultation report). However, there has been an enhanced dialogue between the government and the private sector that is reflected in the objectives of the NDP in terms of removing key bottlenecks to growth such as inadequate infrastructure and high transaction costs. Public investment in roads has had a very positive impact in connecting Chad within and outside its borders, but limited and unreliable electricity provision and long delays in getting cargo through the port of Douala in Cameroon increase domestic prices and hurt the competitiveness of Chadian companies.

[6] Chad—Poverty Reduction Strategy Paper—Joint Staff Advisory Note (EBD/13/50).

[7] Grants to the budget averaged 2.5 percent of non-oil GDP during 2010-12.

[8] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

28. Increased government effectiveness would help improve Chad's competitiveness in various dimensions. The World Bank's Governance Indicators rank Chad below its peers, including on application of the rule of law and in government effectiveness. Partly because of institutional capacity constraints it faces, Chad needs to identify priority areas for improvement. In this context:

- Public investment has helped reduce infrastructure gaps, in particular on roads. But it remains a priority. Going forward, increased focus on basic infrastructure services (e.g. access to safe water and sanitation) is needed. As noted above, improving budgetary allocation for operations and maintenance of the public capital stock should enhance its rate of return.

- With agriculture and livestock considered to be sectors with strong growth and export potential, a focus on enhancing service provision to rural communities, and food security would help revive the agriculture sector and make growth more inclusive.

- Reforming the electricity and water state-owned enterprises should enhance overall competitiveness by increasing and making more reliable their supply and access.

29. Enhancing the transparency of government operations is also critical. The World Bank's Transparency Index ranks Chad very low in that dimension. Beyond the public procurement reforms noted above, a key issue is oil revenue transparency. Operations of the Esso Consortium have been fairly easy to monitor thanks to the mechanisms set up under the Petroleum Revenue Management Program designed in conjunction with the World Bank in the early 2000s. However, the entry of new oil producers (e.g., CNPC and Griffiths/Caracal) under diverse fiscal regimes generates challenges for oil revenue transparency. Despite recent efforts, Chad has not been able to achieve the Extractive Industries Transparency Initiative (EITI) compliance and has been asked to implement corrective actions and outstanding requirements (8 out of 20) by August 2014.

Authorities' views

30. The authorities acknowledge the need to further improve the business environment to help diversify the economy and promote a more inclusive growth. They noted that the NDP agenda includes some initiatives proposed by the private sector to improve the business climate. They intend to implement them in coordination with the private sector. The authorities believe that the food security initiatives introduced after the 2011 drought represent important inclusive growth policies and that restarting the publication of public procurement bulletins in 2014, which is also a trigger under the HIPC completion point process, is a "quick win" to improve governance and public spending efficiency. They also highlighted the soon-to-be finalized national strategy for social protection, which aims at formulating more specific programs in the areas of social assistance, employment, food security, and access to health and education services.

B. Financial Inclusion

31. Financial exclusion constitutes an important obstacle to growth and development in Chad. The financial sector in Chad is under-developed and with major challenges to financial access.

While some financial intermediation indicators have continued to improve (¶9), they still remain substantially below those of peer CEMAC countries. Responses to the recommendations of the 2011 FSAP to deal with the lack of adequate information on borrowers and to enhance the resolution of commercial disputes are still pending. Similarly, an adequate credit reporting system still needs to be developed. Some indicators show a very low level of financial access: fewer than 22 depositors per 1000 adults (compared to 128 for SSA), fewer than 3 borrowers per 1000 adults (compared to 21 for SSA), and less than 1 commercial bank branch per 100,000 adults (compared to 3.7 for SSA). Microfinance institutions—a critical source of financing for SMEs and rural borrowers in most countries—still account for a very small proportion of the financial system (e.g., less than 3 percent of total credit to the economy in 2012). There is a need to build both hard and soft infrastructures (legal and information institutions) to increase the scale and efficiency of microfinance institutions.

Authorities' views

32. The authorities note the enhanced stability of the banking system and their efforts to increase access to financial services. They are satisfied with the steps taken to improve the condition of state-owned banks after the recent restructuring and consider that the banking system in general has been doing very well. The authorities acknowledge that the micro-finance sector is still under-developed, but is an important component of its national financial inclusion strategy. Several initiatives are under way to deepen financial intermediation, but more efforts will have to be made to increase access to financial services in remote areas.

THE STAFF-MONITORED PROGRAM

33. Performance relative to the quantitative targets under the SMP has been mixed: most targets have been met but fiscal outcomes have been affected by the unexpected shortfall in oil revenue and the resort to oil sales advances. Four out of the seven indicators were met for June and five out of the seven indicators were met for September.

- The indicator concerning the underlying fiscal policy stance (the NOPD) was met for June and September with relatively comfortable margins. The performance of non-oil revenue was good, particularly tax collections by the domestic taxes' department. In terms of expenditures, the government contained overall spending levels within the program limits even though transfers and subsidies accelerated relative to the first half of the year.

- The floor for poverty-reducing social spending was met with a healthy margin and the government did not accumulate domestic or external payment arrears over the period. The ceiling on net domestic government financing was missed at end-June but was brought back on track by September despite delays in the issuance of government bonds in the regional market and a faster than anticipated settlement of domestic arrears from previous financial years thanks to the oil sales advance with Glencore Energy (¶6).

- The oil sales advance operation implied that the continuous ceilings on contracting or guaranteeing new non-concessional external debt and on new guaranteed (i.e., collateralized) external debt contracted or guaranteed by the government and/or non-financial public enterprises were not observed for end-June and end-December test dates.[9] The operation also revealed deficiencies in coordination of debt management within the government leading to its delayed reporting for budget formulation and SMP monitoring purposes.

34. Most structural benchmarks are expected to be completed, although some with delay.

- The draft 2014 budget submitted to the National Assembly in October last year (and subsequently approved in early January 2014) was in line with the objective of gradually reducing the NOPD and the discussions with staff in early September.

- The reconciliation of treasury and central bank data on net claims of the banking system on the government at end-2012 is likely to be met by end-2013 instead of September 2013. The accounts at commercial banks that led to differences in the level of central government deposits between the treasury and BEAC have been identified and should facilitate the establishment of a single treasury account. Additional work is needed to reconcile the differences in central government liabilities to commercial banks.

- The evolution of emergency spending pressures (DAOs) until end-October was in line with the SMP objective of keeping them below 20 percent of domestically financed spending (excluding wages, debt service, and security spending linked to the campaign in Mali). Regulations have been issued to limit their use and a monitoring committee has been established and is meeting regularly. In addition, the authorities have recently established a commission to ensure a swift regularization of DAOs. The latter initiative stem from a recommendation of FAD technical assistance.

- The preparation and updating of a monthly treasury cash management plan (with a three-month rolling horizon) is unlikely to be achieved in 2013. This is a complex reform requiring some institutional enhancements and improvements in forecasting of oil revenue and in taking into account seasonality of non-oil revenue and government spending. In particular, the authorities noted the difficulties in integrating cash planning with public procurement plans.

- The requirement to have all new loan proposals to be examined by ETAVID and CONAD is unlikely to be met. The capacity of CONAD and ETAVID to provide binding opinions on all new loan proposals was expected to be supported by a new government decree reinforcing their roles and structure. The importance of this action has increased following the contracting of oil sales advances.

[9] Information on the non-observance of these two quantitative targets was brought to staff's attention during the mission in December, 2013.

35. The final assessment of performance under the SMP will take place in the first quarter of 2014. The authorities expect to meet the NOPD target for 2013 despite spending pressures derived from a difficult regional security situation and from high spending execution rates in transfers and subsidies. They highlighted that some momentum was being achieved in the implementation of PFM reforms following FAD's technical assistance mission, particularly in the monitoring of DAOs and in the implementation of automated systems for payments and accounting. Finally, the authorities noted the maintenance of high rates of non-oil growth and the reduction of inflation under the SMP.

STAFF APPRAISAL

36. The achievement of Chad's development goals hinges on a prudent management of volatile and exhaustible oil revenue and on making economic growth more inclusive. Chad ranked 184th out of 186 countries in the UN's 2013 Human Development Index despite substantial oil fiscal revenues for the past decade. Non-oil economic growth has been relatively high but volatile over the last decade due in part to pro-cyclical fiscal policy relative to oil revenue, the vulnerability of agricultural production to climate conditions, and past civil conflicts. There has been a moderate reduction in poverty rates over that period, though the total number of poor has increased due to high rates of population growth. Poverty has fallen faster in urban than in rural areas and income inequality has slightly increased.

37. Macroeconomic performance has been relatively strong despite regional security challenges. Non-oil growth has been solid and inflation relatively muted, trends projected to continue in 2014. The authorities have been able to gradually tighten the stance of fiscal policy despite spending pressures linked to the difficult regional security situation. However, the fiscal position remains highly vulnerable to oil revenue shocks.

38. Sharp increases in non-oil revenue and more efficient government spending are critical to Chad's ability to tackle its developmental needs while maintaining debt sustainability. Chad should continue the recent policy of targeting a steady decline in the non oil primary deficit (toward 12-13 percent of non-oil GDP over the medium-term) in light of the projected trend decline in oil revenue and the need to build some fiscal buffers to face the country's vulnerability to volatile oil prices and the difficult regional security situation. Substantial fiscal space can be created by increasing non-oil revenue collection currently very low even relative to peer countries in the region—and by improving the quality of government spending. Sizable increases in non-oil revenue collection can be achieved through enhancements in both tax policy design (e.g., by streamlining exemptions) and revenue and customs administrations in line with FAD technical assistance. The quality of government spending can be enhanced by rationalizing investment plans, increasing allocations for operations and maintenance, and greater reliance on competitive bidding in the award of public contracts.

39. Debt management needs to be strengthened to help ensure debt sustainability. Staff takes note of the decision to cancel the Master Facility Agreement with Eximbank China as an important step toward ensuring debt sustainability. A recent non-concessional borrowing operation that collateralized future oil receipts maintains the high risk of debt distress and reinforces the case for institutional reforms to centralize debt approval and operational management and to strengthen the debt unit at the ministry of finance. The authorities are encouraged to effectively implement recent policy decisions in this area, including the reactivation of an inter-ministerial committee for debt analysis.

40. PFM reforms are crucial to ensure fiscal discipline and to improve the quality of spending. PFM systems remain weak. Execution of the budget has in the past been hampered by extensive use of emergency spending procedures (DAOs) and cash flow management difficulties, while accounting is still manual and fiscal reporting is limited. The recent acceleration in implementation of the PFM reform agenda is welcome, though critical steps remain. Of particular importance are the phasing out of the budget's complementary period, the streamlining of DAOs, and the computerization of the whole expenditure chain. Sustained progress in these areas should help catalyze an increase in donor support.

41. Greater diversification of the economy would enable more inclusive growth. Staff analysis based on standard empirical metrics suggests that Chad has an over-valued real exchange rate (Box 2). Given Chad's membership in a currency union, achievement of external sustainability would require a sustained fiscal adjustment and structural competitiveness reforms. A key step to enhance productive potential is to create a more conducive business environment for the private sector. To that effect, specific proposals in the "White Book" prepared by private employers still provide useful benchmarks for policy action. While substantial progress has been made in roads infrastructure, electricity provision remains a key bottleneck requiring sustained efforts over the longer term. Increased government effectiveness in terms of the quality and composition of public spending and targeted support to agricultural and rural sectors would help make growth more inclusive. Diversification and inclusiveness will also require further financial development and increased access to financial services, including by putting in place legal and information institutions to increase the scale and efficiency of microfinance institutions.

42. Performance under the SMP has been affected by an unexpected shortfall in oil revenue and the resort to oil sales advances. Five out of the seven indicators were met for September (four out of seven had been met for June). Indicators concerning the underlying fiscal policy stance (the NOPD), the level of poverty spending, and the pace of arrears clearance have all been observed with comfortable margins for June and September. However, the oil sales advance operation resulted in breaches for the debt targets and has led to a significant increase in financing needs in the approved 2014 budget. Those financing needs surpass potentially available domestic and nonconcessional financing sources, leading to a sizable financing gap. The authorities are strongly encouraged to identify corrective actions to cover this gap, in particular through additional fiscal adjustment (i.e., cuts in domestically-financed investment and in transfers and subsidies, increases in non-oil revenue) and an acceleration of the structural reform agenda—including on debt management (¶39). Most structural benchmarks are expected to be met.

43. Data provision has capacity-related shortcomings, but is broadly adequate for surveillance. There is scope for improvement in quality, coverage, and timeliness in most macroeconomic datasets. The authorities have recently taken the initiative to improve macroeconomic databases, particularly the national accounts. Data on the international investment position (IIP) is not reported, reflecting a lack of capacity. The authorities are encouraged to request technical assistance to overcome this limitation.

44. Staff recommends that the next Article IV consultation with Chad be held on the regular 12-month consultation cycle.

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

	2009	2010	2011	2012	2013		2014	2015	2016	2017	2018
				Prel.	Prog.[1]	Proj.	Projections				
	(Annual percentage changes, unless otherwise indicated)										
Real economy											
GDP at constant prices	4.2	13.5	0.1	8.9	3.9	3.6	10.8	7.3	4.7	3.6	3.3
Oil GDP	-3.7	-1.1	-0.4	-4.0	3.5	-4.0	37.0	17.6	3.2	-3.1	-5.3
Non-oil GDP	6.4	17.2	0.2	11.6	4.0	5.0	6.5	5.1	5.1	5.1	5.2
Consumer price index (period average)	10.1	-2.1	1.9	7.7	2.6	0.4	3.8	3.0	3.0	3.0	3.0
Consumer price index (end of period)	4.7	-2.2	10.8	2.1	5.0	2.5	3.2	3.0	3.0	3.0	3.0
Oil prices											
WEO (US$/barrel)[2]	61.8	79.0	104.0	105.0	102.5	104.1	99.3	94.2	89.7	86.5	84.4
Chadian price (US$/barrel)[3]	55.5	73.6	97.7	102.0	100.4	103.4	98.2	93.5	87.8	84.9	82.3
Oil production (in millions of barrels)	43.6	44.7	43.6	41.2	38.6	36.0	52.0	62.1	64.1	61.7	58.0
Exchange rate FCFA per US$ (period average)	471.0	494.4	471.4	510.2	497.0	493.9	…	…	…	…	…
Money and credit[4]											
Net foreign assets	-74.7	13.3	25.3	14.8	-10.2	-12.0	0.9	5.6	5.0	1.0	-5.9
Net domestic assets	70.1	12.0	-11.0	-1.3	18.6	20.2	8.6	3.1	2.0	6.6	12.4
Of which : net claims on central government	67.7	7.2	-18.8	-13.1	9.9	0.9	-2.6	-6.8	-6.2	-1.9	5.2
Of which : credit to private sector	5.9	10.7	9.0	12.9	8.9	9.2	8.4	9.9	8.3	8.6	7.2
Broad money	-4.6	25.3	14.2	13.4	8.4	8.2	9.5	8.7	7.0	7.6	6.5
Income velocity (non-oil GDP/broad money)	7.3	6.6	5.9	5.9	5.7	5.7	5.7	5.7	5.7	5.7	5.7
External sector (valued in CFA francs)											
Exports of goods and services, f.o.b.	-26.1	23.3	22.3	-4.1	-7.4	-8.2	26.7	11.3	-1.0	-5.0	-5.9
Imports of goods and services, f.o.b.	4.5	18.1	11.3	3.8	-0.5	-6.4	18.6	10.7	-1.2	-5.5	-3.5
Export volume	0.3	-5.6	-2.8	-8.6	-5.3	-7.3	27.2	14.5	2.2	-2.9	-5.5
Import volume	12.0	15.1	4.0	4.9	-0.2	-5.3	17.7	10.9	-1.6	-6.4	-4.5
Overall balance of payments (in percent of GDP)	-8.0	0.1	2.9	1.6	-1.2	-1.5	-3.4	0.5	0.5	0.0	-0.9
Current account balance, including official transfers (in percent of GDP)	-9.2	-9.0	-5.6	-8.3	-5.4	-8.8	-6.5	-6.8	-6.0	-6.5	-6.2
Terms of trade	-21.1	27.2	17.6	6.0	-2.0	0.2	-1.2	-2.6	-3.4	-3.0	-1.4
External debt (in percent of GDP)	17.6	20.2	23.0	20.9	20.3	23.2	18.3	16.0	16.3	16.6	17.1
NPV of external debt (in percent of exports of goods and services)	36.3	30.9	48.2	36.6	55.4	53.1	38.6	33.9	37.5	43.1	50.1
	(In percent of non-oil GDP, unless otherwise indicated)										
Government finance											
Revenue and grants	18.6	26.7	34.6	33.4	27.7	25.5	28.7	30.4	28.3	26.6	24.5
Of which : non-oil	7.3	8.1	7.6	7.7	8.3	8.4	8.8	9.2	9.7	10.1	10.5
Expenditure	28.1	32.2	31.3	32.8	31.1	31.5	29.5	30.0	29.4	28.3	28.3
Current	18.0	19.2	17.9	15.7	17.0	17.4	16.6	15.9	15.6	15.0	15.1
Capital	10.0	13.1	13.3	17.0	14.1	14.1	12.9	14.0	13.8	13.3	13.2
Non-oil primary balance (commitment basis, excl. grants)[5]	-17.1	-20.1	-19.6	-19.2	-18.1	-18.2	-16.1	-15.0	-14.0	-12.5	-12.0
Overall fiscal balance (incl. grants, commitments basis)	-9.4	-5.5	3.3	0.6	-3.3	-6.0	-0.8	0.5	-1.1	-1.7	-3.9
Overall fiscal balance (incl. grants, cash basis)	-9.3	-4.2	0.6	1.7	-3.3	-6.0	-1.9	0.6	-1.0	-1.7	-3.7
Total debt (in percent of GDP)[6]	23.1	25.6	31.1	28.0	28.1	30.2	23.8	21.6	21.7	21.8	22.9
Of which : domestic debt[6]	5.5	5.4	8.1	7.0	7.8	6.9	5.5	5.5	5.5	5.3	5.8
Memorandum items:											
Nominal GDP (in billions of CFA francs)[7]	4,369	5,279	5,736	6,579	6,753	6,627	7,602	8,313	8,603	8,876	9,095
Of which: non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,812	5,296	5,756	6,161	6,629	7,060
Nominal GDP (in billions of US$)[7]	9.3	10.7	12.2	12.9	13.6	13.4	15.9	17.7	18.7	19.6	20.4
Of which: non-oil GDP	7.5	8.1	8.7	9.0	9.7	9.7	11.1	12.3	13.4	14.6	15.8

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

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

[2]WEO 2014 Winter Production.

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

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

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

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

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

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

(Annual percentage change, unless otherwise indicated)

	Weight[1]	2009	2010	2011	2012 Prel.	2013	2014	2015	2016	2017	2018
						Projections					
Primary sector	44	-3.1	16.1	-7.6	11.8	-7.3	16.6	10.1	3.6	0.6	-0.2
Agriculture	12	-1.9	49.8	-25.3	46.9	-16.1	7.8	5.1	4.9	4.7	4.6
Food crops	11	-1.3	54.1	-27.4	50.6	-17.0	7.5	4.7	4.6	4.5	4.5
Industrial crops	1	-8.8	-7.2	20.6	-1.2	3.0	12.0	10.8	9.2	7.3	5.9
Livestock, Forestry and Fishing	11	-4.6	1.9	3.9	1.2	3.0	2.8	2.5	2.2	2.2	2.2
Mining and Quarrying	3	14.3	13.6	12.0	12.1	14.8	6.0	5.1	4.3	4.0	4.0
Oil and Gas Extraction	19	-5.0	3.3	-1.1	-6.5	-9.2	39.1	19.4	3.2	-3.8	-6.0
Secondary sector	12	13.1	10.2	9.0	8.5	23.3	4.1	-1.2	0.4	2.6	3.8
Manufacturing (non petroleum)	1	8.9	9.9	11.3	12.2	24.0	14.4	11.9	10.1	8.1	6.5
Of which : cotton processing	0	10.4	-51.6	51.1	31.4	16.5	11.0	5.5	5.0	4.5	4.0
Handicrafts	5	8.8	9.7	9.0	4.3	13.4	4.8	5.2	5.2	4.6	4.6
Utilities	0	-13.4	10.1	10.1	14.3	27.2	10.9	8.7	7.0	6.3	5.6
Construction	6	18.2	10.0	2.0	7.7	29.9	-3.3	-11.2	-9.1	-3.0	1.5
Of which : oil related	2	13.1	-49.5	-31.8	20.8	73.0	0.5	-2.1	-3.9	-2.8	-6.6
Refinery	…	…	…	…	79.2	52.8	45.5	6.8	8.4	7.6	4.8
Tertiary sector	41	10.4	11.5	4.9	6.5	8.8	8.5	7.7	7.1	6.6	6.1
Commerce, transport	22	8.1	16.5	1.7	6.2	10.7	10.2	9.0	7.9	7.3	6.7
Commerce	20	8.2	17.6	1.0	7.1	9.5	9.0	7.8	6.7	6.0	5.4
Transport	3	7.6	8.8	7.5	-0.8	20.3	18.7	17.2	15.8	14.5	13.4
General government	7	23.1	-2.9	5.2	4.2	5.1	5.0	3.5	3.5	3.0	3.0
Other	12	8.7	10.1	11.0	8.1	7.1	7.0	7.0	7.0	6.7	6.3
Duties and taxes on imports	2	6.7	18.1	18.9	3.5	4.7	4.7	4.7	4.7	4.7	4.8
Total GDP	100	4.2	13.5	0.1	8.9	3.6	10.8	7.3	4.7	3.6	3.3
Oil GDP (including investment)	20	-3.7	-1.1	-0.4	-4.0	-4.0	37.0	17.6	3.2	-3.1	-5.3
Non-oil GDP	80	6.4	17.2	0.2	11.6	5.0	6.5	5.1	5.1	5.1	5.2

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

[1] Average share of 2005–10 GDP.

