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February 24, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Chad - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Chad. A draft decision appears on page 15.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Cronquist, ext. (5)8731.

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INTERNATIONAL MONETARY FUND

CHAD

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for
the 1983 Consultation with Chad

Approved by J.B. Zulu and W.A. Beveridge

February 23, 1984

I. Introduction

The 1983 Article IV consultation discussions with Chad were held in N'Djaména during the period November 28-December 13, 1983. En route from N'Djaména, members of the staff team also held discussions with officials of the Bank of Central African States (BEAC) in Yaoundé. The Chad representatives included Mr. Djidingar Dono Ngardoum, Minister of State for Agriculture; Mr. E. Romba, Minister of Finance and Materiel; Mr. Ali Djalbord Diar, Minister of Economy, Commerce, and Industry; Mr. J. Yodeyman, Minister of Planning and Reconstruction; Mr. G. Boulland, Acting National Director of the BEAC; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff team consisted of Messrs. S.E. Cronquist (head-AFR), A. Diao (AFR), I. McCarthy (AFR), D.K. McAlister (STAT), and Mrs. A. Groen (secretary-ADM). The previous consultation with Chad was concluded by the Executive Board in April 1979. Chad continues to avail itself of the transitional arrangements of Article XIV.

II. Background

Chad is the largest landlocked country in Africa, with a major part of its area consisting of Sahelian grassland and desert. A majority of the population is concentrated in the southern regions, where agriculture is the principal economic activity and cotton by far the most important cash and export crop. In the 1970s Chad faced extremely difficult economic and financial problems, stemming from the impact of a protracted armed internal conflict, which led to the allocation of a growing share of available economic and financial resources to defense and security, compounded by recurring droughts, an inadequate transportation system, and other structural constraints. Weaknesses in economic and financial management contributed to the deteriorating performance of the economy; there were sizable annual budgetary deficits, an accumulation of payments arrears, and a weak balance of payments throughout most of the decade.

The armed conflict intensified in stages during the period 1979-82 and seriously affected the capital (N'Djaména) as well as the central and northern regions, whereas the south of the country was less affected by the military operations; most of the central part of the capital was destroyed. In addition to the physical destruction, the intensification of the conflict resulted in a dislocation of the economy, the effects of which have not yet been overcome. The livestock sector, which was the mainstay of the economy of the central and northern regions in the 1970s, was severely affected, although part of the cattle herd was moved to the southern regions in a process of accelerated migration away from the war zones. The internal distribution network between the south and the rest of the country was gradually destroyed, and the banking system ceased operating. Meanwhile, economic activity in the south was not too seriously affected: cotton production was maintained despite difficulties in obtaining fertilizers and insecticides and a switch to food crops; many of the principal industries in the south also continued to operate.

In June 1982 the conflict was brought to a halt with the recapture of the capital by the forces of the present Head of State, and in October a new Government was formed. The military operations resumed, however, in June 1983 resulting in a situation where the authorities in N'Djaména are not now in de facto control of the northern regions, which represent a substantial part of the country.

Between October 1982 and June 1983 the Chad authorities set out to revive economic and financial activities and to rebuild and centralize public administration in the capital. Although the national branch of the common central bank (BEAC) and one commercial bank had reopened, economic activity in N'Djaména was basically at a standstill during this period, and only limited reconstruction took place. Rebuilding of the central administration proceeded slowly; civil servants were starting to return to the capital and office buildings were being restored. Nevertheless, since June 1983 the Chad authorities have subordinated these priorities to the maintenance of security, which will further delay the restoration of a centralized public administration.

As most of the data base for the period 1978-82 was destroyed during the battle of N'Djaména, a large part of the following discussion of economic performance will pertain to 1983 only, without the benefit of any evaluation of developments over time. Although attempts have been made to reconstitute some time series, particularly in the monetary and balance of payments fields, these data should be regarded solely as indicative. There are also problems of coverage; no statistics are available for the northern and central regions and production statistics used in the following sections refer only to the south of the country. Although a central government budget was adopted in 1983, the discussion of budgetary performance refers mainly to the situation in N'Djaména, since only limited information is available on the share

of government receipts and expenditures, which are both collected and disbursed by administrative entities outside the capital. There are no estimates of value added or of the allocation of resources in the economy, and the collection of price statistics has not yet been organized in a systematic manner.