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

(In billions of CFA francs, unless otherwise indicated)

	2009	2010	2011	2012	2013			2014		2015	2016	2017	2018
				Prel.	Prog.	Sept. Prel.	Proj.	Budget	Proj.	Proj.			
Total revenue and grants	655	1,069	1,422	1,542	1,341	933	1,229	1,587	1,521	1,753	1,745	1,764	1,727
Revenue	540	1,000	1,331	1,375	1,224	864	1,107	1,444	1,379	1,605	1,588	1,594	1,547
Oil	284	676	1,017	1,020	821	539	704	976	911	1,076	991	928	809
Non-oil	256	324	314	355	403	325	403	468	468	529	597	667	738
Tax	239	313	296	339	378	315	378	438	438	498	558	622	691
Non-tax	16	11	18	16	25	10	25	30	30	32	39	44	47
Grants	115	69	91	167	117	69	122	142	142	147	158	170	181
Budget support	35	0	0	0	0	0	5	0	0	0	0	0	0
Project grants	80	69	91	167	117	69	117	142	142	147	158	170	181
Expenditure	987	1,289	1,284	1,512	1,501	1,093	1,517	1,541	1,563	1,726	1,813	1,877	2,000
Current	634	766	736	726	822	618	838	857	879	917	959	992	1,065
Wages and salaries	201	216	250	283	343	241	343	356	356	383	394	401	427
Goods and services	110	111	87	123	128	82	128	139	139	173	185	199	212
Transfers and subsidies	302	411	364	291	315	284	315	331	331	311	327	331	353
Subsidies and non-security transfers	109	191	163	197	253	…	253	281	281	…	…	…	…
Exceptional security[1]	193	220	201	95	62	…	62	50	50	…	…	…	…
Interest	21	29	35	28	36	11	52	30	52	51	54	61	73
Domestic	5	14	25	16	18	5	21	14	26	28	28	27	29
External	16	16	10	12	17.8	7	30	15	26	23	26	34	43
Investment	353	522	548	787	679	474	679	684	684	809	853	885	935
Domestically financed	242	392	416	543	492	372	492	492	492	518	542	550	579
Foreign financed	111	130	132	243	187	103	187	192	192	291	311	335	356
Overall balance (incl. grants, commitment)	-332	-220	137	30	-160	-160	-287	46	-41	27	-67	-113	-272
Non-oil primary balance (excl. grants, commitment)[2]	-601	-805	-804	-886	-875	-653	-875	-851	-851	-866	-864	-830	-848
Change in balances payable[3]	-83	-159	-166	-109	-247	-229	-247		-180	-120	-125	-132	-135
Float[4]	85	142	50	117	246	166	246		120	125	132	135	143
Errors and omissions	2	66	3	39	…	192	…	…	…	…	…	…	…
Overall balance (incl. grants, cash)	-329	-170	25	76	-161	-31	-289	46	-101	32	-61	-110	-265
Financing	329	170	-25	-76	161	31	289	…	-159	-32	61	110	265
Domestic financing	327	58	-22	-119	169	22	35	…	-51	2	-29	1	142
Bank financing	328	48	-110	-97	76	15	5	…	-23	-64	-63	-21	60
Central Bank (BEAC)	327	48	-106	-73	78	17	8	…	-22	-64	-63	-21	60
Deposits	211	-23	-100	-48	80	37	30	…	0	-42	-42	0	81
Advances (net)	120	76	0	-21	0	-19	-21	…	-21	-21	-21	-21	-21
IMF (reimbursement)	-4	-6	-5	-4	-2	-2	-2	…	-1	-1	0	0	0
Commercial banks	0	0	-5	-25	-2	-2	-2	…	-1	0	0	0	0
Non-bank financing (net)	-1	0	88	-25	93	7	30	…	-28	66	34	22	82
Privatization	1	10	1	3	0	0	0	0	0	0	0	0	0
Foreign financing	1	112	-3	43	-7	9	254	-34	-108	-34	89	109	122
Loans (net)	1	112	-3	43	-7	9	227	-34	-136	-34	89	109	122
Disbursements	30	157	41	76	70	34	366	50	50	143	153	165	176
Budget borrowings	0	141	0	0	0	0	296	0	0	0	0	0	0
Project loans	59	61	41	76	70	34	70	50	50	143	153	165	176
Amortization	-29	-45	-44	-33	-77	-25	-139	-84	-185	-177	-64	-56	-53
Debt relief/rescheduling	…	…	…	…	…	…	27	0	27	0	…	…	…
HIPC	…	…	…	…	…	…	0	…	…	…	…	…	…
Other[5]	…	…	…	…	…	…	27	…	27	0	…	…	…
Financing gap	…	…	…	…	0	…	0	96	260	0	0	0	0
Memorandum items:													
Non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,812	4,812	5,318	5,296	5,756	6,161	6,629	7,060
Bank deposits (mostly BEAC)	82	105	205	253	173	…	222	…	222	265	307	307	226
(In months of domestically-financed spending)	1.1	1.1	2.1	2.4	1.6	…	2.0	…	1.9	2.2	2.5	2.4	1.6
BEAC statutory advances	142	209	209	188	188	…	167	…	146	125	104	83	63

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

[1] Operational security expenses by the Government, including CFAF30 billion in 2013 on account of Chad's participation in Mali military campaign.

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

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

[4] Difference between committed and cash expenditure.

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

Table 3b. Chad: Fiscal Operations of the Central Government, 2009–2018[1]

(Billions of CFA francs, unless otherwise indicated)

	2009	2010	2011	2012	2013		2014		2015	2016	2017	2018
				Prel.	Prog.	Proj.	Budget	Proj.	Projections			
Revenue	655	1,069	1,422	1,542	1,341	1,229	1,587	1,521	1,753	1,745	1,764	1,727
Taxes	433	781	1,055	1,011	957	887	1,040	1,097	1,258	1,251	1,281	1,262
Of which : income tax related to oil activities	194	469	759	672	578	509	603	659	760	693	659	571
Grants	115	69	91	167	117	122	142	142	147	158	170	181
Other revenue	107	219	276	364	267	220	404	282	347	337	313	285
Of which : interest	1	0	0	0	0	0	0	0	11	13	15	15
Of which : rent (oil revenue)	90	208	258	348	242	195	374	252	316	297	269	238
Expenditure	987	1,289	1,284	1,512	1,501	1,517	1,541	1,563	1,726	1,813	1,877	2,000
Expense	634	766	736	726	822	838	857	879	917	959	992	1,065
Compensation of employees	201	216	250	283	343	343	356	356	383	394	401	427
Use of goods and services	110	111	87	123	128	128	139	139	173	185	199	212
Interest	21	29	35	28	36	52	30	52	51	54	61	73
To nonresidents	16	16	10	12	18	30	15	26	23	26	34	43
To residents other than general government	5	14	25	16	18	21	14	26	28	28	27	29
Subsidies	66	115	98	118	152	152	169	169	142	148	159	169
Grants	44	76	65	79	101	101	113	113	94	99	106	113
Other expense[2]	193	220	201	95	62	62	50	50	75	80	66	71
Net acquisition of nonfinancial assets	353	522	548	787	679	679	684	684	809	853	885	935
Domestically financed	242	392	416	543	492	492	492	492	518	542	550	579
Foreign financed	111	130	132	243	187	187	192	192	291	311	335	356
Net lending/borrowing	-332	-220	137	30	-160	-287	46	-41	27	-67	-113	-272
Primary non-oil net lending/ borrowing [3]	-596	-867	-845	-962	-945	-940	-901	-901	-998	-1,004	-980	-1,009
Financial assets	-212	13	100	44	-80	-30	…	0	42	42	0	-81
Domestic	-212	13	100	44	-80	-30	…	0	42	42	0	-81
Currency and deposits ("+" = buildup)	-211	23	100	48	-80	-30	…	0	42	42	0	-81
BEAC	-211	23	100	48	-80	-30	…	0	42	42	0	-81
Commercial banks	0	0	0	0	0	0	…	0	0	0	0	0
Equity and investment fund shares	-1	-10	-1	-3	0	0	…	0	0	0	0	0
Foreign	0	0	0	0	0	0	…	0	0	0	0	0
Liabilities	117	167	-41	-24	80	257	…	-219	16	109	113	191
Domestic	116	54	-38	-67	87	3	…	-111	49	20	4	69
Currency and deposits	0	0	0	0	0	0	…	0	0	0	0	0
Loans	115	71	78	-75	89	4	…	-51	44	13	1	61
Of which : BEAC	116	70	-5	-25	0	-23	…	-22	-21	-21	-21	-21
Of which : commercial banks	0	0	-5	-25	-2	-2	…	-1	0	0	0	0
Other accounts payable	1	-17	-115	7	-1	-1	…	-60	5	6	3	8
Foreign	1	112	-3	43	-7	254	…	-108	-34	89	109	122
Loans	1	112	-3	43	-7	227	…	-136	-34	89	109	122
Debt relief/rescheduling[4]	…	…	…	…	0	27	…	27	…	…	…	…
Statistical discrepancy/Financing gap	-2	-66	-3	-39	0	0	…	-260	0	0	0	0
Memorandum items:												
Non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,812	5,296	5,296	5,756	6,161	6,629	7,060
Oil revenue	284	676	1,017	1,020	821	704	976	911	1,076	991	928	809
Non-oil revenue	371	393	405	355	403	403	468	468	529	597	667	738
Deposits in banks (mostly BEAC)	82	105	205	253	173	222	…	222	265	307	307	226
(Months of domestically financed spending)	1.1	1.1	2.1	2.4	1.6	2.0	…	1.9	2.2	2.5	2.4	1.6

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

[1] Presentation of fiscal table according to *Government Finance Statistics Manual 2001* .

[2] Operational security expenses by the Government, including CFAF30 billion in 2013 on account of Chad's participation in Mali military campaign.

[3] Total revenue, less oil rent and income tax related to oil activities, minus total expenditure, less interest payments.

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

Table 4a. Chad: Fiscal Operations of the Central Government, 2009–2018

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

	2009	2010	2011	2012	2013			2014		2015	2016	2017	2018
				Prel.	Prog.	Prel. Sept.	Proj.	Budget	Proj.	Proj.			
Total revenue and grants	18.6	26.7	34.6	33.4	27.7	19.4	25.5	29.8	28.7	30.4	28.3	26.6	24.5
Revenue	15.3	25.0	32.4	29.8	25.3	18.0	23.0	27.2	26.0	27.9	25.8	24.1	21.9
Oil	8.1	16.9	24.8	22.1	17.0	11.2	14.6	18.4	17.2	18.7	16.1	14.0	11.5
Non-oil	7.3	8.1	7.6	7.7	8.3	6.8	8.4	8.8	8.8	9.2	9.7	10.1	10.5
Tax	6.8	7.8	7.2	7.3	7.8	6.5	7.9	8.2	8.3	8.6	9.1	9.4	9.8
Non-tax	0.5	0.3	0.4	0.3	0.5	0.2	0.5	0.6	0.6	0.5	0.6	0.7	0.7
Grants	3.3	1.7	2.2	3.6	2.4	1.4	2.5	2.7	2.7	2.6	2.6	2.6	2.6
Budget support	1.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	2.3	1.7	2.2	3.6	2.4	1.4	2.4	2.7	2.7	2.6	2.6	2.6	2.6
Expenditure	28.1	32.2	31.3	32.8	31.1	22.7	31.5	29.0	29.5	30.0	29.4	28.3	28.3
Current	18.0	19.2	17.9	15.7	17.0	12.8	17.4	16.1	16.6	15.9	15.6	15.0	15.1
Wages and salaries	5.7	5.4	6.1	6.1	7.1	5.0	7.1	6.7	6.7	6.7	6.4	6.1	6.1
Goods and services	3.1	2.8	2.1	2.7	2.6	1.7	2.7	2.6	2.6	3.0	3.0	3.0	3.0
Transfers and subsidies	8.6	10.3	8.9	6.3	6.5	5.9	6.5	6.2	6.3	5.4	5.3	5.0	5.0
Subsidies and non-security transfers	3.1	4.8	4.0	4.3	5.2	…	5.3	5.3	5.3	…	…	…	…
Exceptional security[1]	5.5	5.5	4.9	2.1	1.3	…	1.3	0.9	0.9	…	…	…	…
Interest	0.6	0.7	0.9	0.6	0.7	0.2	1.1	0.6	1.0	0.9	0.9	0.9	1.0
Domestic	0.1	0.3	0.6	0.3	0.4	0.1	0.4	0.3	0.5	0.5	0.5	0.4	0.4
External	0.4	0.4	0.3	0.3	0.4	0.1	0.6	0.3	0.5	0.4	0.4	0.5	0.6
Investment	10.0	13.1	13.3	17.0	14.1	9.9	14.1	12.9	12.9	14.0	13.8	13.3	13.2
Domestically financed	6.9	9.8	10.1	11.8	10.2	7.7	10.2	9.3	9.3	9.0	8.8	8.3	8.2
Foreign financed	3.1	3.3	3.2	5.3	3.9	2.1	3.9	3.6	3.6	5.0	5.0	5.0	5.0
Overall balance (incl. grants, commitment)	-9.4	-5.5	3.3	0.6	-3.3	-3.3	-6.0	0.9	-0.8	0.5	-1.1	-1.7	-3.9
Non-oil primary balance (excl. grants, commitment)[2]	-17.1	-20.1	-19.6	-19.2	-18.1	-13.6	-18.2	-16.0	-16.1	-15.0	-14.0	-12.5	-12.0
Change in balances payable[3]	-2.4	-4.0	-4.0	-2.4	-5.1	-4.7	-5.1	0.0	-3.4	-2.1	-2.0	-2.0	-1.9
Float[4]	2.4	3.6	1.2	2.5	5.1	3.4	5.1	0.0	2.3	2.2	2.1	2.0	2.0
Errors and omissions	0.0	1.7	0.1	0.8 ..		4.0	…	…	…	…	…	…	…
Overall balance (incl. grants, cash)	-9.3	-4.2	0.6	1.7	-3.3	-0.6	-6.0	0.9	-1.9	0.6	-1.0	-1.7	-3.7
Financing	9.3	4.2	-0.6	-1.7	3.3	0.6	6.0	…	-3.0	-0.6	1.0	1.7	3.7
Domestic financing	9.3	1.4	-0.5	-2.6	3.5	0.5	0.7	…	-1.0	0.0	-0.5	0.0	2.0
Bank financing	9.3	1.2	-2.7	-2.1	1.6	0.3	0.1	…	-0.4	-1.1	-1.0	-0.3	0.9
Central Bank (BEAC)	9.3	1.2	-2.6	-1.6	1.6	0.3	0.2	…	-0.4	-1.1	-1.0	-0.3	0.9
Deposits	6.0	-0.6	-2.4	-1.0	1.7	0.8	0.6	…	0.0	-0.7	-0.7	0.0	1.1
Advances (net)	3.4	1.9	0.0	-0.5	0.0	-0.4	-0.4	…	-0.4	-0.4	-0.3	-0.3	-0.3
IMF (reimbursement)	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.0	0.0	-0.1	-0.5	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Non-bank financing (net)	0.0	0.0	2.1	-0.5	1.9	0.1	0.6	…	-0.5	1.1	0.6	0.3	1.2
Privatization	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	0.0	2.8	-0.1	0.9	-0.2	0.2	5.3	-0.6	-2.0	-0.6	1.5	1.6	1.7
Loans (net)	0.0	2.8	-0.1	0.9	-0.2	0.2	4.7	-0.6	-2.6	-0.6	1.5	1.6	1.7
Disbursements	0.9	3.9	1.0	1.6	1.4	0.7	7.6	0.9	0.9	2.5	2.5	2.5	2.5
Budget borrowings	0.0	3.5	0.0	0.0	0.0	0.0	6.2	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.7	1.5	1.0	1.6	1.4	0.7	1.4	0.9	0.9	2.5	2.5	2.5	2.5
Amortization	-0.8	-1.1	-1.1	-0.7	-1.6	-0.5	-2.9	-1.6	-3.5	-3.1	-1.0	-0.8	-0.8
Debt relief/rescheduling	…	…	…	…	…	…	0.6	0.0	0.5	0.0	…	…	…
HIPC	…	…	…	…	…	…	…	…	…	…	…	…	…
Other[5]	…	…	…	…	…	…	0.6	...	0.5	0.0	…	…	…
Financing gap	…	…	…	…	…	…	0.0	1.8	4.9	0.0	…	…	…
Memorandum items:													
Non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,812	4,812	5,318	5,296	5,756	6,161	6,629	7,060
Bank deposits (mostly BEAC)	2.3	2.6	5.0	5.5	3.6	…	4.6	…	4.2	4.6	5.0	4.6	3.2
(In months of domestically-financed spending)	1.1	1.1	2.1	2.4	1.6	…	2.0	…	1.9	2.2	2.5	2.4	1.6
BEAC statutory advances	4.0	5.2	5.1	4.1	3.9	…	3.5	…	2.8	2.2	1.7	1.3	0.9

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

[1]Operational security expenses by the Government, including 0.62 percent of non-oil GDP in 2013 on account of Chad's participation in Mali military campaign.

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

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

[4]Difference between committed and cash expenditure.

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

Table 4b. Chad: Fiscal Operations of the Central Government, 2009–2018[1]

(Percent of non-oil GDP, unless otherwise indicated)

	2009	2010	2011	2012	2013		2014		2015	2016	2017	2018
				Prel.	Prog.	Proj.	Budget	Proj.	Projections			
Revenue	18.6	26.7	34.6	33.4	27.7	25.5	30.0	28.7	30.4	28.3	26.6	24.5
Taxes	12.3	19.5	25.7	21.9	19.8	18.4	19.6	20.7	21.9	20.3	19.3	17.9
Of which: income tax related to oil activities	5.5	11.7	18.5	14.6	12.0	10.6	11.4	12.4	13.2	11.3	9.9	8.1
Grants	3.3	1.7	2.2	3.6	2.4	2.5	2.7	2.7	2.6	2.6	2.6	2.6
Other revenue	3.0	5.5	6.7	7.9	5.5	4.6	7.6	5.3	6.0	5.5	4.7	4.0
Of which: interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Of which: rent (oil revenue)	2.6	5.2	6.3	7.5	5.0	4.0	7.1	4.8	5.5	4.8	4.1	3.4
Expenditure	28.1	32.2	31.3	32.8	31.1	31.5	29.1	29.5	30.0	29.4	28.3	28.3
Expense	18.0	19.2	17.9	15.7	17.0	17.4	16.2	16.6	15.9	15.6	15.0	15.1
Compensation of employees	5.7	5.4	6.1	6.1	7.1	7.1	6.7	6.7	6.7	6.4	6.1	6.1
Use of goods and services	3.1	2.8	2.1	2.7	2.6	2.7	2.6	2.6	3.0	3.0	3.0	3.0
Interest	0.6	0.7	0.9	0.6	0.7	1.1	0.6	1.0	0.9	0.9	0.9	1.0
To nonresidents	0.4	0.4	0.3	0.3	0.4	0.6	0.3	0.5	0.4	0.4	0.5	0.6
To residents other than general government	0.1	0.3	0.6	0.3	0.4	0.4	0.3	0.5	0.5	0.5	0.4	0.4
Subsidies	1.9	2.9	2.4	2.6	3.1	3.2	3.2	3.2	2.5	2.4	2.4	2.4
Grants	1.2	1.9	1.6	1.7	2.1	2.1	2.1	2.1	1.6	1.6	1.6	1.6
Other expense[2]	5.5	5.5	4.9	2.1	1.3	1.3	0.9	0.9	1.3	1.3	1.0	1.0
Net acquisition of nonfinancial assets	10.0	13.1	13.3	17.0	14.1	14.1	12.9	12.9	14.0	13.8	13.3	13.2
Domestically financed	6.9	9.8	10.1	11.8	10.2	10.2	9.3	9.3	9.0	8.8	8.3	8.2
Foreign financed	3.1	3.3	3.2	5.3	3.9	3.9	3.6	3.6	5.0	5.0	5.0	5.0
Net lending/borrowing	-9.4	-5.5	3.3	0.6	-3.3	-6.0	0.9	-0.8	0.5	-1.1	-1.7	-3.9
Primary non-oil net lending/ borrowing[3]	-16.9	-21.7	-20.6	-20.8	-19.5	-19.5	-17.0	-17.0	-17.3	-16.3	-14.8	-14.3
Financial assets	-6.0	0.3	2.4	1.0	-1.7	-0.6	…	0.0	0.7	0.7	0.0	-1.1
Domestic	-6.0	0.3	2.4	1.0	-1.7	-0.6	…	0.0	0.7	0.7	0.0	-1.1
Currency and deposits ("+" = buildup)	-6.0	0.6	2.4	1.0	-1.7	-0.6	…	0.0	0.7	0.7	0.0	-1.1
BEAC	-6.0	0.6	2.4	1.0	-1.7	-0.6	…	0.0	0.7	0.7	0.0	-1.1
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.0	-0.2	0.0	-0.1	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Liabilities	3.3	4.2	-1.0	-0.5	1.7	5.3	…	-4.1	0.3	1.8	1.7	2.7
Domestic	3.3	1.4	-0.9	-1.5	1.8	0.1	…	-2.1	0.9	0.3	0.1	1.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Loans	3.3	1.8	1.9	-1.6	1.8	0.1	…	-1.0	0.8	0.2	0.0	0.9
Of which: BEAC	3.3	1.8	-0.1	-0.5	0.0	-0.5	…	-0.4	-0.4	-0.3	-0.3	-0.3
Of which: commercial banks	0.0	0.0	-0.1	-0.5	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	-0.4	-2.8	0.2	0.0	0.0	…	-1.1	0.1	0.1	0.1	0.1
Foreign	0.0	2.8	-0.1	0.9	-0.2	5.3	…	-2.0	-0.6	1.5	1.6	1.7
Loans	0.0	2.8	-0.1	0.9	-0.2	4.7	…	-2.6	-0.6	1.5	1.6	1.7
Debt relief/rescheduling[4]	…	…	…	…	0.0	0.6	…	0.5	…	…	…	…
Statistical discrepancy/Financing gap	0.0	-1.7	-0.1	-0.8	0.0	0.0	…	-4.9	0.0	0.0	0.0	0.0
Memorandum items:												
Non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,812	5,296	5,296	5,756	6,161	6,629	7,060
Oil revenue	8.1	16.9	24.8	22.1	17.0	14.6	18.4	17.2	18.7	16.1	14.0	11.5
Non-oil revenue	10.6	9.8	9.9	7.7	8.3	8.4	8.8	8.8	9.2	9.7	10.1	10.5
Deposits in banks (mostly BEAC)	2.3	2.6	5.0	5.5	3.6	4.6	…	4.2	4.6	5.0	4.6	3.2
(Months of domestically financed spending)	1.1	1.1	2.1	2.4	1.6	2.0	…	1.9	2.2	2.5	2.4	1.6

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

[1] Presentation of fiscal table according to *Government Finance Statistics Manual 2001* .

[2] Operational security expenses by the Government, including CFAF30 billion in 2013 on account of Chad's participation in Mali military campaign.

[3] Total revenue, less oil rent and income tax related to oil activities, minus total expenditure, less interest payments.

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

Table 5. Chad: Balance of Payments, 2009–2018
(Billions of CFA francs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.	Prel.	Projections					
Current account	-401	-473	-323	-549	-584	-493	-568	-513	-581	-564
Trade balance, incl. oil sector	211	422	623	486	377	652	738	778	752	626
Exports, f.o.b.	1,329	1,807	2,134	2,209	1,938	2,414	2,662	2,581	2,392	2,198
Of which : oil	1,153	1,602	1,847	1,905	1,616	2,076	2,308	2,210	2,005	1,781
Imports, f.o.b.	-1,118	-1,385	-1,511	-1,723	-1,561	-1,762	-1,924	-1,803	-1,640	-1,572
Services (net)	-758	-1,017	-1,044	-1,160	-1,029	-1,231	-1,354	-1,368	-1,283	-1,193
Income (net)	-182	-176	-149	-153	-260	-222	-226	-205	-349	-317
Transfers (net)	328	298	247	277	328	308	273	283	299	320
Official (net)	35	22	17	57	141	94	73	78	85	90
Private (net)	294	276	230	220	236	214	201	204	215	230
Financial and capital account	-97	-30	145	274	484	233	611	555	581	483
Capital transfers	49	59	85	136	113	139	144	154	166	177
Foreign direct investment	177	155	133	175	266	376	377	375	248	248
Other medium and long term investment	27	65	99	49	217	-145	-43	79	99	112
Public sector	36	74	108	59	227	-136	-34	89	109	122
Private sector	-9	-9	-9	-10	-10	-10	-10	-10	-10	-10
Short-term capital	-351	-309	-172	-87	-112	-136	133	-54	68	-55
Errors and omisions	148	508	347	…	…	…	…	…	…	…
Overall balance	-350	5	169	108	-100	-260	42	42	0	-81
Financing	350	-5	-169	-108	100	0	-42	-42	0	81
Net foreign assets (BEAC)	350	-5	-169	-108	100	0	-42	-42	0	81
Financing gap				0	0	260	0	0	0	0
Memorandum items:										
Gross official reserves (imputed reserves, billions of USD)	0.6	0.6	1.0	1.2	1.0	1.0	1.0	1.1	1.1	1.0
(In months of imports of goods and services)	1.4	1.3	1.9	2.4	1.7	1.5	1.7	2.0	2.0	1.7
(Idem, excluding oil sector imports)	1.7	1.6	2.2	2.9	2.1	1.8	2.0	2.1	2.2	1.8

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

Table 6. Chad: Monetary Survey, 2009–2014

(Billions of CFA francs)

	2009	2010	2011	2012	2013	2014
				Prel.	Proj.	Proj.
Net foreign assets	238.9	303.1	456.0	558.1	463.9	471.5
Central bank	227.4	262.0	430.5	538.6	438.6	438.6
Commercial banks	11.4	41.1	25.5	19.4	25.2	32.8
Net domestic assets	244.0	302.2	235.3	226.2	384.9	457.7
Domestic credit	313.9	403.6	349.6	347.6	474.0	521.8
Claims on the government (net)	141.4	176.0	62.4	-28.4	-21.1	-43.2
Treasury (net)	104.8	149.4	39.6	-40.9	-33.7	-55.7
Banking sector	104.8	149.4	39.6	-40.9	-33.7	-55.7
Central bank	145.2	202.2	86.7	28.6	38.3	17.4
Claims on general government	217.4	289.8	278.9	279.8	259.0	238.1
Liabilities to general government	-72.2	-87.6	-192.2	-251.2	-220.7	-220.7
Commercial banks	-40.3	-52.8	-47.1	-69.5	-71.9	-73.1
Claims on general government	27.0	61.5	54.5	50.1	47.7	46.6
Liabilities to general government	-67.3	-114.3	-101.5	-119.7	-119.7	-119.7
Fund position	38.3	8.3	5.9	2.5	0.0	0.0
Other non-treasury	36.5	26.6	22.8	12.5	12.5	12.5
Credit to the economy	171.8	223.6	278.1	367.3	439.8	511.0
Capital Accounts	-62.9	-64.8	-89.9	-104.7	-104.7	-104.7
Other items (net)	-2.9	-28.2	-12.1	-9.4	15.6	40.6
Money and quasi money	482.9	605.3	691.3	784.3	848.8	929.2
Currency outside banks	291.9	345.7	373.5	400.7	433.7	474.8
Demand deposits	158.0	223.0	258.9	326.0	352.8	386.2
Time and savings deposits	33.0	36.6	58.9	57.5	62.3	68.2
Memorandum items:						
Broad money (annual percentage change)	-4.6	25.3	14.2	13.4	8.2	9.5
Credit to the economy (annual percentage change)	21.0	30.2	24.4	32.1	19.7	16.2
Credit to the economy (percent of GDP)	3.9	4.2	4.8	5.6	6.6	6.7
Credit to the economy (percent of non-oil GDP)	4.9	5.6	6.8	8.0	9.1	9.6
Velocity (non-oil GDP)	7.3	6.6	5.9	5.9	5.7	5.7
Velocity (total GDP)	9.0	8.7	8.3	8.4	7.8	8.2

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

Table 7. Chad: Financial Soundness Indicators, 2007–2012

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

Sources: BEAC/COBAC.

Table 8. Chad: Millennium Development Goals, 1990–2011[1]

	1990	1995	2000	2005	2011
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*67.7*	67.8	67.6	67.5	67.5
Employment to population ratio, ages 15-24, total (%)	*51.1*	51.0	50.9	51.0	50.7
Income share held by lowest 20%	…	…	…	*6.3*	…
Malnutrition prevalence, weight for age (% of children under 5)	…	*34.3*	29.4	*33.9*	…
Poverty gap at $1.25 a day (PPP) (%)	…	…	…	*25.6*	*16.5* [2]
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	…	…	…	*61.9*	*46.7* [2]
Vulnerable employment, total (% of total employment)	…	*93.7*	…	…	…
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	…	*8.9*	23.2	*30.8*	*40.6*
Literacy rate, youth male (% of males ages 15-24)	…	*26.2*	55.7	*53.7*	*53.5*
Persistence to last grade of primary, total (% of cohort)	25.5	20.9	46.9	30.1	*49.3*
Primary completion rate, total (% of relevant age group)	16.5	14.4	22.9	32.4	38.2
Total enrollment, primary (% net)	…	*38.5*	54.6	*62.5*	…
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	…	*2.4*	2.4	6.5	*14.9*
Ratio of female to male primary enrollment (%)	43.8	48.3	61.1	67.5	74.6
Ratio of female to male secondary enrollment (%)	21.9	23.5	28.4	34.5	43.6
Ratio of female to male tertiary enrollment (%)	…	*14.9*	17.5	6.4	23.8
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	3.8	…	…	…	…
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	32.0	26.0	28.0	27.0	28.0
Mortality rate, infant (per 1,000 live births)	113.2	109.0	105.0	101.4	97.1
Mortality rate, under-5 (per 1,000)	208.3	198.1	188.5	179.6	169.0
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	…	…	191.1	174.6	143.4
Births attended by skilled health staff (% of total)	…	*15.0*	16.3	*14.4*	*22.7*
Contraceptive prevalence (% of women ages 15-49)	…	*4.1*	7.9	*2.8*	*4.8*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	920.0	1000.0	1100.0	1100.0	*1100.0*
Pregnant women receiving prenatal care (%)	…	*23.4*	41.6	*38.9*	*53.1*
Unmet need for contraception (% of married women ages 15-49)	…	*9.7*	…	*20.7*	…
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	…	…	53.0	*53.0*	*35.7*
Condom use, population ages 15-24, female (% of females ages 15-24)	…	…	…	*2.4*	…
Condom use, population ages 15-24, male (% of males ages 15-24)	…	…	…	*18.4*	…
Incidence of tuberculosis (per 100,000 people)	94.0	128.0	151.0	150.0	151.0
Prevalence of HIV, female (% ages 15-24)	…	…	…	…	2.1
Prevalence of HIV, male (% ages 15-24)	…	…	…	…	0.9
Prevalence of HIV, total (% of population ages 15-49)	2.3	3.4	3.7	3.4	3.1
Tuberculosis case detection rate (%, all forms)	46.0	35.0	*40.0*	43.0	60.0
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	10.4	…	9.8	9.5	9.1
Improved sanitation facilities (% of population with access)	7.8	8.8	9.7	10.6	11.7
Improved water source (% of population with access)	39.8	42.3	44.7	47.2	50.2
Marine protected areas (% of total surface area)	…	…	…	…	…
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	0.0	*0.0*	0.0	0.4	*2.1*
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.1	2.1	*35.5*
Telephone lines (per 100 people)	0.1	0.1	0.1	0.1	*0.3*

Source: World Development Indicators database (The World Bank).

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

[2]Based on the preliminary household survey issued in October 2012, using the poverty threshold defined as 2,400 kcal per day (the minimum daily calorie requirement). Using this definiton, the corresponding values for poverty gap and poverty headcount ratio in 2003/2004 were 21.6% and 55%, respectively.

Table 9. Chad: Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact and Policy Response
Sustained decline in commodity prices triggered by deceleration of global demand and coming-on-stream of excess capacity	**Medium**	*Impact:* High. A sustained decline in oil prices would result in a shortfall in fiscal oil revenues and worsen the current account deficit. The fiscal shortfall could also delay several public investment projects, notably in agriculture and infrastructure. *Policy responses:* Smooth public expenditure over the medium-term and build sufficient fiscal buffers; strengthen non-oil revenue mobilization.
A deterioration of the security situation, including through regional spillovers (CAR, Mali)	**Medium**	*Impact:* High. It could cause: (1) displacement of population and increased need for humanitarian assistance; (2) increased security-related government expenditures that could crowd out other priority spending such as social or investment. *Policy response:* Rebuild fiscal buffers; budget sufficient resources for emergency security-related spending
A deepening of the food security crisis within Chad and across the Sahel region	**Low**	*Impact:* Medium. It could affect Chad's most vulnerable population through a combination of high food prices, and increased malnutrition; could lead to social and political tensions in an already fragile environment; and could jeopardize government's fiscal position as authorities respond to the crisis. *Policy response:* Continue coordination with development partners to strengthen Chad's resilience to weather shocks; promote policies for economic diversification and higher labor productivity, particularly in agriculture; strengthen social safety net programs, targeted at protecting the poor and vulnerable segments of the society.
Lapses in the implementation of fiscal policy.	**Medium**	*Impact:* High. A higher than anticipated non-oil primary deficit (NOPD) would lead to a build up of arrears and increased borrowing from the securities market, with adverse implications on the SMP, prospective donor support for the PRSP implementation, and HIPC completion point prospects. *Policy response:* Continue close monitoring of budget execution, including implementation of commitments under the SMP; limit the use of DAOs

Table 10. Chad: Key Reforms and Objectives to be Achieved before the Completion Point

Indicator	Status
Poverty reduction strategy paper	
· Preparation of a full PRSP and satisfactory implementation for at least one year, as evidenced by an Annual Progress Report	On Track
Macroeconomic stability	
· Maintenance of macroeconomic stability as evidenced by satisfactory performance under the ECF-supported program	On Track
Governance	
· Strengthened public expenditure management through better expenditure tracking to be able to identify and track poverty-related spending as evidenced by the implementation for at least six months of the simplified and computerized expenditure circuit, and a functional expenditure tracing system for primary education services	Pending
· Adoption of a new law on public procurement and publishing of a quarterly bulletin; auditing of the five largest public procurement contracts; timely adoption of the Budget Settlement Law before adoption of the Budget Law; nomination of judges for commercial courts in the five largest cities	Pending
· Adoption of a governance strategy and action plan in consultation with IDA and the IMF and implementation for at least one year	On Track
Priority sectors	
· *Education* —increased school enrollment and reduced repeater rates	On Track
· *Health and HIV/AIDS and STIs* —increased operationalization of health districts/centers and higher DPT3 vaccination rates; greater immunization coverage and an HIV/AIDS prevention and treatment strategy; increased treament of STIs	On Track
· *Basic infrastructure* —better ability to use the road network throughout the year, including the rainy season	On Track
· *Rural development* —increased access to potable water, increased access to agricultural equipment, and increased number of water points for livestock holders	On Track

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

Table 11. Chad: Quantitative Indicators for the Period from April 1 to December 31, 2013

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

	30-Jun			30-Sep			31-Dec
	Prog.	Real.	Status	Prog.	Prel.	Status	Prog.
Floor on non-oil primary budget balance	(468)	(455)	met	(672)	(652)	met	(876)
Ceiling on net domestic government financing	96	125	not met	157	22	met	175
Ceiling on the accumulation of domestic payment arrears by the government [2]	0	0	met	0	0	met	0
Ceiling on the accumulation of external payment arrears by the government or non-financial public enterprises [3]	0	0	met	0	0	met	0
Ceiling on contracting or guaranteeing of new non-concessional external debt by the government and non-financial public enterprises, but for ordinary external trade financing of at most one-year maturity (US$ million)[2 3 4]	12	312	not met	12	612	not met	12
New guaranteed external debt contracted or guaranteed by the government or non-financial public enterprises (US$ million) [3]	0	300	not met	0	600	not met	0
Floor for poverty-reducing social spending	140	173	met	220	258	met	330
Memo items: :							
Oil revenue	443	353		631	539		821
Foreign budget support grants	0	0		0	0		0

Sources: Chadian authorities; and IMF staff forecasts.

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

Table 12. Chad: Structural Conditionality Under the SMP

Measures	Proposed Due Dates	Status
Limit emergency spending procedures to no more than 20 percent of domestically financed spending (excluding wages, debt, and security spending)dépenses de sécurité.	end-Dec. 2013	Likely to have been met
Reconciliation of treasury and central bank data on net claims of the banking system on the government at end-2012 (based on a coherent definition of the single treasury account).	end-Sept. 2013	Not met. *Delayed. Now expected to be complete by end 2013*
Preparation and updating of a monthly treasury cash management plan (with a three-month rolling horizon).	end-Dec. 2013	Not likely to be met. *Proved to be too complex a reform.*
Starting in September 2013, all new loan proposals will be examined and be subject of an opinion by ETAVID (the Chadian Team for Analysis and Sustainability of Debt) and CONAD (National Commission for Debt Analysis)	end-Dec. 2013	Not likely to be met. *Delayed. Supporting decrees prepared.*
Submission to Parliament of a 2014 draft budget in line with the objective of gradually reducing the non-oil primary deficit	end-Oct. 2013	Met

Appendix I. Public Investment, Natural Resources and Debt Sustainability[1]

1. **The Chadian economy is heavily exposed to volatile and exhaustible oil resources**. The oil sector currently contributes 70 percent of fiscal revenues, 90 percent of total exports, and 30 percent of nominal GDP. However, according to current projections and absent new discoveries, fiscal oil revenues are expected to decline steadily and be relatively insignificant by early 2030s. Therefore, while high oil revenues have allowed the government to substantially increase public investment in recent years, there is a question as to how this trend can be maintained over the medium- and long-terms.

2. The DIGNAR (Debt, Investment, Growth and Natural Resources) model provides a framework to analyze the feasibility of ambitious public investment plans in Chad. The model is designed to analyze the nexus between natural resources revenue management, public investment and public debt. Its analytical framework is based on Buffie et al. (2012), Berg et al. (2013) and Melina et al. (2013), including a natural resource sector, investment efficiency, limited absorptive capacity, Dutch disease, and a detailed fiscal specification reflecting the operation of fiscal buffers. Taking resource revenues and public investment policy as given, the framework can simulate the macroeconomic outcomes of investing resource revenue, accounting for the investment-growth linkage and the feedback effect on non-resource revenue.

3. The DIGNAR model provides a stylized representation of an economy calibrated to Chad specifics.

- It features two types of households. Optimizing households have access to financial markets and can acquire domestic government bond and international bonds with portfolio adjustment costs, which restricts the degree of capital account openness. The private sector pays a premium on foreign debt over the interest rate that the government pays on its own external debt. Non-optimizing consumers or rule-of-thumb consumers are liquidity constrained and consume all of their disposable income in each period.

- The model has three production sectors. Traded and non-traded goods are produced according to a Cobb-Douglas production function with three inputs: labor, private capital and public capital. The difference between these two sectors resides in the modeling of technological

[1] Prepared by Matteo Ghilardi (RES).

progress—assumed to be exogenous in the non-traded sector is exogenous whereas in the traded sector is subject to learning-by-doing externalities and depends positively on the previous period output. The intuition is that once traded sector production starts falling, knowledge and skills can be lost. The third sector produces oil and is assumed to be exogenously given with both price and quantities taken as given.

- The capital formation process is subject to absorptive capacity constraints and government inefficiency. In particular, effective government investment is just a fraction of government expenditure on investment. Furthermore, to capture the idea of rising investment costs due to absorptive capacity constraints, we assume that investment efficiency falls when the expenditure level exceeds a certain threshold. Moreover, to capture the effects of a lack of maintenance of public capital, we assume a time varying depreciation rate.
- The government finances its consumption and investment expenditure with taxes and debt. In particular, taxes are collected from the oil and non-oil sectors. Foreign debt is subject to a risk premium that depends on the stock of external debt. In every period, the government can choose to close the fiscal gap with an increase in taxes, in debt, or both. Furthermore, the model features a fiscal buffer to edge against oil revenue volatility.

4. **Three alternative policy scenarios are considered in the simulations for Chad:**

a. Unconstrained taxes. In this scenario, the burden of closing the fiscal gap is solely on taxes.

b. Strongly constrained taxes. In this scenario, ceilings on labor tax of 25 percent and on consumption tax of 18 percent are included. This scenario more or less reflects Chad's current tax system's profile, with a statutory payroll tax rate of 7.5 percent on gross salaries and a VAT rate of 18 percent.

c. Mildly constrained taxes. Ceilings on labor tax of 25 percent and on consumption tax of 21 percent are included.

5. **Two alternative approaches to public investment scaling up are explored:**

a. A gradual approach. Public investment expenditure to GDP is constant throughout the simulation horizon, at 8 percent of non-resource GDP from 2013 to 2030.

b. An aggressive approach. A frontloading investment path is considered and it is assumed that public investment spending as a share of non-resource GDP jumps to 13.3 percent and remains above 11 percent prior to 2017.

6. **The initial steady state of the economy is mostly calibrated to the 2011 data of Chad.** The calibration implies a public capital to GDP ratio of 0.35.[2]

7. **Frontloading investment leads to a faster buildup of public capital.** Absorptive capacity constraints, however, lower the investment efficiency from 0.5 (the initial steady- state level) to below 0.4 initially. Without sufficient investment in later periods to cover recurrent costs, public capital depreciates over time. With non-frontloading, public capital rises more slowly. A relatively stable investment pace yields sustainable public capital (i.e., it does not fall in later years). Also, non-frontloading is more in line with absorptive capacity, and investment efficiency does not drop much below 0.5.

8. **The level of government debt varies considerably in the three fiscal policy scenarios.** In the unconstrained taxes case, where the fiscal gap is closed by taxes, the ratio of debt to GDP increases modestly and stabilizes just above 50 percent by 2035. In the strong constraint case, the ceilings on labor and consumption taxes raise significant concern on debt sustainability under both paths since the ratio of debt to GDP goes beyond 100 percent by 2035. In the last case, a mild constraint on taxes prevents the ratio of debt to GDP to explode.

9. **Under either investment path, the economy cannot accumulate much fiscal buffers.** As the simulations show, fiscal buffers rise briefly to almost 6 percent of non-resource GDP. However, as resource revenues declines, the resource fund is drawn down and drops to a minimal level and it goes eventually to zero.