III. Recent Economic Developments

Agricultural production in Chad's southern regions is estimated to have recovered significantly in 1982/83, compared with the preceding period of intensified internal conflict. According to available estimates, output of unginned cotton rose by 43 percent to 102,000 tons, mainly due to the continued implementation of the cotton productivity program, while output of food staples also increased. The principal industrial enterprises in the south (beer, textiles, sugar, and cigarettes) maintained their production despite financial and/or marketing problems due to the absence of a functioning banking system and to communication and transportation difficulties between the south and the rest of the country.

The recovery in agricultural production in the south was not reflected in the financial situation of the Central Government in N'Djaména. Notwithstanding the authorities' efforts to centralize control of revenue collection, the major part of budgetary receipts collected by the Treasury in the first ten months of 1983 originated from duties and taxes in N'Djaména alone. Budgetary receipts on an annual basis, excluding foreign aid, are estimated at CFAF 7.4 billion, representing a shortfall of about 11 percent in comparison with the 1983 budget estimate (Table 1). The shortfall was mainly due to the nonpayment of current tax liabilities by some of the principal enterprises and to the fact that, although the 1983 budget had foreseen an increase in the taxation of cotton, this measure was not implemented. Cotton exports are subject to a tax, the rate of which is applied to a standard unit value (valeur mercuriiale) rather than to the f.o.b. value; despite a substantial increase in export prices in 1983, the standard unit value remained unchanged at the level adopted in the 1978 budget. More important, however, government spending on an annual basis is estimated to have reached CFAF 13.3 billion, with wages and salaries accounting for 48 percent, despite the fact that the majority of civil servants were being paid only half salary. Consequently, in 1983 the overall budgetary deficit on a commitment basis is estimated to have totaled CFAF 5.9 billion, equivalent to 44 percent of total expenditures. Although external budgetary aid amounted to CFAF 3.0 billion and central bank advances rose to their statutory ceiling, total payments arrears increased by CFAF 3.8 billion, with external debt service arrears accounting for CFAF 2.6 billion. Notwithstanding the cancellation of CFAF 7.5 billion of outstanding external arrears by two of Chad's bilateral creditors and some consequent reduction in the Government's scheduled service

Table 1. Chad: Summary of Central Government Operations, 1983

(In billions of CFA francs)

	1983	
	Budget	Est. outcome
Budgetary revenue	8.3	7.4
Expenditures	<u>36.8</u>	<u>13.3</u>
Current	36.8	13.3
Of which: personnel	(20.0)	(6.4)
goods and services	(15.4)	(4.8)
scheduled interest	(--)	(0.6) <u>1/</u>
Capital	<u>--</u>	<u>--</u>
Overall deficit (commitment basis)	-28.5	-5.9
Arrears (reduction -)	<u>--</u>	<u>3.8</u>
Domestic	<u>--</u>	<u>1.2</u>
Foreign	<u>--</u>	<u>2.6</u>
Overall deficit (cash basis)	-28.5	-2.1
Financing	<u>...</u>	<u>2.1</u>
Foreign		0.7
Grants		(3.0)
Scheduled amortization		(-2.3)
Domestic		1.4
Central bank advances		(1.1)
Other		(0.3)

Sources: Data provided by the Chad authorities; and staff estimates.

1/ Excluding debt service on guaranteed debt.

payments, the Autonomous Amortization Fund (CAA), which services Chad's public debt using earmarked tax receipts, was unable to meet most of the service payments due in 1983. Outstanding debt service arrears of the Government are estimated to have reached SDR 60 million at the end of 1983.