10. **Relative to non-frontloading, frontloading of investment generates more appreciation in the real exchange rate and hence more negative response in traded output during the first few years.** In later years, substantial weaker domestic demand due to higher taxes depreciates the real exchange rate and much positive traded output responses.

11. **In sum, a gradual public investment scaling-up would seem more appropriate given financing constraints and risks.** Frontloading investment leads to a faster buildup of capital but poses threats to debt sustainability.

[2] To have a relatively low public capital to GDP ratio initially, we set the ratio of public investment to non-resource GDP to be 0.7, much below capital spending level in 2011.

Figure 1 – Simulation Results

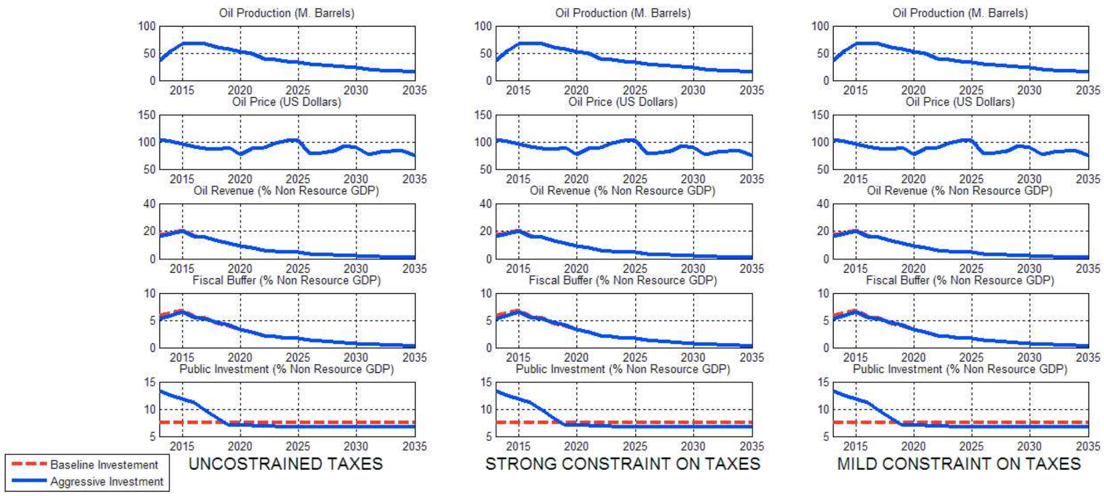


Figure 2 – Simulation Results

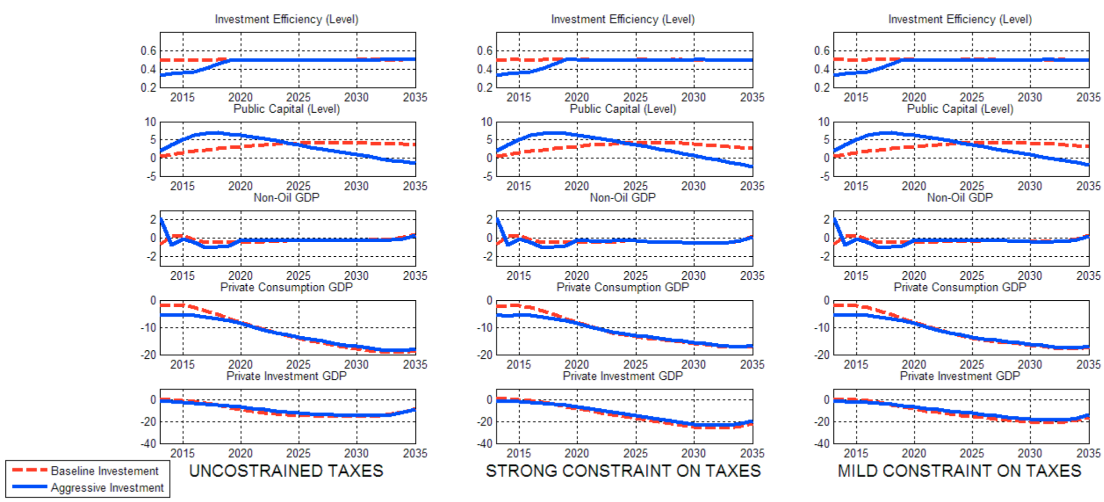
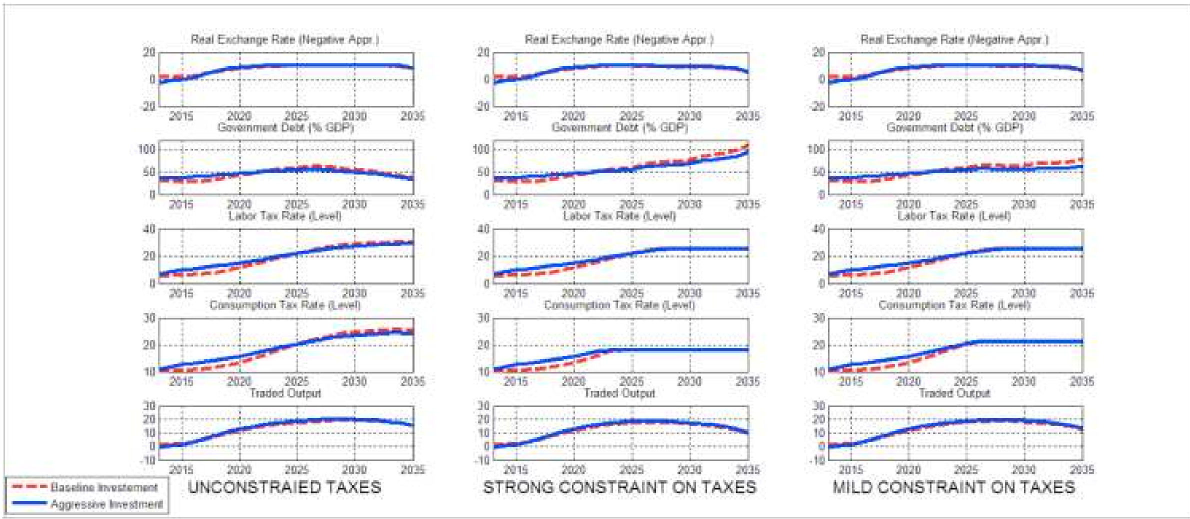


Figure 3 – Simulation Results



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Appendix II. Chad's Non-Oil Revenue Performance and Potential[1]

BACKGROUND

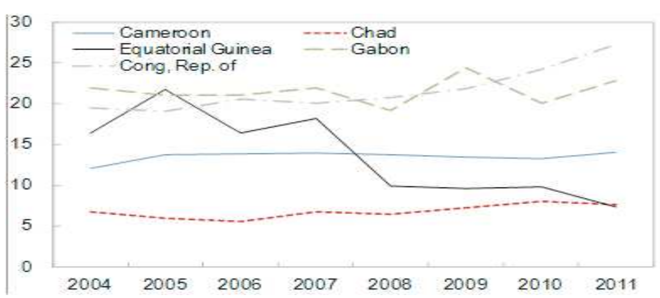
1. **Strengthening Chad's non-oil revenue is critical to addressing the country's long-term development needs in a sustainable manner.** Since 2003, Chad has been largely relying on fiscal oil revenue to finance its public expenditure. However, oil revenue has proved to be volatile—which has translated into volatility in public spending—and is exhaustible in the foreseeable future. Absent new discoveries, oil revenue is expected to decline significantly from a record-high of 25 percent of non-oil GDP in 2011 to less than 5 percent by 2030. On the other hand, achieving Chad's development objectives is partly anchored on an aggressive public investment program. A well-diversified non-oil tax base would therefore provide Chad with the needed revenue stream to support critical public programs as oil resources are depleted.

CHAD'S NON-OIL REVENUE PERFORMANCE

2. **Chad's non-oil revenue collection is low, even when compared to other oil exporters in the region.** Between 2004 and 2011, non-oil revenue for Chad has consistently been lower than that of its peers, averaging less than 8 percent of non-oil GDP over the period, compared to more than 13 percent in the other oil-producing countries in the CEMAC region (Figure 1). Low collections are to be expected given e the low per capita income, the importance of subsistence agriculture and the informal sectors, and tax policy and administration weaknesses.

Figure 1. CEMAC: Non-oil Revenue, 2004-2011

(Percentage of Non-oil GDP)



Source: African Department Database

[1] Prepared by Samson Kwalingana.

3. **Chad also ranks low among its regional peers in other revenue mobilization indicators**. Under the World Bank's CPIA indicator on "Efficiency of Revenue Mobilization" in 2013, the country's score of 2.5 is the lowest among CEMAC countries for which data are available, including Cameroon (3.5), Central African Republic (3.0), and the Republic of Congo (3.0)[2]. It also ranks lower than most other comparator regions, like Sub-Saharan Africa (3.4), or resource-rich countries (3.3). Similarly, Chad has been ranked last in the two recent rankings on the World Bank's "ease of paying taxes"[3] (table 1).

Table 1: Paying Taxes in Chad and the CEMAC Region, 2013

Country	VAT Rate	CIT Rate	Position
Cameroon	19.25	38.50	180
Central African Republic	19.00	30.00	188
Chad	18.00	40.00	189
Congo, Republic of	18.00	34.00	183
Equatorial Guinea	15.00	35.00	177
Gabon	18.00	35.00	152
Unweighted average for CEMAC	**17.88**	**35.42**	
CEMAC average excluding Chad	**18.56**	**34.38**	

Source: World Bank Doing Business Indicators, 2014

4. **With respect to tax buoyancy, growth in Chad's non-oil tax revenue seems to have kept pace with growth in non-oil GDP**. Between 2004 and 2011, the estimated elasticity for Chad is 1.2, indicating that non-oil tax revenues have been growing at a faster rate than non-oil GDP. This rate compares favorably against Equatorial Guinea (0.3) and Gabon (1.1), but is lower than Cameroon (1.6), Central African Republic (1.8) and Republic of Congo (1.8).

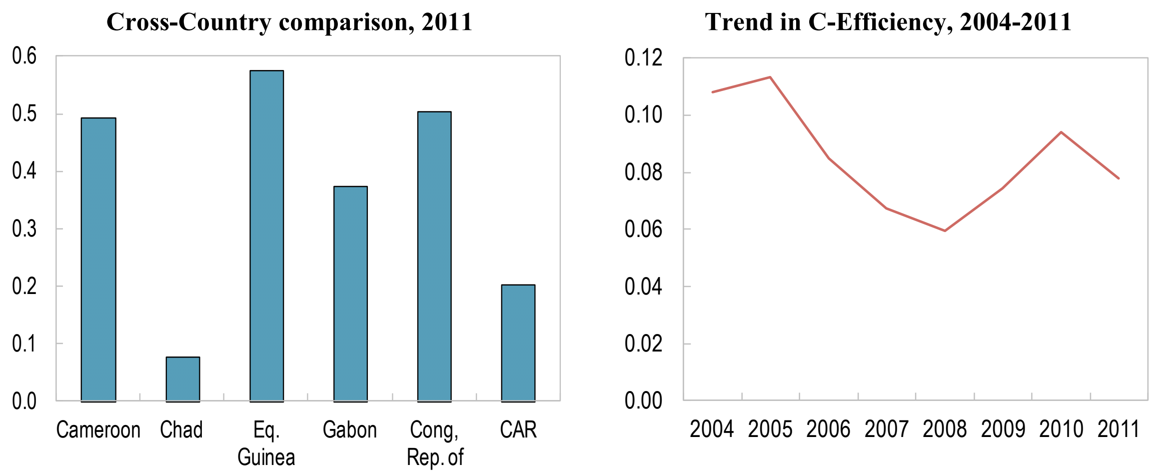
5. **The low non-oil revenue performance relative to regional peers can be traced to differences in tax policy choices and a weak revenue administration**. The country's tax rates are largely comparable with its regional peers. For example, Chad's non-oil Corporate Income Tax (CIT) rate of 40 percent is the highest in the region, while its Value Added Tax (VAT) rate is comparable with most countries in CEMAC. However, the country's estimated C-efficiency (defined as the

[2] The Efficiency of Revenue Mobilization index measures the quality of a country's tax system, including tax policy and tax administration indicators, in a ranking that ranges from 1 (low) to 6 (high).

[3] This indicator shows the tax that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

revenue from VAT divided by the product of the standard rate and aggregate private consumption) is the lowest in the region by a substantial margin[4]. The C-efficiency for Chad in 2011 was 5 percent, which is significantly lower than Cameroon (33 percent) and Equatorial Guinea (42 percent, the region's highest). Moreover, the C-efficiency has remained stagnant at around 5 percent between 2007 and 2011, reflecting continued weaknesses in both policy design and tax administration.

Figure 2. Chad: C-Efficiency for Taxes on Goods and Services



Source: African Department Database, Staff calculations

ESTIMATING CHAD'S NON-OIL REVENUE POTENTIAL[5]

6. **This section employs a stochastic tax frontier model to estimate Chad's non-oil tax capacity and effort.** A study of tax capacity aims to determine the maximum level of revenue a country can collect, given its economic, social, institutional and demographic characteristics. To that end, a stochastic frontier analysis is employed to estimate the maximum level of revenue that is possible (i.e. the frontier), for given characteristics of a country. The model explains revenue performance of countries by indicators such as per capita income, the income distribution, the level of education, the sector composition of the economy, and institutional factors such as the degree of corruption and indicators of governance (see Box 1 for technical details of the model).

[4] Due to unavailability of data on VAT revenues for all the CEMAC countries, we estimated VAT C-Efficiency for three countries only: Chad, Cameroon, and Equatorial Guinea. However, C-Efficiency estimates for all countries based on taxes on goods and services (of which VAT revenue is the largest contributor) reveal the same pattern, i.e., that Chad has the lowest efficiency in the region.

[5] Ricardo Fenochietto (FAD) provided technical support to calculate the tax potentials/effort used for this section

7. The ratio of actual revenue and tax capacity, provides an estimate for tax effort. The lower the tax effort, the further is a country away from the maximum level of revenue it can collect according to international experiences.

Box 1. Stochastic Frontier Models[1]

The stochastic frontier model of Aigner, Lovell, and Schmidt (1977) is the standard econometric platform for the analysis carried out in this paper. A panel version of this model can be written as

$$y_{it} = \alpha + \boldsymbol{\beta}'\mathbf{x}_{it} + v_{it} - u_{it} \qquad [1]$$

Where,

y_{it} represents the log tax revenue to GDP ratio for country i at time t;

$\boldsymbol{x}_{it}$ is the vector that represents variables affecting tax revenue for country i at time t;

$\boldsymbol{\beta}$ is a vector of unknown parameters,

u_{it}, represents the inefficiency, the "failure" to produce the relative maximum level of tax collection or production. It is a non-negative random variable associated with country-specific factors which contribute to country i not attaining its tax capacity at time t.

v_{it} is the statistical noise (the disturbance or error term)**.** It is a random (stochastic) variable which represents the independent variables that explain the dependent one but are not explicitly taken into account as well as measurement errors and incorrect functional form; *vit* can be positive or negative and so the stochastic frontier outputs vary on the deterministic part of the model.

As is usual, it is assumed that:

v_{it} has a normal distribution,

v_i and u_i are statistically independent of each other.

u_{it}, > 0, but v_{it} may take any value.

The analysis aims to predict and measure inefficiency effects. To do so, we use the tax effort, defined as the ratio between actual tax revenue and the corresponding stochastic frontier tax revenue (tax capacity). This measure of tax effort has a value between zero and one.

$$TE_{it} = \frac{\tau_{\mathrm{it}}}{\exp(\alpha + \boldsymbol{\beta}^{\mathrm{T}}\mathbf{x}_{it} + v_{it})} = \frac{\exp(\alpha + \boldsymbol{\beta}^{\mathrm{T}}\mathbf{x}_{it} + v_{it} - u_{it})}{\exp(\alpha + \boldsymbol{\beta}^{\mathrm{T}}\mathbf{x}_{it} + v_{it})} = \exp(-u_{it}) \qquad [2]$$

[1]Adapted from Fenochietto, R and C. Pessino, (2013)..

8. The estimation results reveal that Chad has the highest potential to improve its non-oil tax revenue collection in the region (table 2). Chad has the lowest non-oil tax effort in the CEMAC region. Given its economic and social characteristics, Chad's potential to collect non-oil revenue is estimated at 24 percent of non-oil GDP in 2011, but only managed to raise 7.6 percent, reflecting a tax effort of 32 percent. Accordingly, in 2011 alone, Chad's actual non-oil tax-to-non-oil GDP ratio was below its potential by over 15 percent of non-oil GDP, suggesting significant room for

broadening the tax base and strengthening tax administration. Thus, if Chad were to raise its tax effort to the CEMAC regional average of 0.67 -excluding Chad-, its non-oil revenue would increase by 8.5 percent of GDP.

Table 2: Non-oil Tax Effort in the CEMAC Region, 2011

Country	Total Non-oil Revenue[1]	GDP per capita, PPP 2005	Tax Capacity	Tax Effort
Cameron	12.80	2,251.9	23.20	0.55
Central African Republic	10.80	715.6	14.50	0.74
Chad	7.60	2,313.3	24.00	0.32
Congo, Republic of	27.20	3,884.9	36.00	0.76
Gabon	22.90	17,051.5	36.20	0.63
Unweighted average for CEMAC	**16.26**	**5,243.4**	**26.78**	**0.60**
CEMAC average excluding Chad	**18.43**	**5,976.0**	**27.48**	**0.67**

[1] as percent of non-oil GDP

CONCLUSION AND POLICY RECOMMENDATIONS

9. **Chad has substantial scope to increase its non-oil revenue to finance its long-term development objectives.** An analysis of several indicators has clearly shown that the country lags behind its regional peers in terms of revenue collection. Econometric evidence suggests that Chad's non-oil tax effort of 32 percent is the lowest among the CEMAC oil-producing countries. The country also has the lowest efficiency rates in tax revenue collection in the region, as evidenced by very low C-efficiency, low ranking on the World Bank's "ease of Paying Taxes" and CPIA score on "Efficiency of Revenue Mobilization."

10. **Improving non-oil revenue collection will require enhancements in both tax policy measures and revenue administration, in line with previous IMF recommendations**. Tax policy reforms could focus on broadening the tax base, including by reviewing tax incentives and exemptions, minimizing discretionary actions in tax policy design; and simplifying the tax structure to eliminate taxes with small collections that are enormously costly to comply with and administer. Specific areas of the policy reforms, along with their sequencing, could be couched around recommendations of the 2010 FAD TA on tax policy review, including:

- Curbing numerous VAT tax preferences, which deteriorate the VAT tax base, seriously undermine VAT revenue productivity, and lead to tax evasion and leakage (short- to medium-term);

- Harmonizing tax exemptions with those in the CEMAC region (short-term);
- Increasing taxes on tobacco and other luxury goods (to 25 percent);
- Liaising with other line ministries with the aim of minimizing earmarked taxes (short-term);
- Reducing corporate income tax rate from 40 percent to 35 percent and the minimum flat tax rate from 1.5 percent to 1 percent (long-term).[6]

11. **On strengthening tax and customs administration, the authorities should take concrete steps towards implementing the recent FAD recommendations.** Potential reforms include: strengthening the operations of the large taxpayers unit; improving the selection criteria and quality of audits; simplifying and automating customs procedures; and ensuring that both the tax and customs administrations have the human and financial resources to carry out their functions.

[6] A recent study by the African Development Bank (AfDB) also provides broadly similar policy recommendations for enhancing non-oil domestic resource mobilization in Chad.

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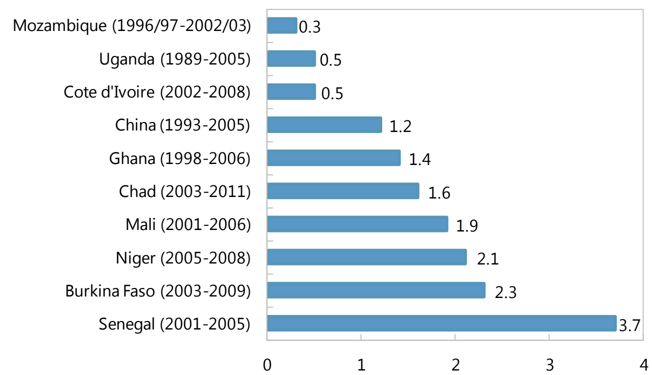
Appendix III. Inclusive Growth in Chad[1]

OVERVIEW

1. **Chad remains one of the poorest countries in the world despite a fast and volatile economic growth since the start of oil production in 2002/03.** The strong economic growth has not been very inclusive, as evidenced by a moderate but uneven poverty reduction, an increase in inequality, and an unbalanced growth mainly driven by the oil and oil-related sectors. The key bottlenecks to inclusive growth are volatile and unproductive public spending, business environment and structural competitiveness, financial exclusion, poor coverage of basic infrastructure, lack of decent jobs and social protection.

2. **Chad achieved some moderate poverty reduction as economic growth picked up speed after the oil discovery[2].** The poverty headcount rate (percentage of Chadians living below the national poverty line) dropped from 54.8 percent in 2003 to 46.7 percent in 2011. The elasticity of poverty reduction to per capita income growth in Chad lagged behind some regional peer countries (Figure 1). Despite the reduction in the poverty rate, the total population in poverty increased from 4.1 million in 2003 to 4.7 million in 2011 as Chad has one of the highest population growth rates in the world (3½ percent per year).

Figure 1. Elasticity of headcount poverty rate with respect to growth in real GDP per capita



Note: All countries' headcount poverty rates were based on the international poverty line of 1.25 dollars per day except for Chad whose headcount poverty rates were based on national poverty line.
Sources: World Bank, WDI database.

3. Progress made in poverty reduction was not even, with urban poverty falling faster than rural poverty during 2003-2011. In 2011, poverty remained more than twice as widespread in rural areas than in urban areas, and the poverty gap was more than three times larger in rural areas. The lowest poverty headcount rate was recorded in N'Djamena (11 percent) on account of government-related activities (e.g. construction, services), while the highest poverty headcount rates were recorded in the largely agricultural regions (Moyen-Chari/Mandoul, Logone Occidental, and Tandjile) as a result of an overall decline in cash-crop production, in particular cotton.

4. **Inequality has increased in Chad**. The Gini coefficient rose from 39.4 percent in 2003 to 42.1 percent in 2011. Rural inequality is greater than urban inequality, and this disparity has increased over time. Consumption disparities between the richest and poorest also widened over time, as consumption expenditures have grown fast for the top four quintiles while barely seen any growth for the bottom quintile. In 2011 the richest quintile accounting for 48 percent of total

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[1] Prepared by Yanchun Zhang

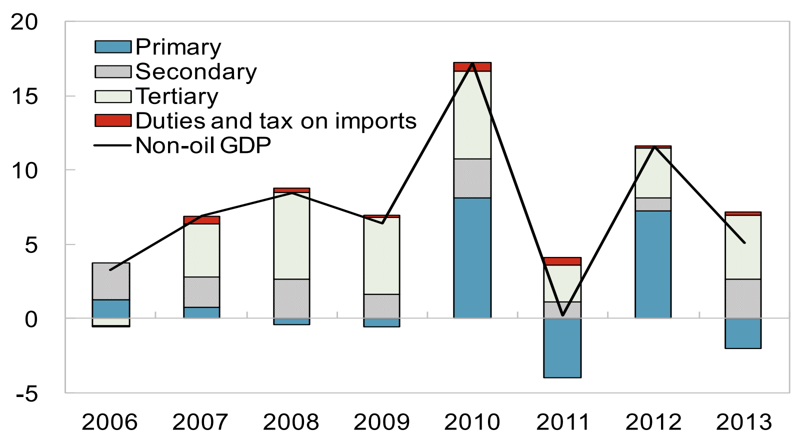
[2] Source: World Bank (2013) which is based on the 2003 and 2011 Chadian Household Consumption and Informal Sector Surveys (ECOSIT2 and ECOSIT3).

consumption expenditures while the poorest quintile only accounted for 5 percent of total consumption expenditures.

5. **The Chadian economy is oil dominated and its fast economic growth over the past decade has largely come from its oil GDP growt**h. In 2012, the oil sector accounted for almost 30 percent of Chad's GDP, more than 70 percent of its fiscal revenues, and almost 90 percent of its exports[3]. Chad's non-oil GDP growth has been slower and quite volatile; in particular, the primary sector's growth largely stagnated over the last decade and started recovering only recently (Figure 2).

Figure 2. Chad: Sectoral contributions to non-oil GDP growth, 2006-2013

(in percent)



[3] Source: IMF staff estimates.

KEY BOTTLENECKS

6. **Highly volatile and inefficient public spending has greatly limited the positive impact of public spending on development indicators**. Chad has not managed the oil revenue volatility well which often transmitted to stop-and-go public spending on infrastructure projects, leading to unit costs of construction far above the regional average[4]. In addition, public resources have not been pro-poor in Chad (for example, the poorest quintile received 6 percent of total public health expenditure while the richest quintile captured 46.5 percent[5]). Furthermore, the effectiveness and impact of public spending has been hampered by inadequate budget allocations to meet the recurrent spending needs of the increased physical capital stock. As a result many public infrastructures are not operational and cannot provide education and health services to the needy.

7. **Various business environment and competitiveness indicators rank Chad among the worst performers compared to its peers**. The World Bank's "Doing Business" indicators[6] and Governance Indicators rank Chad with the worst scores in almost all studied categories (Figure 3a and 3b). Similarly, the World Bank's Transparency Index ranks Chad very low in that dimension. The publication of the White Book by the National Council of Employers of Chad was an important step toward improving Chad's business climate. But little progress has been made to implement the recommendations in the White Book.

8. **The financial sector in Chad is underdeveloped with major challenges to expand financial access to remote rural areas**. Chad has been slowly catching up with its CEMAC peers in financial deepening and financial inclusion (Figures 4a and 4b). Financial intermediation indicators improved but still lag far behind the regional average: less than 22 depositors per 1000 adults (compared to 128 for SSA), fewer than 3 borrowers per 1000 adults (compared to 21 for SSA), and less than 1 commercial bank branch per 100,000 adults (compare to 3.7 for SSA). Microfinance institutions have been expanding slowly over the past two decades and provide less than 3 percent of domestic credit to the private sector;[7] there were more than 150 microfinance institutions registered with the Ministry of Finance and Budget, which suggests a high degree of fragmentation and high costs given a lack of economies of scale. The policy actions underway include the implementation of the Microfinance Project in Chad (PROMIFIT) and the Support Project for Inclusive Financing in Chad (PAFIT).

9. **The coverage of basic infrastructure (energy, water, transport, and telecommunications) remains weak in Chad**. Despite a large increase in public investment on physical infrastructure over the past decade, the access to safe water and basic sanitation facilities remain far from the 2015 MDG targets and the regional average. With more than

[4] Source: World Bank (2013).

[5] Source: World Bank (2013).

[6] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability

[7] Chadian government's note on microfinance institutions: Note De La Cellule Technique Du Ministere Des Finances Et Du Budget Sur Le Secteur De La Microfinance Au Tchad

30 percent of public investment going to transportation, the total distance of paved roads has increased from 557 km in 2002 to 1602 km in 2011 and is expected to reach almost 2000 km by the end of 2013. The majority of the Chadian population still lacks access to electricity; 97 percent of the population still uses wood and charcoal for cooking; oil lamp remains the dominant lighting method used by more than half of the population. The penetration rate of landline and mobile phones combined increased from 3.7 percent in 2005 to 31.1 percent in 2011. But the inadequate landline infrastructure and broadband network has limited the growth of landline telephony and internet usage in Chad.

Figure 3a. Doing Business Indicators

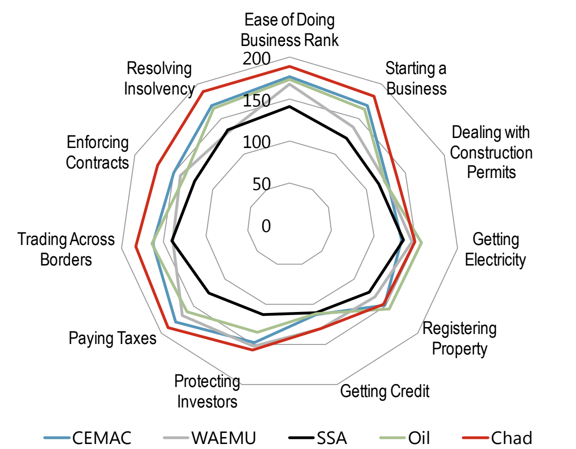
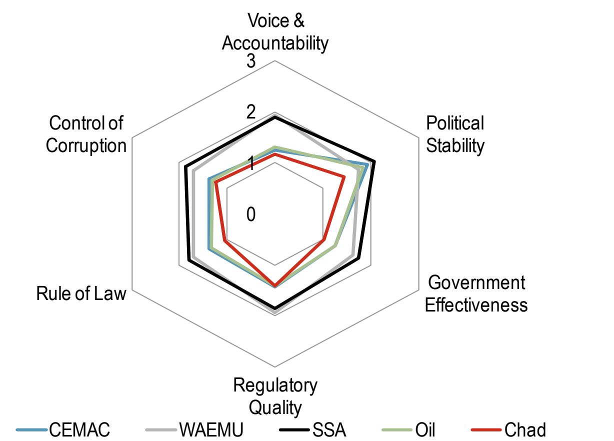


Figure 3b. Governance Indicators (0=worst, 5=best)



Source: (1) World Bank, Doing Business Indicators, 2014 (2) Governance Indicators, 2013

Figure 4a. Domestic Credit to Private Sector, 1993-2012

(Percent of GDP)

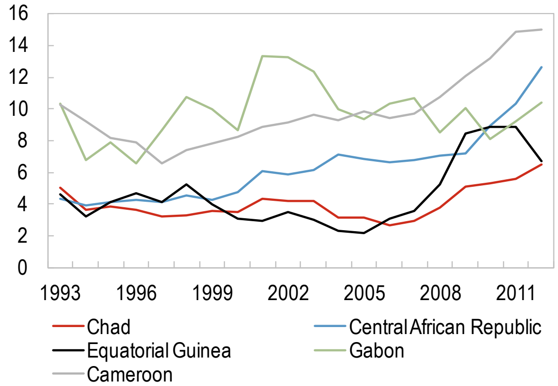
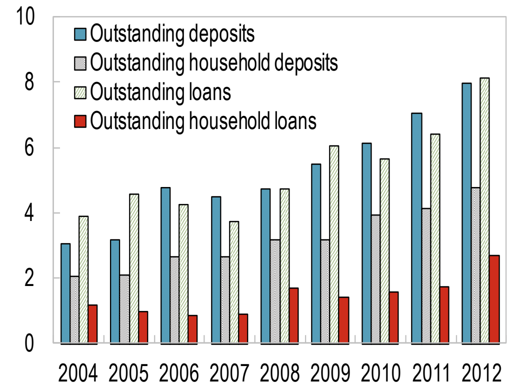


Figure 4b. Commercial bank services are growing, 2004-2012

(Percent of GDP)



Source: World Bank, WDI database; IMF, Financial Access Survey database

10. **Chad faces great challenges of creating higher-paid jobs with decent working conditions for its enlarging working population**. The National Development Plan 2013-2015 (NDP) estimates that 1.7 million additional jobs are needed between 2010 and 2020 and another 2.5 million jobs need to be created between 2020 and 2030. Chad's labor force participation rate is quite high at 72 percent of the total adult population (age 15+) in 2012. But the majority of the working population is vulnerable: most workers make limited earnings due to their educational levels and lack of matching skill sets for decent employment opportunities.

11. **Lack of job training and social protection has failed to improve and protect human capital**. Social protection has been envisioned by the government in its draft National Social Protection Strategy (NSPS) 2014-2018 as an investment that can break the intergenerational transmission of poverty and support economic growth. The budget of the National Social Security Fund (CNPS) has increased steadily from 17.5 billion CFA in 2011 to 22 billion CFA in 2013. But social protection spending remains low and only accounts for 1 percent of the NDP 2013-2015 budget.

POLICY PRIORITY RECOMMENDATIONS

12. **Smoothing public spending with a medium-term perspective, rationalizing public investment plans, and improving the efficiency through PFM reforms** could help the government tackle volatile and inefficient public expenditure. Adequate budget allocations for operation and maintenance of public physical infrastructure need to be ensured, and accountability of state-owned enterprises needs to be enhanced.

13. **Diversifying the sources of economic growth, in particular promoting the growth of labor intensive sectors such as the rural sector, will help job creation and sustain economic growth**. Continuous efforts to improve provision of public education and health services will help form an educated and healthy labor force. Building basic social protection in Chad will help

protect human capital. Besides increasing spending on those areas, specific measures are also needed to enhance the efficiency and effectiveness of such spending.

14. **Improving the business environment, expanding financial access, and creating enabling conditions for private sector to grow** is critical for Chad to develop a more diversified and robust economy which will help promote inclusive growth.

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INTERNATIONAL MONETARY FUND

CHAD

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND ASSESSMENT OF PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITYANALYSIS

February 7, 2014

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

Chad's public domestic and external debt indicators have remained relatively stable in the last few years. However, the risk of debt distress remains high taking into account the decision to cancel the non-concessional Master Facility Agreement (MFA) signed with the Eximbank of China in August 2011 and the contracting of a non-concessional US$600 million oil sales' advance operation to cover oil revenue shortfalls in 2013. The projected steady decline in oil exports and associated fiscal revenues (barring new discoveries) is a critical challenge over the medium-term requiring a steady fiscal adjustment and economic diversification.

BACKGROUND

Recent Developments in Public External Debt

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

2. **The Chadian authorities have taken steps to tackle the debt sustainability concerns raised by the 2012 Article IV DSA**. In December 2013, the authorities formally communicated to Eximbank China their decision to cancel the US$2 billion (14.9 percent of 2013 GDP) Master Facility Agreement (MFA) signed in August 2011 noting that the MFA is not legally in force in Chad as it was never formally approved by the National Assembly and that no disbursement took place under the MFA.

3. **The external public debt-to-GDP ratio is estimated to have risen from 20.9 percent of GDP in 2012 to 24.1 percent of GDP in 2013 mainly on account of external commercial borrowing in the form of oil sales' advances**. The authorities signed two agreements in May and August of 2013 for a total of US$600 million (4.5 percent of GDP) with a commercial partner (Glencore Energy). These two non-concessional loans carry an annual interest rate of 6.9 percent, on top of an upfront commitment fee of 2.75 percent, and have to be reimbursed over a two-year period (against crude oil shipments).[1]

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

Table 1. Chad: External Debt Stock at Year-End, 2001–2012
(Billions of CFA francs)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Est.	2012 Est.
Total	794.3	786.3	736.6	797.2	898.9	896.2	794.0	782.3	781.8	1,066.8	1,317.1	1,326.7
(Percent of GDP)	…	…	…	…	…	23.1	19.2	16.9	17.9	20.2	23.0	20.2
Multilateral	678.1	687.7	652.5	715.3	810.2	805.5	718.6	706.6	677.7	757.7	742.2	724.3
IMF	65.3	67.3	57.0	47.7	47.5	37.4	25.4	19.0	12.9	8.3	5.2	2.4
World Bank/IDA	380.6	398.3	394.0	444.5	507.8	486.1	453.4	422.0	402.7	439.5	422.3	415.3
African Development Fund/Bank	182.8	169.8	159.9	168.5	179.8	205.8	173.7	182.4	185.5	208.7	210.2	200.9
EIB	3.9	7.9	7.3	13.0	13.0	12.4	9.9	9.8	8.7	9.4	10.0	6.8
Others	45.5	44.4	34.2	41.6	62.0	63.8	56.2	73.4	67.9	91.8	94.4	99.0
Bilateral	116.2	98.6	84.1	81.9	88.8	90.7	75.4	75.7	104.1	309.1	270.6	298.4
Paris Club official debt	30.2	25.8	24.0	25.2	24.3	23.2	23.6	19.2	16.6	32.0	16.1	13.0
Non-Paris Club official debt	86.1	72.7	60.1	56.7	64.4	67.5	51.8	56.5	87.5	277.2	254.5	285.4
of which: China, People's Republic	28.6	25.4	22.0	13.6	15.4	13.9	-	3.5	20.4	125.1	43.8	12.9
Libya	-	-	-	-	-	-	-	-	-	96.2	144.2	164.9
India	-	-	-	-	-	11.3	14.8	22.7	21.4	22.9	22.3	21.0
State-Guaranteed											304.4	304.0

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

The concept of debt used here includes both contracted and guaranteed debt. The end-2011 external public debt stocks are estimated by staff based on World Bank Debt Reporting System (DRS) end-2010 debt stock, Chad's debt management office's estimates of 2011 disbursements and amortization, and Ministry of Economy and Planning estimates of 2011 project loan disbursements. The official external debt stock data underestimate the actual level of external debt. Most notably, the debt registry does not capture the loans from China for the state's stakes in the joint-venture refinery and in the Baoré cement factory, and other government-guaranteed debt. Also, project loan disbursements are recognized only after a long lag. Both text tables have discrepancies with corresponding fiscal or balance of payments flow estimates, giving rise to residuals in the sustainability analyses.

Status of Implementation of Debt Relief Initiatives

4. **The authorities are seeking to achieve debt relief under the HIPC Initiative**. Chad reached the HIPC decision point in 2001, but several previous efforts to attain the completion point failed due to political instability, insufficient commitment to reforms, and weak implementation capacity, including insufficient fiscal controls. In May 2013, the authorities approved a new Poverty Reduction Strategy (PRS) covering the period 2013-15 (a joint IDA-IMF Staff Advisory Note was issued to the Executive Board in July 2013 (EBD/13/50)). In July 2013, an SMP for the period April-December 2013 was approved by Fund management, with mixed policy performance so far.[2] The World Bank and IMF have been closely working with the authorities on assessing compliance with the HIPC floating completion point conditions.

[2] The SMP aims at sustaining the recent improvements in macroeconomic outcomes, while advancing public financial management reforms and implementing Chad's new PRS. Most quantitative targets for end-June and end-September 2013 were met. However, the oil sales advance operation implied that the ceilings on contracting or

(continued)

5. Realizing debt relief under the Enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) would help reduce external debt up to a half (in nominal terms). Debt relief under the MDRI would cover the full stock of MDRI-eligible debt owed to IDA and the African Development Fund that is outstanding at the date that the Completion Point is reached. In nominal terms, this could total about US$850 million and would imply a reduction in debt service of about US$40 million per year over the next 20 years.[3] A detailed debt reconciliation exercise based on most recent debt data will need to be conducted to firm up these estimates and include potential debt relief from other creditors before reaching the HIPC completion point.

Recent Developments in Public Domestic Debt

6. The stock of public domestic debt has grown, reaching 7.3 percent of GDP at end-2012 (and an estimated 6.9 percent of GDP in 2013). This growth was the result of drawing on central bank statutory advances, the sale of over CFAF 100 billion of five-year savings bonds (in 2011), and a CFAF 50 billion loan from Republic of Congo (in 2012). The stock of public domestic debt includes a balance of CFAF 50.3 billion in treasury arrears. In 2013, the authorities placed a five year savings bonds for CFAF 90.2 billion in the CEMAC regional market with a 6 percent coupon and contracted a CFAF 15 billion loan from Equatorial Guinea. Treasury arrears have declined to CFAF 42.1 billion at end-October 2013 from CFAF 50.3 billion at end-December 2012.

Table 2. Chad: Stock of Domestic Debt at Year-End, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
Total	122.3	123.1	142.7	238.6	286.9	464.1	483.6
(Percent of GDP)	3.2	3.0	3.1	5.5	5.4	8.1	7.3
Central Bank statutory advances	-	17.0	21.6	141.6	208.6	208.6	187.7
Rescheduled debts	71.8	48.6	56.8	58.2	67.9	52.9	44.8
Treasury arrears	24.8	26.1	41.1	25.7	3.1	56.4	50.3
Legal commitments	13.2	12.5	10.8	10.1	4.6	21.2	49.8
Standing payment orders	11.5	18.1	11.5	2.1	1.8	3.1	
National Savings Bond	0.9	0.9	0.9	0.9	0.9	0.9	0.9
2011 Savings Bond	-	-	-	-	-	121.0	100.0
Republic of Congo	-	-	-	-	-	-	50.0

Source: Chadian authorities.

guaranteeing new non-concessional external debt and on new guaranteed (i.e., collateralized) external debt by the government and/or non-financial public enterprises were surpassed.

[3] Chad reached the decision point under the HIPC Initiative in May 2001. At that time, the amount of HIPC assistance from the IMF was estimated at SDR 14.3 million in end-2000 PV terms. Debt relief provided by the IMF during the interim period amounted to SDR 8.55 million (60 percent of total debt relief under the HIPC Initiative). Any remaining HIPC relief from the Fund will be provided when Chad reaches the completion point, and currently is estimated at SDR 8.5 million, including SDR 2.8 million—the interest earned on the committed amount in the PRG-HIPC Trust, and SDR 0.01 million—the interest earned on the Chad's HIPC Umbrella Account. This amount may be revised at completion point based on possible revision of the Common Reduction Factor (CRF) in case the decision point (HIPC-eligible) debt stock and the corresponding macroeconomic framework are revised. Chad has no MDRI-eligible debt to the Fund and, therefore, no resource is required from the MDRI-I Trust.

Debt Burden Thresholds under the Debt Sustainability Framework

7. **For the purpose of defining debt burden thresholds under the Debt Sustainability Framework (DSF), Chad is classified as a weak policy performer.** Chad's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) is 2.5 for CY2012 (on a scale from 1 to 6).

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

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

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

DSA ASSUMPTIONS

8. **The assumptions underpinning the DSA have been revised from last year to reflect the newly adopted policy of a uniform discount rate of 5 percent, the cancellation of the US$2 billion non concessional MFA, and the contracting of the nonconcessional US$600 million oil sales' advance operation** . The current macroeconomic projections for Chad show a financing gap for 2014 of CFAF 260 billion. At the time of preparation of this report, there was uncertainty as to how the financing gap was to be closed. Given limited concessional financing options and the authorities' strong interest in reaching the HIPC completion point, a sizable fraction of the financing gap would be covered through fiscal adjustment, but no determination had been made regarding its extent and nature. In that context, and for illustrative purposes, the DSA assumes that the 2014 financing gap is financed by external concessional and domestic borrowing, [in equal proportions]. While the availability of large amounts of concessional and domestic financing is questionable, this scenario places a more realistic ceiling to Chad's debt dynamics over the medium- and long-terms. In the face of it, greater reliance on fiscal adjustment would reduce risks of external debt distress, while reliance on external nonconcessional borrowing would increase them.