The banking system suspended operations in March 1980. One of the four commercial and development banks existing in 1978 reopened in 1981, and the national branch of the BEAC reopened in 1982. At the time the system closed, outstanding credit to the private sector and public enterprises amounted to about CFAF 37 billion, of which some CFAF 23 billion had been rediscounted by the Central Bank; the largest part of this was crop credit, mainly for cotton. At the end of 1982 negotiations started between the Government, the Central Bank, the commercial banks, and the enterprises on the settlement of arrears and the conditions for the full resumption of banking operations. At that time the overdue loans to the enterprises from the banks amounted to about CFAF 23 billion, or 76 percent of total outstanding bank credit to that sector. The claims of the Central Bank on the banks totaled nearly CFAF 18 billion, of which outstanding short-term rediscounts and advances accounted for about 70 percent. In April 1983 the Government renewed until December 31, 1988 the moratorium that had been instituted in 1981 on outstanding liabilities. The terms of the new moratorium were designed to encourage the remaining commercial banks to effectively resume operations before January 1, 1984, since by mid-1983 no other banks had returned to Chad. Although the Central Bank had reopened its rediscount window for those enterprises that had proposed an amortization schedule for outstanding liabilities, these facilities remained comparatively small in view of the limited availability of credit through the one operating bank. During the first ten months of 1983 total domestic credit rose by about 2 percent, as the increase in central bank claims on the Government was in part offset by a reduction in credit to the enterprise sector resulting from reimbursements of outstanding short-term credit (Table 2). At the end of October 1983 the loans of the enterprises covered by the moratorium were equivalent to 78 percent of the commercial banks' outstanding claims on the private sector and public enterprises. Broad money supply fell by 2 percent in this period, reflecting the decline in the country's net foreign assets.

The external payments position came under pressure in 1983. Although export earnings rose by about 43 percent because of increases in both the volume and unit value of cotton sales, imports grew by an estimated 45 percent, mainly because of much larger military equipment procurements. As net service payments increased while the net inflow of private transfers declined, the current account deficit (excluding public transfers) widened by about 41 percent to SDR 69 million. Notwithstanding substantial military aid and increases in nonmilitary budgetary and project assistance, the overall balance of payments is estimated to have recorded a deficit of SDR 9.0 million, compared with a

Table 2. Chad: Monetary Survey, 1980-83

	1980	1981	1982	<u>1983</u> Oct.
(In billions of CFA francs; end of period)				
Net foreign assets	-7.1	-1.6	2.5	1.4
Domestic credit	<u>48.8</u>	<u>43.6</u>	<u>41.5</u>	<u>42.3</u>
Claims on Government (net)	<u>11.3</u>	<u>12.3</u>	<u>11.5</u>	<u>12.9</u>
Claims on rest of economy	37.5	31.3	30.0	29.4
Broad money supply	28.1	33.2	34.6	33.9
Of which: money	(26.5)	(31.7)	(33.2)	(32.4)
(Annual rate of change in percent of broad money supply)				
				<u>Jan.-Oct.</u>
Net foreign assets	-9.9	19.4	12.5	-3.1
Domestic credit	<u>-3.2</u>	<u>-18.6</u>	<u>-6.2</u>	<u>2.4</u>
Claims on Government (net)	<u>-1.1</u>	<u>3.5</u>	<u>-2.4</u>	<u>4.1</u>
Claims on rest of economy	-2.1	-22.1	-3.8	-1.7
Broad money supply	-15.3	17.8	4.5	-2.1

Source: Data provided by the Chad authorities.

deficit of SDR 0.8 million in 1982. As of the end of 1983 Chad's gross official foreign reserves amounted to an estimated SDR 13.2 million, equivalent to about six weeks of projected 1984 nonmilitary imports, c.i.f.

Chad's outstanding external public debt totaled SDR 147 million at the end of 1982, of which principal in arrears accounted for about 37 percent. Contractual external public debt service totaled SDR 9.7 million in 1983, equivalent to about 11 percent of 1983 exports of goods and services. As the Government was unable to meet most of its debt service payments in 1983, total debt service arrears (principal and interest) rose by more than 11 percent to SDR 63 million. Outstanding external debt, including principal in arrears, is estimated to have reached SDR 152 million at the end of 1983 (Table 3).

Table 3. Chad: External Public Debt and Arrears, 1982-83

(In millions of SDRs)

	1982	1983
Outstanding debt (end of period)	146.8	152.5
Scheduled debt service	8.0	9.7
Principal	5.9	7.7
Interest	2.1	2.0
Debt service arrears (end of period)	56.6	63.1
Principal	53.7	59.4
Interest	2.9	3.7

Sources: Data provided by the Chad authorities; and World Bank and staff estimates.