9. **Oil production and revenue**: Chad's medium- and long-term macroeconomic outlook is characterized by a temporary sharp increase in oil production in 2014–16 and a steady decline of oil production over the subsequent sixteen-year projection period (Box 1).[4]

[4] Oil production at the Doba oilfield (exploited by the Esso-led consortium) started in 2003, reached its peak of 63 million barrels in 2005 and, absent other oil developments, will decline with annual output projected to become negligible beyond 2030. In 2011, oil production began at a second oil field, Bongor, operated by CNPC (about one-third the size of the Doba field). At present, Bongor produces crude oil at a rate of about 15,000 barrels

(continued)

- Oil production is expected to rise from 113,000 bpd in 2012 to about 173,000 bpd in 2015-16. This second oil boom will likely be temporary; proven reserves in the new fields are much smaller than that in the original Doba basin and will also likely be nearly exhausted around 2030. Hence, oil production and exports are projected to decline steadily to negligible levels beyond 2030. Obviously, these prospects might change with new oil exploration activities.

- Chad's oil trades below the WEO reference price, reflecting a quality discount and transport[5] cost. For the medium term (five-year horizon) the price of Chadian oil is assumed to drop from US$102.8 per barrel (all discounts included) in 2013 to about US$83.6 per barrel in 2017–18, in line with the trend projected in the IMF's World Economic Outlook (WEO). From 2019 onward, the price is assumed to increase 3 percent per year in U.S. dollar terms (consistent with the assumption used by the IMF in long-term projections for other sub-Saharan African countries).

10. **Fiscal policy:** The analysis assumes a sustained fiscal adjustment throughout the entire projection in transition to the post-oil era, with the non-oil primary deficit (NOPD) reduced from about 16 percent of non-oil GDP in 2014 to 12 percent of non-oil GDP by 2018. The increase in oil production over the medium-term is expected to help maintain oil revenues above 15 percent of non-oil GDP until 2016. Over the longer term, it is assumed that dwindling oil revenues will be partly offset by a decline of total government primary spending from 30.4 percent of non-oil GDP in 2013 to 21.6 percent in 2033, while the primary balance will be adjusted gradually to reach a small deficit of 0.3 percent of non-oil GDP by 2033. The latter is projected to be achieved mainly by: (i) increasing non-oil revenues (from about 8.5 percent of non-oil GDP at present to about 17 percent of non-oil GDP by 2033); (ii) reducing total investment outlays from over 14 percent of non-oil GDP to below 10 percent of non-oil GDP; and (iii) cutting recurrent spending, notably, by streamlining exceptional security transfers and subsidies to public enterprises (at present, jointly accounting for about 6.5 percent of non-oil GDP).

11. **The DSA analysis is conducted over a baseline (current policies) scenario** that reflects the stated intentions of the authorities to pursue fiscal consolidation, while protecting priority spending and investing adequately in physical infrastructure to prepare the country for the post-oil era. While the baseline scenario is consistent with the medium-term fiscal framework presented in the staff report for the Article IV 2013 consultation, it assumes that the projected financing gap for 2014 is financed through external concessional and domestic loans. In 2013, however, owing to the Glencore operation, 81 percent of new foreign borrowings are contracted on commercial terms. Commercial borrowing is assumed to fall

per day as feedstock for the oil refinery, resulting in a near complete substitution of petroleum product imports. Exports of crude oil from Bongor are expected to start in 2014 and reach 65,000 bpd in 2015. Oil from another smaller operator (Caracal, formerly Griffiths) started to be produced in late 2013 and are expected to peak at 40,000 bpd in 2015.

[5] The discount was fairly constant (about US$6.50) until recently when it dropped to about US$2.50 due to the disruption of oil exports from South Sudan, which increased the demand for (a very similar) Chadian oil. This discount is expected to rebound over the near term to its normal level.

to 0 percent of new external borrowing from 2014 onward and the financing plan assumes the following composition for gross borrowing: 52 percent multilateral, 48 percent bilateral. Hence, the grant element is assumed to improve rapidly in 2014-15 and average 34-35 percent over the medium and long run.

Box 1. Macroeconomic Assumptions, 2013–2033

Baseline Scenario:

Real GDP growth is driven by a sharp growth of oil production in the next three years and a steady decline in oil production over the following seventeen years. A moderate scaling-up of foreign-financed investments (see below) is assumed to raise non-oil GDP growth in the medium term (5.5 percent in 2014–18). Beyond that, non-oil GDP growth is assumed to stabilize at 4.6 percent in the long term. Inflation is assumed to stabilize at 3 percent, consistent with the CEMAC convergence criterion. The external current account will remain in deficit throughout the forecasting period although it will shrink slightly in 2014–16, with the increase in oil exports and the drop in imports as the development of the new oil fields and the oil refinery allows for the substitution of oil product imports. With the decline in oil exports in the long-term, the external current account is projected to turn into a higher deficit.

The fiscal outlook features a temporary increase in oil revenues in the medium term but a decline in the long term. The authorities are assumed to reduce the NOPD to 12 percent of non-oil GDP by 2018. In the medium and long term, the authorities adjust by increasing non-oil revenue effort, streamlining exceptional security spending and subsidies to public enterprises, while maintaining an appropriately high level of investment and social spending to ensure steady growth and poverty reduction.

External financing: Project loans are assumed to pick up from 1.4 percent of non-oil GDP in 2013 to 2.5 percent of non-oil GDP over 2015-19 and then fall to 2.1 percent of non-oil GDP in the long term. Project grants will increase from 2.4 percent of non-oil GDP in 2013 to 2.6 percent of non-oil GDP over the entire forecasting period. This is assumed based on historical averages, with 60 percent grants and 40 percent in loans from official multilateral and bilateral creditors. The baseline does not take into account HIPC and MDRI debt relief for which Chad is eligible.

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

Text Table. Chad: Medium-Term Projections

	2013	2014	2015	2016	2017	2018	2013–18 Avg.	2019–33 Avg.
Real GDP growth (percent per year)	3.6	10.8	7.3	4.7	3.6	3.3	5.6	3.6
Oil	-4.0	37.0	17.6	3.2	-3.1	-5.3	7.6	-6.6
Non-oil	5.0	6.5	5.1	5.1	5.1	5.2	5.3	4.6
Consumer price inflation (percent per year)	0.4	3.8	3.0	3.0	3.0	3.0	2.7	3.0
External current account balance (percent of GDP)	-8.8	-6.5	-6.8	-5.9	-6.5	-6.1	-6.8	-4.9
	(In percent of non-oil GDP)							
Government revenue and grants	25.6	28.7	30.4	28.3	26.6	24.5	27.4	21.1
Of which : oil revenue	14.6	17.2	18.7	16.1	14.0	11.5	15.3	4.7
Of which : grants	2.5	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Government expenditure (commitment basis)	31.5	29.6	29.9	29.2	28.0	27.9	29.4	23.3
Overall fiscal balance (incl. grants; cash basis)	-6.0	-2.0	0.6	-0.8	-1.4	-3.3	-2.1	-1.8
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-18.2	-16.1	-15.1	-14.0	-12.5	-12.0	-14.6	-4.2
Standard non-oil primary fiscal bal. (commitment basis)	-19.5	-17.0	-17.6	-16.5	-15.0	-14.5	-16.7	-6.3
Memorandum items:								
Government deposits (in percent of non-oil GDP)	5.9	5.4	5.2	5.7	5.8	4.8	5.5	7.5
Chadian crude oil price (US$/barrel)	103.4	98.2	93.5	87.8	84.9	82.3	91.7	96.4

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

EXTERNAL DEBT DSA

Baseline (Current Policies) Scenario

12. The evolution of external debt is driven by a reasonable volume of project and budget support loans from both traditional and non-traditional donors. There is no external private debt in Chad. Starting in 2014, new borrowing is projected to be mainly on concessional terms from Paris Club official (20 percent) and non-Paris Club official (28 percent) sources as well as multilateral (52 percent) sources. Hence, the average concessionality of new borrowing (assuming a discount rate of 5 percent) would increase towards 34-35 percent and stay so through the projection period (Figure 1a).

13. The comparison of the current baseline scenario with the baseline featured in the 2012 DSA reveals some differences reflecting a significant change in Chad's borrowing policy (Figures 5–7). This change is mainly explained by the cancellation of the MFA.

14. Under the baseline scenario, all but one external indebtedness indicators remain below their critical thresholds, indicating a high risk of external debt distress. The present value of external public and publicly-guaranteed debt falls below 15 percent of GDP starting in 2015 and remains well below the 30 percent of GDP threshold throughout the end of the projection horizon (Figure 1). With the projected steady decline in oil exports beyond the 2013–16 horizon, the PV of debt is expected to rise relative to exports, and projected to exceed the critical threshold starting around 2020. The PV of debt relative to both revenue and GDP would remain below thresholds through the end of the projection period. This is also the case for debt service in percent of revenues and exports.[6]

Stress Tests

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

[6] Under an alternative scenario where the authorities continue to rely partially (for about 45 percent of total gross external borrowings) on non-concessional loans, all but two external debt indicators breach their respective sustainability thresholds. The debt service-to-revenue ratio exceeds the critical threshold starting in 2015 and remains above the threshold until the late 2020s. Both the PV of debt-to-exports and the debt service-to-exports ratios exceed the critical thresholds starting around 2018-20 and remain above thresholds through the end of the projection period. The PV of debt relative to both revenue and GDP would remain below thresholds through the end of the projection period.

PUBLIC DEBT DSA

16. **The inclusion of domestic debt in the analysis does not fundamentally alter the assessment of Chad's debt sustainability**. Given the moderate size of Chad's domestic debt, the baseline adjustment in the non-oil primary balance, and expected oil revenues, the public debt indicators are driven mainly by the external debt component. The domestic debt component would fall from 7.3 percent of GDP in 2012 to 2.4 percent of GDP in 2018 but will continuously rise thereafter until it reaches about 6.7 percent of GDP 2033. Altogether, the public debt stock decreases to about 25 percent of GDP in 2017 before rising continuously until it stabilizes around 33 percent of GDP in 2031-33.

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

THE AUTHORITIES' VIEWS

18. **The authorities believe that improved oil revenue prospects and debt relief through the HIPC process would substantially dampen debt sustainability concerns**. The authorities acknowledged potential concerns on debt sustainability and highlighted the recent decision to cancel the MFA with Eximbank China as a signal of the importance that they attach to this issue and to the need for concessional long-term financing. Regarding the latter, they noted that the recent lending operation with Glencore Energy was an extraordinary measure in response to a temporary shock that was aimed at ensuring that the existing budgetary envelope could be fully financed and did not result in an expansion in budgetary spending. They consider that staff oil revenue projections are overly conservative, stressing existing oil exploration activities and the potential opening of new exploration rounds after a soon to be conducted geological mapping exercise. Finally, they emphasized the need for debt relief to create fiscal space for additional development spending (including foreign-financed). They finally expect that ongoing reform progress will be reflected in an improvement of the CPIA score and a related increase in external debt burden thresholds.

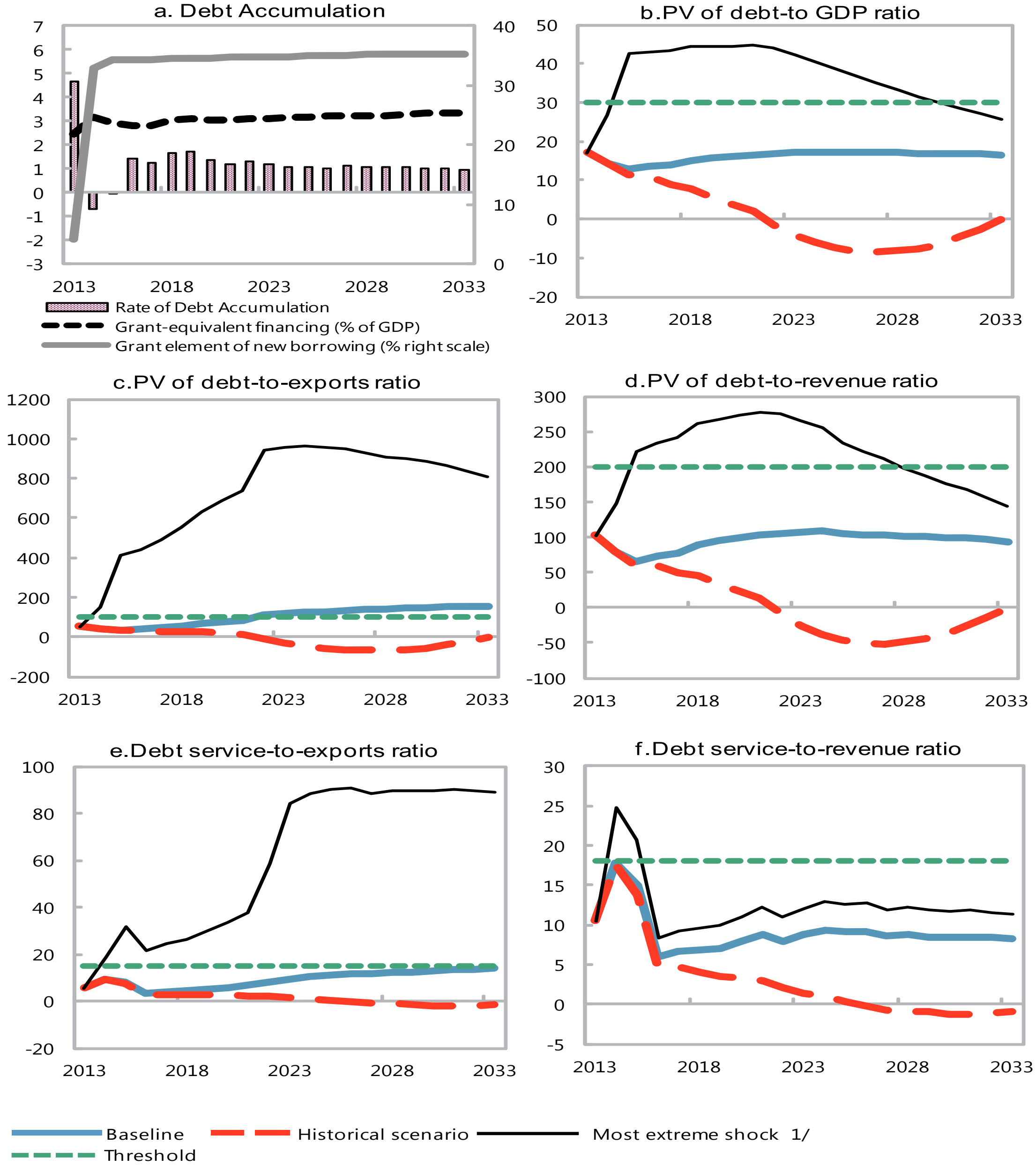
DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

19. **In staff's assessment, despite improved oil production and revenue prospects in the next few years, Chad faces a high risk of debt distress**. This is due to the significant decline in oil exports and revenues over the medium to the long terms. While the government's decision to cancel the US$2 billion non concessional MFA with the Eximbank of China would significantly improve the debt distress rating compared to the 2012 Article IV DSA, Chad would remain at a high risk of debt distress despite a sustained fiscal adjustment unless it adopts a prudent external borrowing policy. Sustained fiscal adjustment is a necessary but not sufficient condition for minimizing the risk of debt distress. Given the exhaustibility and volatility of oil revenues, fiscal adjustment needs to be complemented by a prudent external borrowing policy and further progress in diversifying the economy.

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

Baseline Scenario

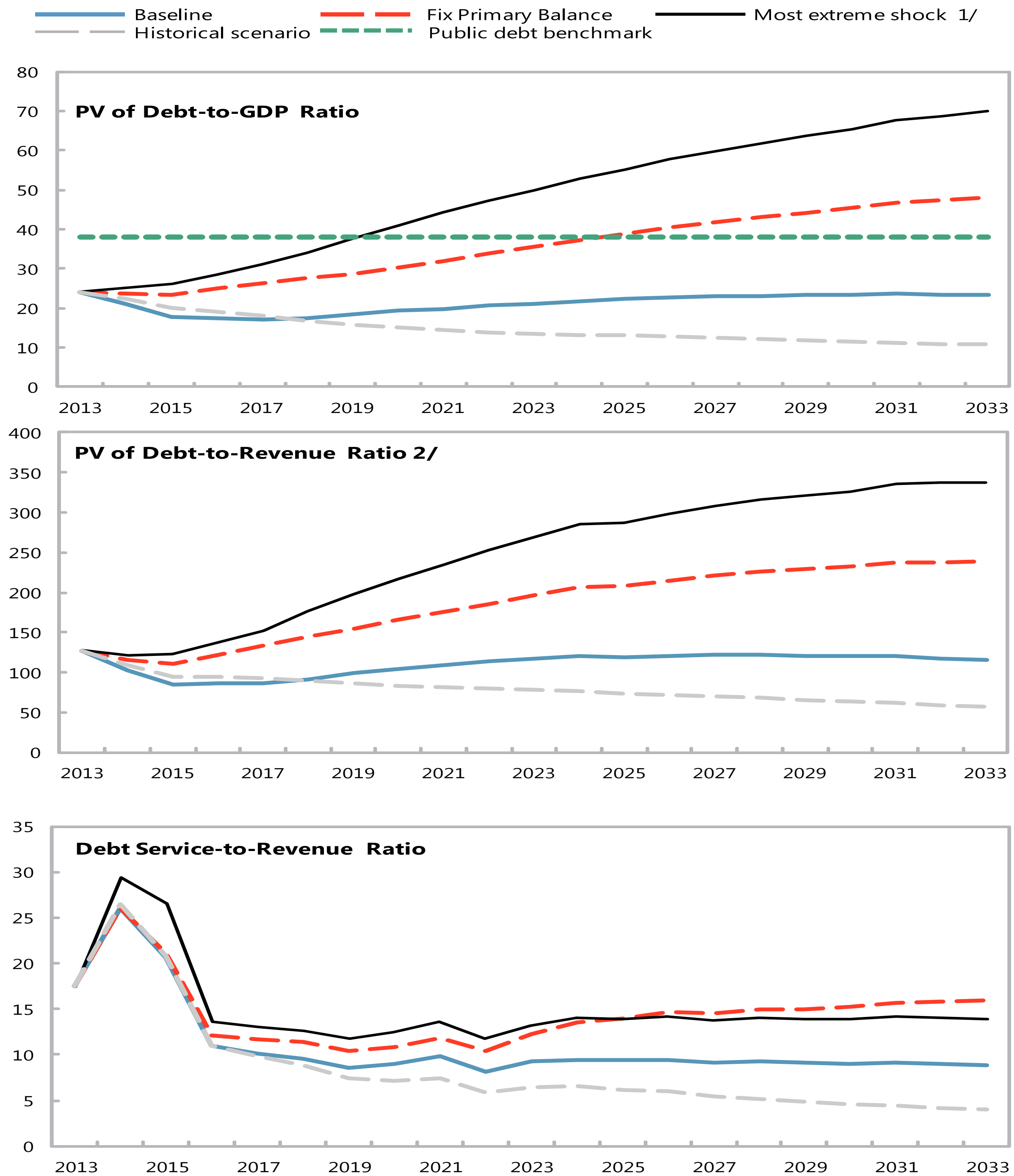
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

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

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



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2023.
2/ Revenues are defined inclusive of grants.

Baseline Scenario

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

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	25.6	31.1	28.0			31.1	27.6	24.6	24.6	24.7	25.6		30.3	32.4	
of which: foreign-currency denominated	20.2	23.0	20.9			24.1	20.9	19.7	20.7	21.6	23.2		26.2	25.7	
Change in public sector debt	2.6	5.5	-3.2			3.1	-3.4	-3.0	0.0	0.1	1.0		0.6	-0.3	
Identified debt-creating flows	1.5	-4.4	-4.4			2.4	-4.3	-3.1	-0.5	0.0	1.8		-0.1	-0.9	
Primary deficit	4.0	-2.8	-1.5	0.7	4.2	3.0	-0.6	-1.0	0.1	0.5	2.1	0.7	0.9	0.5	1.1
Revenue and grants	20.2	24.8	23.4			19.0	20.4	21.1	20.3	19.9	19.0		18.1	20.2	
of which: grants	1.3	1.6	2.5			2.3	2.2	1.8	1.8	1.9	2.0		2.2	2.5	
Primary (noninterest) expenditure	24.3	22.0	22.0			22.0	19.7	20.0	20.3	20.4	21.1		19.0	20.7	
Automatic debt dynamics	-2.3	-1.6	-2.9			-0.2	-3.4	-2.0	-0.6	-0.5	-0.3		-1.0	-1.4	
Contribution from interest rate/growth differential	-4.5	-0.7	-4.6			1.4	-2.3	-1.4	0.1	0.2	0.3		-1.0	-1.4	
of which: contribution from average real interest rate	-1.8	-0.7	-2.0			2.4	0.7	0.5	1.2	1.0	1.1		0.0	0.0	
of which: contribution from real GDP growth	-2.8	0.0	-2.5			-1.0	-3.0	-1.9	-1.1	-0.9	-0.8		-1.0	-1.3	
Contribution from real exchange rate depreciation	2.2	-0.9	1.7			-1.6	-1.0	-0.7	-0.7	-0.7	-0.6		...	...	
Other identified debt-creating flows	-0.2	0.0	0.0			-0.4	-0.4	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	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)	0.0	0.0	0.0			-0.4	-0.4	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.1	9.8	1.3			0.7	0.9	0.1	0.5	0.1	-0.8		0.7	0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	20.5			24.1	20.9	17.7	17.3	17.1	17.5		21.1	23.2	
of which: foreign-currency denominated	...	...	13.5			17.1	14.2	12.7	13.4	14.0	15.0		17.1	16.6	
of which: external	...	...	13.5			17.1	14.2	12.7	13.4	14.0	15.0		17.1	16.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.6	-1.9	0.9			6.3	4.7	3.3	2.3	2.5	3.9		2.5	2.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	87.5			126.9	102.7	84.1	85.4	85.8	91.8		116.9	115.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	98.1			144.0	115.4	91.8	93.9	94.9	102.5		133.2	130.9	
of which: external 3/	...	...	64.5			102.5	78.1	66.0	72.8	77.8	88.2		107.4	93.3	
Debt service-to-revenue and grants ratio (in percent) 4/	2.9	3.6	10.2			17.5	26.1	20.7	11.0	10.2	9.6		9.2	8.9	
Debt service-to-revenue ratio (in percent) 4/	3.1	3.9	11.4			19.9	29.3	22.6	12.1	11.3	10.7		10.5	10.1	
Primary deficit that stabilizes the debt-to-GDP ratio	1.4	-8.3	1.7			-0.1	2.8	1.9	0.1	0.4	1.1		0.3	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	13.5	0.1	8.9	9.0	10.0	3.6	10.8	7.3	4.7	3.6	3.3	5.6	3.3	4.2	3.6
Average nominal interest rate on forex debt (in percent)	1.0	2.2	3.3	1.4	0.8	2.9	2.2	2.0	2.0	2.0	2.1	2.2	1.9	1.9	1.9
Average real interest rate on domestic debt (in percent)	...	...	-0.7	-0.7	...	7.8	3.1	2.8	5.8	4.7	4.9	4.9	3.3	2.7	3.1
Real exchange rate depreciation (in percent, + indicates depreciation)	15.9	-4.4	8.7	-4.4	14.7	-7.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.4	8.6	5.4	6.6	8.3	-2.9	3.5	1.9	-1.2	-0.4	-0.8	0.0	2.4	2.7	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	-0.1	0.1	0.1	0.2	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	4.0	32.9	34.3	34.3	34.4	34.5	29.1	34.8	35.3	...