IV. Report on the Discussions

The consultation discussions took place at a time when the internal security situation did not permit the authorities to give full attention to economic development and financial adjustment. The authorities expressed concern about the difficulty of restoring financial credibility when the priorities relating to the economy had to be subordinated to the maintenance of security, but they stressed their firm intention to find ways to cope with the situation and eventually overcome the dislocation of the economy that has resulted from the long period of war.

1. Economic outlook and policies

In Chad's southern regions the prospects for growth in 1984 appear reasonably favorable. Agricultural production and incomes are expected to increase, as cotton output is forecast to rise by some 18 percent to between 115,000 and 120,000 tons, and production of food staples, assuming favorable weather, is also projected to increase. Although cotton processing and affiliated industries are expected to expand production, the other principal industries in the south are expected to maintain production only at the 1983 level in view of their financial as well as marketing problems that have resulted from increased competition from neighboring countries.

Increasing world market prices for Chad's cotton have made it possible to boost production in this sector in an attempt to return to the production levels prevailing before the intensification of the conflict. Producer prices were raised for the 1983/84 crop year by CFAF 10 to CFAF 80 per kilogram for first-quality cotton, and the Chad representatives stressed that this increase had contributed to an improvement in yields, particularly under the productivity program, which involves the farmers in modern and more intensive methods of cultivation compared with traditional planting. Areas under cultivation had also increased beginning with the 1982/83 season, and in 1983/84 the productivity program will account for about 58 percent of a total area under cotton of some 184,000 hectares. The authorities' stated policy is to continue to increase production under the productivity program, which would be achieved not only through an increase in the area under cultivation but also through further incentives to the farmers to improve the yield. Overall profitability of cotton is to be enhanced through the rationalization of the ginning mills. Consideration is being given to phasing out plants with marginal productivity serving the traditional cotton farmers; this would also lower transportation charges since those mills are not generally located along the principal cotton transportation axes. The Chad representatives emphasized that transportation costs have been increasing rapidly, due mainly to the fact that the road network had not been maintained during the period of hostilities.

Concerning the 1984/85 crop year, the Chad representatives stated that, consistent with the authorities' policy, the producer price for first-quality cotton is to be increased to CFAF 85 per kilogram for a projected production under the productivity program of some 110,000-120,000 tons, while traditional production is estimated to remain at around 30,000 tons, as in 1983/84. If world market prices remain at about their present levels, this increase in the producer price would not require any support by the Cotton Price Stabilization Fund. As the foreign financial assistance to the cost of inputs under the productivity program may be terminated in the 1986/87 crop year, the authorities also plan to increase the farmers' own contribution to this program to 70 percent of the cost of the inputs, compared with 56 percent in 1983/84.

Turning to food staples, the Chad representatives stated that there were favorable production prospects in the south, with cereal production more than keeping pace with the population increase. Farmers in the traditional cotton sector had been encouraged to plant cereals, at least in rotation, since areas that had been planted with cotton were more suitable for food crops. Efforts had also been made to rehabilitate rice production under irrigation projects that had been started with external financial assistance in the 1970s. The Chad representatives emphasized, however, that, on a national level, Chad is expected to experience an acute food shortage, which had been projected at some 136,000 tons in 1984, since the surplus in the south would not be sufficient to compensate for the expected shortfall in the Sahelian region. Although the international community had been alerted to the severity of the situation and had indicated willingness to assist, the authorities expressed grave concern as to the feasibility of offsetting the shortfall in view of the lack of storage silos and major transportation difficulties. They estimated that in 1984 emergency aid of about 57,000 tons of cereals was required to prevent malnutrition in the Sahelian area.

Economic development planning and project implementation in Chad received renewed attention at the end of 1982 at the time of the international conference on assistance to Chad. The Chad representatives stated that, although the main emphasis at that time had been upon emergency aid, the international community had also responded favorably to the authorities' requests for a renewal of development assistance. However, the experience in 1983 had been that less-than-anticipated foreign development assistance had been forthcoming, either because of insufficient project preparation or because of initial difficulties in effectively coordinating external aid inflows. As the administrative machinery was now in place, the Chad representatives expressed the hope that foreign financial assistance in 1984 would be directed to reconstruction and development. The strategy originally envisaged by the authorities in the aftermath of the international conference was the preparation of a global plan similar to the 1978-81 development plan, which, for obvious reasons, had had to be abandoned. Since then it had become evident that the formulation of such a plan would not be feasible given the existing administrative constraints, and the main thrust of the authorities' efforts was now directed toward the reactivation of existing projects. Major emphasis was being placed on projects in the agricultural and livestock sectors, including the rehabilitation of irrigation projects to increase food production, water supply projects in the livestock sector, and the eradication of rinderpest. In the existing circumstances, the continued execution of rehabilitated projects would be entirely dependent on foreign financing, and the Chad representatives noted that the international round-table conference on aid to Chad proposed for 1984/85 would provide an opportunity to review the authorities' development strategy in the light of the external aid inflows.

2. Financial policies

a. Fiscal policy

The 1983 budget was adopted with expenditure appropriations totaling CFAF 36.8 billion, a level which was more than four times higher than the revenue estimate. The Chad representatives explained that the authorities' intention at the beginning of 1983 had been to demonstrate that a civilian administration was in place, even though efforts to centralize public administration in the capital had only just begun; most of the ministries were operating with a minimal staff, and tax collection in many of the administrative entities outside the capital was not under the control of the central authorities. Although they admitted that the expenditure appropriations had been unrealistic in relation to anticipated receipts, they stated that the appropriations had been set at that level to reflect what the authorities considered to be the minimal requirements for reconstituting the central administration. Thus the personnel appropriations had been framed in terms of a civil service similar in numbers and level of remuneration to that existing in 1977-78. However, they emphasized that, since the number of civil servants paid by the Treasury in N'Djaména had actually been much smaller and the majority of them had only been paid half their salaries, the execution of the budget had proceeded on the basis of appropriations that were scaled down to a level where the prospective deficit was equivalent to about 17 percent of the expenditure appropriations.

The larger-than-anticipated budgetary deficit in 1983 was attributed by the Chad representatives to a number of factors, some of which were considered to be largely beyond the control of the authorities. On the one hand, government spending had been affected by larger-than-foreseen outlays for restoring public administration, but, more important, by the need to devote additional resources to defense and security. On the other hand, tax administration and collection had proceeded at a slower pace than foreseen, while some of the proposed tax measures had not been implemented. The Chad representatives stated that many of the factors affecting expenditures in 1983 would also be present in 1984, which would reduce the scope for any significant improvement in the budgetary situation. While they agreed with the staff on the principle that budgetary outlays in 1984 should be limited to what can realistically be financed by revenues and external grants, in the given circumstances they did not see any possibility to take adjustment measures that would affect expenditures. Security and defense would remain the overriding priority, followed by continued efforts to provide government wages and salaries on a regular basis. In any case, the present policy of paying only half salary to the majority of civil servants would remain in effect, and there would be no budgetary allocation for investment purposes.

With respect to the revenue side, however, the Chad representatives expressed guarded optimism for 1984. The budget was still at an early stage of preparation, and the authorities were exploring ways to improve tax administration and collection. These efforts would be mainly directed to better collection of direct taxes, for which the shortfall in 1983 had been significant. An interministerial committee had already been established for the purpose of monitoring the tax performance of enterprises outside the capital, but the results so far had not been encouraging, and many enterprises continued to incur arrears on their current tax liabilities. At the same time, the authorities were exploring various options for new taxes while broadening the base and increasing the rates of existing taxation. In this context, they expressed hope that specific recommendations to enhance tax receipts would result from the technical assistance mission of the Fund's Fiscal Affairs Department, which was expected in early 1984. In addition to the foreseen increase in taxation on cotton exports, these options included the introduction of a solidarity or reconstruction tax to be levied on the same base as the head tax that had been rescinded after 1978, a special tax on all salaries, except those of civil servants paid half salary, a tax on sales of cattle and cereals, and a further increase in the tax on imports of petroleum products. Although revenue increases from cotton taxation could not be specified at this time, the authorities projected that, with additional efforts to reinforce tax collection, budgetary receipts in 1984 could increase by about 32 percent compared with the estimated outcome in 1983, and by about 18 percent in relation to the 1983 budget estimate. However, the revenue increase would be considerably larger with an increase in cotton taxation.