Sources: Country authorities; and staff estimates and projections.

1/ Central government gross debt, including guaranteed external debt.

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

3/ Revenues excluding grants.

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

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

Baseline Scenario

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

		Projections						
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	24	21	18	17	17	17	21	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	22	20	19	18	17	14	11
A2. Primary balance is unchanged from 2013	24	24	23	25	26	27	36	48
A3. Permanently lower GDP growth 1/	24	22	19	20	21	24	42	98
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	24	25	26	29	31	34	50	70
B2. Primary balance is at historical average minus one standard deviations in 2014-201	24	25	26	25	25	25	29	28
B3. Combination of B1-B2 using one half standard deviation shocks	24	25	25	26	27	28	37	47
B4. One-time 30 percent real depreciation in 2014	24	27	23	22	21	21	23	24
B5. 10 percent of GDP increase in other debt-creating flows in 2014	24	28	25	24	24	24	27	28
PV of Debt-to-Revenue Ratio 2/								
Baseline	127	103	84	85	86	92	117	115
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	127	109	94	95	92	89	79	57
A2. Primary balance is unchanged from 2013	127	116	110	123	133	145	197	238
A3. Permanently lower GDP growth 1/	127	106	91	99	107	123	223	456
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	127	121	122	138	153	176	269	337
B2. Primary balance is at historical average minus one standard deviations in 2014-201	127	123	123	125	126	134	158	140
B3. Combination of B1-B2 using one half standard deviation shocks	127	121	117	126	133	148	205	230
B4. One-time 30 percent real depreciation in 2014	127	133	108	107	106	111	129	120
B5. 10 percent of GDP increase in other debt-creating flows in 2014	127	139	117	119	120	127	151	136
Debt Service-to-Revenue Ratio 2/								
Baseline	18	26	21	11	10	10	9	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	26	21	11	10	9	6	4
A2. Primary balance is unchanged from 2013	18	26	21	12	12	11	12	16
A3. Permanently lower GDP growth 1/	18	27	22	12	11	11	14	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	18	29	25	14	14	13	15	22
B2. Primary balance is at historical average minus one standard deviations in 2014-201	18	26	21	13	12	11	12	11
B3. Combination of B1-B2 using one half standard deviation shocks	18	28	23	13	12	12	13	16
B4. One-time 30 percent real depreciation in 2014	18	29	27	14	13	13	13	14
B5. 10 percent of GDP increase in other debt-creating flows in 2014	18	26	22	13	11	11	12	11

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Baseline Scenario

Table 3a. Chad: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**20.2**	**23.0**	**20.9**			**24.1**	**20.9**	**19.7**	**20.7**	**21.6**	**23.2**		**26.2**	**25.7**	
of which: public and publicly guaranteed (PPG)	20.2	23.0	20.9			24.1	20.9	19.7	20.7	21.6	23.2		26.2	25.7	
Change in external debt	2.6	2.8	-2.1			3.2	-3.3	-1.2	1.1	0.9	1.6		0.3	-0.3	
Identified net debt-creating flows	3.7	0.8	4.4			4.0	-0.7	0.9	0.7	3.0	2.7		5.8	-0.7	
Non-interest current account deficit	**8.8**	**5.2**	**7.7**	**7.0**	**14.7**	**8.2**	**6.0**	**6.5**	**5.6**	**6.0**	**5.6**		**7.3**	**0.5**	4.4
Deficit in balance of goods and services	11.3	7.3	10.2			9.8	7.6	7.4	6.9	6.0	6.2		9.3	4.2	
Exports	37.9	40.7	36.8			32.5	34.6	34.7	32.6	29.5	26.7		14.7	10.6	
Imports	49.1	48.0	47.0			42.3	42.2	42.1	39.4	35.5	32.9		24.0	14.8	
Net current transfers (negative = inflow)	-5.6	-4.3	-4.2	-4.9	1.5	-4.9	-4.1	-3.3	-3.3	-3.4	-3.5		-3.4	-3.3	-3.4
of which: official	-0.4	-0.3	-0.9			-1.4	-1.2	-0.9	-0.9	-1.0	-1.0		-1.1	-1.3	
Other current account flows (negative = net inflow)	3.2	2.2	1.6			3.3	2.5	2.3	2.0	3.4	2.9		1.5	-0.4	
Net FDI (negative = inflow)	**-2.9**	**-2.3**	**-2.7**	**-5.7**	**8.4**	**-4.0**	**-4.9**	**-4.5**	**-4.4**	**-2.8**	**-2.7**		**-1.2**	**-0.6**	-0.8
Endogenous debt dynamics 2/	**-2.2**	**-2.1**	**-0.6**			**-0.1**	**-1.8**	**-1.0**	**-0.5**	**-0.3**	**-0.3**		**-0.3**	**-0.6**	
Contribution from nominal interest rate	0.1	0.4	0.7			0.6	0.4	0.4	0.4	0.4	0.4		0.5	0.5	
Contribution from real GDP growth	-2.1	0.0	-1.9			-0.7	-2.2	-1.4	-0.9	-0.7	-0.7		-0.8	-1.0	
Contribution from price and exchange rate changes	-0.2	-2.5	0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-1.1**	**1.9**	**-6.5**			**-0.8**	**-2.6**	**-2.1**	**0.4**	**-2.1**	**-1.1**		**-5.5**	**0.4**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.5			17.1	14.2	12.7	13.4	14.0	15.0		17.1	16.6	
In percent of exports	...	...	36.6			52.8	41.0	36.7	41.2	47.4	56.3		115.7	157.0	
PV of PPG external debt	**...**	**...**	**13.5**			**17.1**	**14.2**	**12.7**	**13.4**	**14.0**	**15.0**		**17.1**	**16.6**	
In percent of exports	**...**	**...**	**36.6**			**52.8**	**41.0**	**36.7**	**41.2**	**47.4**	**56.3**		**115.7**	**157.0**	
In percent of government revenues	**...**	**...**	**64.5**			**102.5**	**78.1**	**66.0**	**72.8**	**77.8**	**88.2**		**107.4**	**93.3**	
Debt service-to-exports ratio (in percent)	**1.5**	**2.2**	**3.2**			**5.4**	**9.4**	**8.3**	**3.4**	**4.0**	**4.4**		**9.4**	**13.8**	
PPG debt service-to-exports ratio (in percent)	**1.5**	**2.2**	**3.2**			**5.4**	**9.4**	**8.3**	**3.4**	**4.0**	**4.4**		**9.4**	**13.8**	
PPG debt service-to-revenue ratio (in percent)	**3.1**	**3.9**	**5.7**			**10.5**	**17.8**	**14.9**	**6.0**	**6.6**	**6.9**		**8.7**	**8.2**	
Total gross financing need (Billions of U.S. dollars)	0.7	0.5	0.8			0.8	0.7	0.9	0.4	0.9	0.8		2.0	0.7	
Non-interest current account deficit that stabilizes debt ratio	6.2	2.5	9.7			5.0	9.3	7.7	4.5	5.2	4.0		7.0	0.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	13.5	0.1	8.9	9.0	10.0	3.6	10.8	7.3	4.7	3.6	3.3	5.6	3.3	4.2	3.6
GDP deflator in US dollar terms (change in percent)	1.4	13.9	-2.6	10.2	11.9	0.4	7.2	3.6	0.6	1.4	0.7	2.3	2.4	2.7	2.5
Effective interest rate (percent) 5/	1.0	2.2	3.3	1.4	0.8	2.9	2.2	2.0	2.0	2.0	2.1	2.2	1.9	1.9	1.9
Growth of exports of G&S (US dollar terms, in percent)	23.3	22.3	-4.1	49.6	84.7	-8.2	26.7	11.3	-1.0	-5.0	-5.9	3.0	0.3	4.6	0.0
Growth of imports of G&S (US dollar terms, in percent)	18.1	11.3	3.8	13.0	23.8	-6.4	18.6	10.7	-1.2	-5.5	-3.5	2.1	-0.3	3.8	0.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	4.0	32.9	34.3	34.3	34.4	34.5	29.1	34.8	35.3	35.0
Government revenues (excluding grants, in percent of GDP)	18.9	23.2	20.9			16.7	18.1	19.3	18.5	18.0	17.0		15.9	17.8	16.6
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.5			0.4	0.6	0.6	0.6	0.6	0.7		1.0	1.9	
of which: Grants	0.1	0.2	0.3			0.3	0.4	0.3	0.3	0.4	0.4		0.6	1.2	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.2	0.3	0.3	0.3	0.3		0.4	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.5	3.2	2.9	2.8	2.8	3.1		3.1	3.3	3.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			31.8	62.5	56.8	60.2	61.9	59.9		64.6	67.7	65.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	10.7	12.2	12.9			13.4	15.9	17.7	18.7	19.6	20.4		26.9	50.0	
Nominal dollar GDP growth	15.1	14.0	6.0			4.0	18.8	11.2	5.3	5.1	4.0	8.1	5.8	7.0	6.2
PV of PPG external debt (in Billions of US dollars)			1.8			2.4	2.3	2.3	2.5	2.8	3.1		4.6	8.3	
(PVt-PVt-1)/GDPt-1 (in percent)						4.6	-0.7	0.0	1.4	1.2	1.6	1.4	1.2	1.0	1.1
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.5			17.1	14.2	12.7	13.4	14.0	15.0		17.1	16.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	36.6			52.8	41.0	36.7	41.2	47.4	56.3		115.7	157.0	
Debt service of PPG external debt (in percent of exports + remittance	...	...	3.2			5.4	9.4	8.3	3.4	4.0	4.4		9.4	13.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Baseline Scenario

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

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to-GDP+remittances ratio								
Baseline	17	14	13	13	14	15	**17**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	17	14	11	11	9	8	**-4**	0
A2. New public sector loans on less favorable terms in 2013-2033 2	17	16	15	16	18	20	**25**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	17	16	16	16	17	18	**21**	20
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	17	27	43	43	43	44	**42**	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	17	16	15	16	16	17	**20**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	17	20	24	24	25	26	**26**	20
B5. Combination of B1-B4 using one-half standard deviation shocks	17	23	29	30	30	31	**32**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	17	20	18	19	20	21	**24**	23
PV of debt-to-exports+remittances ratio								
Baseline	53	41	37	41	47	56	**116**	157
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	53	41	33	33	30	29	**-27**	-2
A2. New public sector loans on less favorable terms in 2013-2033 2	53	45	43	51	60	73	**171**	283
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	53	41	37	42	48	57	**117**	158
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	53	151	411	441	491	556	**957**	809
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	53	41	37	42	48	57	**117**	158
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	53	59	69	75	84	97	**179**	189
B5. Combination of B1-B4 using one-half standard deviation shocks	53	72	92	100	112	129	**234**	239
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	53	41	37	42	48	57	**117**	158
PV of debt-to-revenue ratio								
Baseline	103	78	66	73	78	88	**107**	93
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	103	78	59	59	49	45	**-25**	-1
A2. New public sector loans on less favorable terms in 2013-2033 2	103	86	78	89	98	115	**159**	168
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	103	88	81	89	95	108	**131**	114
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	103	148	221	233	241	260	**266**	144
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	103	86	77	84	90	102	**124**	108
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	103	113	123	132	138	152	**166**	112
B5. Combination of B1-B4 using one-half standard deviation shocks	103	127	151	162	169	185	**199**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	103	109	92	102	109	123	**150**	130

Baseline Scenario

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

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Debt service-to-exports+remittances ratio								
Baseline	5	9	8	3	4	4	**9**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	5	9	8	3	3	3	**2**	-2
A2. New public sector loans on less favorable terms in 2013-2033 2	5	9	6	6	6	7	**10**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	5	9	8	3	4	4	**9**	14
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	5	18	32	21	24	26	**84**	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	5	9	8	3	4	4	**9**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	5	9	9	5	5	6	**15**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	5	11	11	6	7	7	**20**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	5	9	8	3	4	4	**9**	14
Debt service-to-revenue ratio								
Baseline	10	18	15	6	7	7	**9**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	10	18	14	5	5	4	**1**	-1
A2. New public sector loans on less favorable terms in 2013-2033 2	10	18	10	10	11	11	**9**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	10	20	18	7	8	8	**11**	10
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	10	18	17	11	12	12	**23**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	10	19	17	7	8	8	**10**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	10	18	16	8	9	9	**14**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	10	20	18	9	10	10	**17**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	10	25	21	8	9	10	**12**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

INTERNATIONAL MONETARY FUND

CHAD

February 7, 2014

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND ASSESSMENT OF PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

As of December 31, 2013

Membership Status		Joined: July 10, 1963
General Resources Account	**SDR Million**	**% of Quota**
Quota	66.60	100.00
Fund holdings of currency (Exchange Rate)	63.67	95.60
Reserve Tranche Position	2.93	4.40
SDR Department	**SDR Million**	**%Allocation**
Net cumulative allocation	53.62	100
Holdings	0.05	0.1
Outstanding Purchases and Loans	**SDR Million**	**%Quota**
ECF Arrangements	1.26	1.89

Latest Financial Arrangements:

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

[1] Formerly PRGF

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

	Forthcoming			
	2014	**2015**	**2016**	**2017**
Principal	0.84	0.42		
Charges/Interest	0.05	0.05	0.05	0.05
Total	0.89	0.47	0.05	0.05

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

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). As with other regional central banks, the BEAC is subject to a safeguards assessment every four years. The 2013 quadrennial assessment, which was completed on November 14, spans a period of extensive change at the BEAC and occurs against the backdrop of extensive plans and measures initiated to address governance challenges and control failures that emerged in 2009. A series of safeguards "rolling measures" were agreed between the BEAC and the IMF, as a basis since 2009 to move forward with new IMF program requests and reviews for BEAC members using IMF resources. The BEAC also initiated an action plan with the aim of reforming its governance, strengthening key safeguards, and building capacity. The 2013 assessment found that the BEAC has made some progress in reinforcing its safeguards framework, but risks remain elevated and further reforms are needed to fully restore sound governance and control. Although the internal audit mechanism has improved with the establishment of a separate Directorate and greater interaction with the audit committee, the implementation of the BEAC reform and modernization plan, initially adopted in 2011, is slower than planned and its target completion date has been delayed to 2014. Governance at the BEAC continues to be undermined by a legal framework that does not adequately protect institutional autonomy, and problematic partial adherence of several member states to the reserves pooling obligation that is fundamental to the operation of the currency union. The assessment also indicated that continued weaknesses in governance are exacerbated by a number of risks, including a less secure environment for the accounting and IT systems that raises concerns about the quality of financial controls and information. The assessment identified measures needed to strengthen the safeguards framework, including through further capacity building, amendments to the BEAC charter, and significant effort and commitment to achieve implementation of the reform and modernization plan.

Exchange Rate Arrangement

Chad maintains an exchange system that is reportedly free from restrictions and multiple currency practices on payments and transfers for current international transactions. The BEAC common currency is the CFA franc which, since January 1, 1999, has been pegged to the euro at the rate of EUR 1 = CFAF 655.957.

Article IV Consultations

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

Technical Assistance

Department	Purpose	Time of Delivery
FAD	Implementation of CEMAC directives	September 2013
FAD (AFRITAC)	Public Financial Management	April - May 2013
FAD (AFRITAC)	Public Financial Management	February 2013
FAD (AFRITAC)	Tax Administration	April 2013
FAD (AFRITAC)	Customs Administration	March 2013
MCM (AFRITAC)	Debt Management	March 2013
STA (AFRITAC)	National Accounts	December 2013
STA (AFRITAC)	National Accounts	July 2013
STA (AFRITAC)	National Accounts	February 2013
STA (AFRITAC)	National accounts	November 2012
FAD (AFRITAC)	Public financial management	October 2012
FAD	Customs administration	October 2012
FAD (AFRITAC)	Tax administration	September 2012
FAD (AFRITAC)	Public financial management	September 2012
FAD	Customs follow-up mission	July 2012
FAD (AFRITAC)	Public financial management	June 2012
STA (AFRITAC)	National accounts	June 2012
FAD (AFRITAC)	Tax administration	May-June 2012
STA (AFRITAC)	National accounts	May 2012
FAD	Resource revenue management	April-May 2012
FAD (AFRITAC)	Public financial management	March-April 2012
FAD (AFRITAC)	Tax administration	February 2012
STA (AFRITAC)	National accounts	November-December 2011
FAD (AFRITAC)	Public financial management	November 2011
FAD (AFRITAC)	Public financial management	September 2011
FAD (AFRITAC)	Customs	September 2011
STA (AFRITAC)	National accounts	August 2011
MCM	Banking system vulnerabilities	January 2011
FAD (AFRITAC)	Tax administration	February 2011
FAD (AFRITAC)	Tax administration	September-October 2010
FAD (AFRITAC)	Tax administration	June-July 2010
FAD (AFRITAC)	Public financial management	September 2010
STA	Balance of payments	September 2010
MCM (AFRITAC)	Public debt	May 2010

Department	Purpose	Time of Delivery
FAD	Tax policy review	April-May 2010
FAD (AFRITAC)	Tax and custom administration	March-April 2010
FAD(AFRITAC)	Customs administration	March 2010
STA (AFRITAC)	National accounts	March 2010
FAD (AFRITAC)	Public financial management	January 2010

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

A joint IMF-World Bank mission conducted an FSAP for Chad during May 25–June 10, 2011, building on the mission that conducted a regional FSAP for CEMAC countries during January 30-February 9, 2006. A ROSC Data Module mission visited Chad May 26–June 8, 2005.

Resident Representative

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

JMAP BANK–FUND MATRIX

Title	Products	Mission Timing	Expected Delivery
Mutual Information on Relevant Work Programs			
The World Bank work program in the next 12 months	1. HPIC completion report	March 2014 August 2014	Q-III 2014
	2. Additional Financing for Capacity building in public expenditure management	February 2014	Q-II 2014
	3. Non concessional borrowing note	March 2014	Q-II 2014
	4. Country Partnership Framework		Q-III 2014
The Fund work program in the next 12 months	1. 2013 Article IV Consultation	December 2013	February 2014
	2. SMP Assessment and Potential ECF negotiation	March 2014	May 2014
	Technical Assistance		
	FAD: Public financial management	FY2014	FY2014
	STA: National accounts	FY2014	FY2014
Requests for Work Program Inputs			
Fund request to Bank	Periodic update on World Bank program in Chad		
Bank request to Fund	1. Macroeconomic frameworks for Debt Sustainability analyses	Ongoing	
	2. Information on non concessional financing of budget or projects	Ongoing	
Agreement on Joint Products and Missions			
Joint products	1. Joint Bank-Fund Debt Sustainability Assessments		February 2014 May 2014 October 2014
	2. JSAN on PRSP APR		October 2014

STATISTICAL ISSUES

I. **Assessment of Data Adequacy for Surveillance**	
General: Data provision has capacity-related shortcomings, but is broadly adequate for surveillance. There is scope for improvement in quality, coverage, and timeliness in most macroeconomic datasets. The authorities have recently taken the initiative to improve the macroeconomic database, particularly the national accounts. The 2007 Report on the Observance of Standards and Codes (ROSC) found that the statistical system was weak and suffers from a shortage of both financial and human resources.	
National accounts: The authorities have revised national accounts estimates, moving from the 1968 System of National Accounts (SNA) to the 1993 SNA and rebasing the data to 2005 as the base year. Final Annual National Accounts are available until 2010 and have been backcasted through 1995-2005. Provisional figures are also available for 2011-2012. However, compilation remains weak owing to inadequate funding for the Institut National de la Statistique, des Etudes Economiques et Démographiques (INSEED) and high staff turnover. In addition, dissemination of data and metadata to the public could be improved by more timely releases, provision of more detailed information, and enhanced dissemination through the internet.	
Price statistics: The Harmonized Consumer Price Index (HCPI) is of rather good quality. However, it covers only the capital city and the reporting lag sometimes exceeds two months. The regional authorities are working underway to improve the quality of the HCPI in each of the Central African Economic and Monetary Community (CEMAC) countries.	
Government finance statistics: Data weaknesses create uncertainty about the central government's actual fiscal position and hamper debt sustainability analysis. Staff is compelled to prepare estimates of central government financial operations from disparate administrative sources that may or may not fully reconcile with domestic bank financing or changes in net indebtedness.	
Monetary statistics: Banque des Etats de L'Afrique Centrale (BEAC) reports the expected core monetary and financial indicators, within the expected lag, through the standardized report forms (SRFs). A key shortcoming of monetary and financial statistics is the lack of clear reconciliation between the domestic banking sector's net credit to the government and the implicit financing in the weak government financial accounts. In addition, the depository corporations' survey omits the large number of microfinance operations in the country.	
Balance of payments: Weaknesses in Chad's balance of payments data create uncertainty about its actual external position and hamper debt sustainability analysis. Customs-based data are unreliable and suffer from coverage problems, to the extent that they are not relied upon for balance of payments or national income estimation. BEAC prepares balance of payments data and submit to BEAC headquarters for validation with the long time lag. Staff must estimate current and capital flows from disparate administrative sources, to supplement the official balance of payments. Using recently updated figures from BEAC, staff revised some BOP historical data but there was neither a change in methodology nor a significant revision of previous values. The IMF Statistics Department has recommended tighter coordination among the CEMAC, INSEED, and other agencies in order to improve data coverage. BEAC headquarters is coordinating technical reforms to improve data quality and timeliness.	
II. **Data Standards and Quality**	
Chad has been a participant in the IMF's GDDS since September 24, 2002. GDDS metadata and plans for improvement need to be updated.	A Data ROSC was published in August 2007.
III. **Reporting to STA (Optional)**	
Only international liquidity, monetary statistics, GDP, and prices are currently reported to STA for publication in the *International Financial Statistics (IFS)*. Chad has not yet been able to resume reporting of detailed data for publication in the *Government Finance Statistics Yearbook*. Annual fiscal data through 2001 have been reported and are included in the *IFS* database. The BEAC has yet to submit test monetary and financial statistics using the standardized report forms. Chad has yet to submit BOP and IIP data to STA.	

Chad: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality: Methodological Soundness[8]	Memo Items: Data Quality – Accuracy and Reliability[9]
Exchange rates	Daily	Daily	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	10/2013	12/2013	M	M	M		
Reserve/base money	10/2013	12/2013	M	M	M	LO, LNO, LNO, LO	LO, O, O, LO, NA
Broad money	10/2013	12/2013	M	QM	M		
Central bank balance sheet	10/2013	12/2013	M	M	M		
Consolidated balance sheet of the banking system	10/2013	12/2013	M	M	M		
Interest rates[2]	10/2013	11/2013	MI	QM	M		
Consumer price index	10/2013	11/2013	M	M	M		
Revenue, expenditure, balance and composition of financing[3] – general government[4]	11/2013	12/2013	Q	Q	Q	LO, LNO, LO, LO	O, LO, LO, LO, NO
Revenue, expenditure, balance and composition of financing[3]–central government	08/2013	12/2013	Q	Q	Q		
Stocks of central government and central government-guaranteed debt[5]	08/2013	12/2013	Q	Q	Q		
External current account balance	2011	09/2012	A	A	A		

Chad: Table of Common Indicators Required for Surveillance							
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality: Methodological Soundness[8]	Data Quality – Accuracy and Reliability[9]
Exports and imports of goods and services	2011	09/2012	A	A	A	O, O, O, LO	LO, LO, O, O, O
GDP/GNP	2012	09/2013	A	A	A	LNO, LO, LNO, LO	LNO, LNO, LNO, LNO, LNO
Gross external debt	12/ 2011	09/ 2012	Bi-M	Bi-M	Bi-M		
International investment position[6, 10]	NA	NA	NA	NA	NA		

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

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

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

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

[5] Including currency and maturity composition.

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

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

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

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

[10] Data on the international investment position (IIP) is not reported due to the lack of capacity. The authorities should request technical assistance to overcome it.

Press Release No. 14/136
FOR IMMEDIATE RELEASE
March 27, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Chad

On February 21, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Chad.

Macroeconomic performance continued to be stable in 2013, with some deceleration in economic growth and inflation. Real GDP is projected to have grown by 3.6 percent in 2013, down from 8.9 percent in 2012. The slowdown reflects a reduction in oil GDP of 3.9 percent in 2013 due to a sharper than expected decline in the mature field's oil production and delays in new oil production. Non-oil GDP is forecast to have grown by 5 percent in 2013 compared to 11.6 percent in 2012, mainly reflecting a return to trend agricultural production levels after the bumper harvest that took place in 2012. Inflation fell sharply in 2013 due to a sizable fall in food prices following the strong harvest in 2012. Consequently, annual average inflation rate is projected at around 0.4 percent, compared to 7.7 percent in 2012.

The external current account deficit averaged 8 percent of GDP between 2009 and 2012 and is projected to have deteriorated further to 8.8 percent of GDP in 2013 on account of the drop in oil exports. The overall balance of payments would record a deficit in 2013, the first time since 2009, bringing the international reserve coverage ratio to about 1.7 months of imports of goods and services (compared to 2.4 months in 2012).

Fiscal policy has been gradually tightened over the last few years, anchored on reductions in the non-oil primary deficit (NOPD). NOPD fell by 1 percent of non-oil GDP over 2011-12 and the 2013 budget was anchored on a further 1 percent of non-oil GDP reduction in the NOPD to 18.2 percent of non-oil GDP. However, the 2013 budget execution was affected by an unexpected fall in oil revenue and spending pressures from regional security operations, resulting in an overall fiscal deficit of about 6 percent of non-oil GDP (compared to a surplus

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

of 1.7 percent of non-oil GDP in 2012). This deficit was partly financed by non-concessional borrowing against future oil receipts.

The medium-term economic outlook is driven by developments in oil production and associated fiscal revenue. Real GDP is projected to grow at around 9 percent per year over 2014–15 as new oil-related projects come fully on-stream. Oil GDP is projected to peak in 2016 and fall steadily thereafter absent new oil discoveries. Non-oil GDP is projected to grow by around 5 percent per year over the medium term, driven by agriculture, commerce, and transportation. The main sources of risk to the outlook stem from the volatility of fiscal oil revenue and the difficult regional security situation.

Executive Board Assessment[2]

Directors welcomed Chad's relatively strong macroeconomic performance amidst considerable regional insecurity, characterized by solid non-oil GDP growth and relatively muted inflation. They also commended the authorities' significant contribution to regional security efforts. Noting that a decade of rapid economic growth has not significantly reduced poverty rates, Directors called for decisive policy measures to achieve diversified, inclusive growth and improved socioeconomic outcomes.

Directors noted that, despite the positive medium-term outlook, Chad is facing challenges from the volatility and trend decline in oil revenue. While welcoming the improved fiscal stance in recent years, including under the staff-monitored program, they advised building fiscal buffers over the medium term, by enhancing domestic revenue mobilization, public financial management, public sector efficiency and expenditure prioritization. Directors welcomed the recent commitment to limit the use of extra-budgetary emergency spending procedures, and recommended careful prioritization of public investment in line with absorptive capacity. Efforts to significantly reduce the non-oil tax collection gap, building on progress and by following through on Fund technical assistance recommendations regarding tax policy and revenue administration, will be crucial.

Directors called for greater coherence in the authorities' debt management strategy and a prudent external borrowing policy, given Chad's high risk of debt distress. They acknowledged the authorities' commitment to ensuring debt sustainability, as evidenced by the cancelation of the Master Facility Agreement with Eximbank China. While recognizing the exceptional circumstances that led to the nonconcessional oil sale advances in 2013, they advised against recourse to such advances going forward, and stressed the need for corrective actions to cover the ensuing financing gap in 2014. Directors looked forward to the timely preparation of the new debt management law, and recommended centralization of debt approvals and operational management. They supported the authorities' commitment to achieve the completion point under the Enhanced Initiative for Heavily Indebted Poor

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[2] 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. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Countries. They looked forward to continued close engagement with the Fund in the period ahead, including discussions on reaching agreement on a possible ECF-supported program.

Directors underscored the importance of critical structural reforms to help boost external competitiveness and promote diversified, inclusive growth. They called for the removal of key supply-side bottlenecks and measures to strengthen the business climate. Directors commended the authorities' initiatives under the National Development Plan, designed to raise agricultural productivity and promote infrastructure investment. They also advised the authorities to implement reforms conducive to enhanced financial sector development and inclusion.

Table 1. Chad: Selected Economic and Financial Indicators, 2009–2014

	2009	2010	2011	2012	2013	2014
				Prel.	Proj.	Proj.
	(Annual percentage changes, unless otherwise indicated)					
Real economy						
GDP at constant prices	4.2	13.5	0.1	8.9	3.6	10.8
Oil GDP	-3.7	-1.1	-0.4	-4.0	-4.0	37.0
Non-oil GDP	6.4	17.2	0.2	11.6	5.0	6.5
Consumer price index (period average)	10.1	-2.1	1.9	7.7	0.4	3.8
Consumer price index (end of period)	4.7	-2.2	10.8	2.1	2.5	3.2
Oil prices						
WEO (US$/barrel)[2]	61.8	79.0	104.0	105.0	104.1	99.3
Chadian price (US$/barrel)[3]	55.5	73.6	97.7	102.0	103.4	98.2
Oil production (in millions of barrels)	43.6	44.7	43.6	41.2	36.0	52.0
Exchange rate FCFA per US$ (period average)	471.0	494.4	471.4	510.2	493.9	…
Money and credit[4]						
Net foreign assets	-74.7	13.3	25.3	14.8	-12.0	0.9
Net domestic assets	70.1	12.0	-11.0	-1.3	20.2	8.6
Of which: net claims on central government	67.7	7.2	-18.8	-13.1	0.9	-2.6
Of which: credit to private sector	5.9	10.7	9.0	12.9	9.2	8.4
Broad money	-4.6	25.3	14.2	13.4	8.2	9.5
Income velocity (non-oil GDP/broad money)	7.3	6.6	5.9	5.9	5.7	5.7
External sector (valued in CFA francs)						
Exports of goods and services, f.o.b.	-26.1	23.3	22.3	-4.1	-8.2	26.7
Imports of goods and services, f.o.b.	4.5	18.1	11.3	3.8	-6.4	18.6
Export volume	0.3	-5.6	-2.8	-8.6	-7.3	27.2
Import volume	12.0	15.1	4.0	4.9	-5.3	17.7
Overall balance of payments (in percent of GDP)	-8.0	0.1	2.9	1.6	-1.5	-3.4
Current account balance, including official transfers (in percent of GDP)	-9.2	-9.0	-5.6	-8.3	-8.8	-6.5
Terms of trade	-21.1	27.2	17.6	6.0	0.2	-1.2

Table 1. Chad: Selected Economic and Financial Indicators, 2009–2014 (concluded)

	2009	2010	2011	2012	2013	2014
				Prel.	Proj.	Proj.
External debt (in percent of GDP)	17.6	20.2	23.0	20.9	23.2	18.3
NPV of external debt (in percent of exports of goods and services)	36.3	30.9	48.2	36.6	53.1	38.6
	(In percent of non-oil GDP, unless otherwise indicated)					
Government finance						
Revenue and grants	18.6	26.7	34.6	33.4	25.5	28.7
Of which: non-oil	7.3	8.1	7.6	7.7	8.4	8.8
Expenditure	28.1	32.2	31.3	32.8	31.5	29.5
Current	18.0	19.2	17.9	15.7	17.4	16.6
Capital	10.0	13.1	13.3	17.0	14.1	12.9
Non-oil primary balance (commitment basis, excl. grants)[5]	-17.1	-20.1	-19.6	-19.2	-18.2	-16.1
Overall fiscal balance (incl. grants, commitments basis)	-9.4	-5.5	3.3	0.6	-6.0	-0.8
Overall fiscal balance (incl. grants, cash basis)	-9.3	-4.2	0.6	1.7	-6.0	-1.9
Total debt (in percent of GDP)[6]	23.1	25.6	31.1	28.0	30.2	23.8
Of which: domestic debt[6]	5.5	5.4	8.1	7.0	6.9	5.5
Memorandum items:						
Nominal GDP (in billions of CFA francs)[7]	4,369	5,279	5,736	6,579	6,627	7,602
Of which: non-oil GDP	3,515	3,999	4,108	4,614	4,812	5,296
Nominal GDP (in billions of US$)[7]	9.3	10.7	12.2	12.9	13.4	15.9
Of which: non-oil GDP	7.5	8.1	8.7	9.0	9.7	11.1

Sources: Chadian authorities; and IMF staff estimates and projections.
[1]IMF, Chad-Staff Report for the Staff Monitored Program (EBS/13/103).
[2]WEO 2014 Winter Production.
[3]Chadian oil price is Brent price minus quality discount.
[4]Changes as a percent of broad money stock at the beginning of period.
[5]Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding net interest payments and foreign-financed investment.
[6]Central government, including government-guaranteed debt.
[7]GDP using National Accounts, base year 2005.

Statement by Kossi Assimaidou, Executive Director and Ngueto Tiraina Yambaye Alternate Executive Director for Chad
February 21, 2014

On behalf of our Chadian authorities, we thank the Executive Board and Management for the support to their policy efforts in a very challenging environment. Our authorities are very much appreciative of the policy and reform advice provided by staff.

In spite of a difficult regional environment, Chad's macroeconomic indicators continued to improve in 2013, with real GDP estimated to have grown by more than 3.5 percent helped by strong growth in the non-oil sector. Inflation has remained subdued. Fiscal policy continued to be tightened, in spite of the spending pressures associated with the regional security situation. In this regard, it is to be noted that Chad has contributed actively to international efforts to restore order in Mali and is also meeting recurrent expenditures for border security and assistance to refugees from neighboring countries. Although the international community has promised assistance to Chad to meet these costs, none has been received yet.

At the same time the authorities have implemented successfully a Staff-Monitored Program approved by management in July 2013. The 2013 underlying fiscal policy stance, as measured by the non-oil primary deficit (NOPD), is in line with the programmed target. Fiscal consolidation was achieved amid those unexpected security outlays and downward revisions to oil and non-oil revenue projections.

Despite the policy discipline, a series of unforeseen and concurrent events in 2013 led to relatively large financing needs. First, oil revenue fell short of original projections due to several temporary shocks. Second, the government needed to respond quickly to the regional security situation through: (i) Chad's participation to the international military campaign in Mali; (ii) humanitarian assistance to refugees from the Central African Republic; and (iii) increased security spending within and at Chad's borders to cope with terrorism threats. On top of that, there was some uncertainty about the timing of the envisaged sources of financing, notably placements of debt in the regional market. All this forced the Chadian authorities to resort to oil sales' advances. The authorities are aware of the impact of the latter on 2014 fiscal prospects and are committed to take remedial actions to mitigate them, including through a revised 2014 budget and through improved coordination within government throughout the debt management process.

IMPLEMENTATION OF THE STAFF-MONITORED PROGRAM

As of end-September, the performance relative to quantitative indicators under the SMP was encouraging. Accordingly, five out of seven quantitative targets have been met, mostly with comfortable margins. The authorities also implemented strong measures as regards tax collections—which have helped improve non-oil revenue—and contained overall spending within the program limits.

The two missed targets (ceiling on contracting or guaranteeing new non-concessional external public debt and new guaranteed external debt contracted or guaranteed by the government and/or non-financial public enterprises) are both explained by the resort to the oil sales advances under extraordinary circumstances that the authorities believe did not merit a revision of the underlying policy stance.

On the structural front, most benchmarks for 2013 are expected to be met albeit some with delay. These include: (i) the reconciliation of treasury and central bank data on net claims of the banking system on the government at end-2012; (ii) the submission to Parliament of the 2014 draft budget in line with the objective of gradual reduction of the NOPD; and (iii) the limit to emergency spending procedures (*Dépenses avant ordonnancement*, DAOs). On the latter, it is important to note that regulations have also been issued to strictly limit their use; a monitoring committee has been established and now meets on a regular basis; and a commission to ensure rapid regularization of DAOs has been put in place, in line with Fund technical assistance recommendations. The institutional and technical complexity of a remaining structural measure—preparing and updating a monthly treasury cash management plan—makes it difficult to integrate cash planning with public procurement plans and, therefore, challenging to meet the benchmark within the lifespan of the SMP.

The government acknowledges the importance of improving debt management and is committed to enhancing the capacity of the two structures in charge of providing binding opinions on all new loans proposals (the Chadian Team on Debt Analysis and Sustainability, *ETAVID*, and the National Commission for Debt Analysis, *CONAD*)—the last structural benchmark. The authorities also strive to strengthen communication within the government, and between the government and the Fund on debt-related issues. In this regard, the government has received and will continue to receive technical assistance from the World Bank and AFRITAC Central to improve debt management.

Encouraged by the results of their action in consolidating macroeconomic stability and implementing public financial management reforms, including on DAOs and automated systems for payments and accounting, the Chadian authorities feel strongly about the satisfactory implementation of their SMP to end-2013, and look forward to the final assessment under the program.

MEDIUM-TERM POLICY CHALLENGES

Our Chadian authorities are encouraged by the current policy results and medium-term growth outlook. It is their intention to build on this progress and to implement policies that will ensure sustained macroeconomic stability, strong poverty reduction and smooth structural transformation of the Chadian economy, in spite of the challenging environment.

Regarding the dependence on oil sector developments, while the Chadian authorities are convinced of the need to diversify the economy and sources of revenue, they believe that the existing and potential oil exploration activities in new fields should provide them some leeway in conducting the necessary structural reforms while allowing fiscal space for public investment in a gradual but steadfast fiscal consolidation plan. It is the view of the Chadian authorities that such strategy should lean on a medium-term program with the Fund which itself should reflect the objectives laid out in Chad's National Development Plan.

Fiscal Policies and Reforms

The Chadian authorities are cognizant of the necessity to increase non-oil revenue. They appreciate staff's analysis on non-oil tax potential and the need to bridge the gap through tax policy and administration reforms. They intend to build on the progress made recently to further advance fiscal reforms in line with Fund recommendations. The actions already taken or underway include notably reductions in tax exemptions, ongoing harmonization of the tax code with the CEMAC requirements, and current efforts to automate major customs offices.

On the expenditure side, the Chadian authorities are pursuing efforts to limit use of DAOs to cases of truly urgent situations and to regularize them systematically. They are streamlining government accounts at commercial banks to better control cash management; and, in the same vein, they will put in place an accounting IT system this year to improve the reliability of accounting. On procurement, the authorities have confirmed their intention to resume the publication of procurement bulletins in early 2014 and increase the share of public contracts that are awarded through a competitive bidding. More broadly, they share the view that tackling PFM weaknesses is critical to improve fiscal control and enhance public spending efficiency.

Debt Sustainability

Beside the reactivation of the two structures in charge of recommending, approving and monitoring debt operations, the Chadian authorities are making efforts on various fronts to maintain debt sustainability. They are preparing a public debt management law aimed at distributing responsibilities for steps throughout the whole debt process and at better coordinating actions.

An important indication of Chad's commitment to debt sustainability is the decision to cancel the Master Facility Agreement (MFA) with Eximbank of China which would have been used for infrastructure projects. Our authorities remain committed to continue efforts to obtain concessional resources—which remain scarce—to finance highly-needed basic and transformational infrastructure. This approach together with expected debt relief under the HIPC Initiative, will help reduce the risk of debt distress facing Chad. It is, therefore, critical that Chad reaches the HIPC Completion point as soon as possible. Our Chadian authorities continue to view this milestone as a priority, and are making every effort to meet all its associated prerequisites.

Structural Competitiveness and Transformation

Chad endeavors to transform its economy by diversifying its sources of growth towards agriculture and livestock sectors which also carry strong potential to make growth more inclusive. The authorities are committed to further enhance the business environment. They intend to do so in consultation with the private sector as highlighted in their long-term development strategy. Tackling the inadequate infrastructure and public services—notably electricity, roads, water supply—as well as the high transaction costs, remain priorities in their structural reform agenda, with the view to strengthen competitiveness.

Building on strengthened stability of the banking system achieved through the recent restructuring of state-owned banks, further actions in the financial sector will be geared at increasing access to financial services, notably in rural areas, and developing the microfinance sector.

CONCLUSION

Institutional and financial constraints remain key impediments to Chad reaching its development objectives. In this regard, the Fund can play a critical role in providing needed technical assistance, especially in the fiscal area, and in catalyzing donor resources while assisting in efforts to meet the requirements for debt relief under the HIPC Initiative. As experiences of fragile states show, strong involvement of the Fund is critical to alleviating institutional and policy capacity constraints, and catalyzing the necessary financial support. Chad urgently needs this assistance to make further progress towards mobilizing the resources (domestic revenue, debt relief, external support) needed to meet its long-term development challenges while preserving debt sustainability. Our Chadian authorities have designed a second-generation growth and poverty reduction strategy embodied in their National Development Plan (NDP) 2013-2015 which will guide their actions going forward. They are seeking adequate resources to implement the NDP and, in this vein, they plan to gather a donor round-table in the first half of 2014, and are hopeful that it will receive the full support of the international community. In this regard, the authorities believe that the strong policy performance of recent years and under the SMP should be recognized by a Fund financial arrangement that provides the framework for a swift organization of the donor round-table and the achievement of debt relief under the HIPC Initiative. We would, therefore, appreciate Directors' full support for a follow-up medium term program under the ECF.