The Chad representatives were concerned about the continuing increase in arrears, both domestic and external. They were particularly aware of the increase in debt service arrears. Although Chad would probably benefit from additional budgetary aid, they expressed doubts as to the Government's ability in 1984 to service the external debt without further rescheduling and/or cancellation of debt by the official creditors, since its scheduled debt service obligations, including repurchases to the Fund, totaled nearly SDR 7.0 million, equivalent to more than 25 percent of anticipated budgetary receipts even under the most optimistic revenue scenario.

b. Monetary policy

Regarding monetary and credit policies, the Chad representatives stated that the full resumption of commercial banking operations was a sine qua non for economic rehabilitation. A second commercial bank was scheduled to resume activities in N'Djaména at the end of 1983, which would help increase the availability of credit to those enterprises that had not been able to reorganize their activities because of lack of funds. As the second bank may also be able to extend long-term loans in addition to providing the traditional commercial bank services, it could play an important role in the rehabilitation process. Although

the monetary authorities' policy stance had been accommodating, including substantial facilities for reconstruction purposes, the one operating bank had not been in a position to respond fully to the demand. In the south of the country much of the financing of current activities took place outside the Chad banking system. The enterprises in that region had recourse to banks in neighboring countries and themselves provided services that under normal circumstances would be provided by the commercial banks. It was estimated that as much as 60 percent of Chad's currency in circulation was, in fact, held outside the country, much of it reflecting unrecorded border trade. The Chad representatives were of the opinion that the bank branch that had recently opened in the south would help to normalize this situation. However, they did not believe that any additional branches would reopen before 1985.

Concerning interest rates, the Chad representatives noted that, since December 1982, when the basic rediscount rate of the common central bank was raised to 9.0 percent, the interest rate structure has remained unchanged. The two commercial banks were likely to argue in 1984 for an increase in the margins available to them in order to finance the reopening of additional branches outside N'Djaména. In the event of such an increase, the monetary authorities would be prepared to authorize an increase in deposit rates.

3. External prospects and exchange system

In the absence of a widening of hostilities, Chad's external payments situation is likely to improve in 1984, since a 38 percent increase in export earnings is anticipated, reflecting mainly a projected 47 percent increase in cotton sales. Nonmilitary imports are projected to increase by about 16 percent, and, although net service payments are also likely to increase in 1984, the current account deficit, excluding military transactions, could be reduced by about 13 percent to SDR 44 million. The Chad representatives agreed, however, that any overall improvement in the external payments situation would be crucially dependent on several contingencies, including foremost the security situation but also the level of concessionary foreign aid and the Government's success in restoring confidence and creditworthiness abroad. They expressed concern about the substantial level of accumulated external arrears and the limited scope for improving the situation in 1984, even though the ratio of scheduled external public debt service to projected exports of goods and services was about 7 percent, or 4 percentage points lower than in 1983. Without cancellation of debt, outstanding debt service arrears would reach SDR 68 million at the end of 1984, equivalent to 43 percent of projected external public debt.

Chad's currency, the CFA franc, is pegged to the French franc at the rate of CFAF 1 = F 0.02. The trade-weighted nominal effective exchange rate depreciated by about 0.5 percent over the period 1979-81, and by a further 2.6 percent through November 1983, reflecting the depreciation of the French franc vis-à-vis the U.S. dollar and other

major currencies. The Chad representatives stressed that, in light of Chad's membership in a monetary union, they were committed to maintaining a common exchange rate. Chad continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions. There are no restrictions on imports that are being maintained for balance of payments reasons. Licenses for imports of a certain brand of cigarettes have been temporarily suspended, and imports of certain textiles and sugar require prior authorization. The Chad representatives stated that the restrictions on imports were being maintained to protect the domestic industries, which had had difficulties competing with imports from neighboring countries.

V. Staff Appraisal

During the consultation discussions the authorities repeatedly expressed concern about the situation that had developed after June 1983 and urged understanding of the reorientation of priorities that had become necessary. The staff agrees that, since military operations have resumed after a halt of no more than 12 months, the economic outlook as well as the overall financial situation will be dependent on the degree to which it will be possible to continue rebuilding the economic and financial structure. Implementation of measures and policies designed to improve economic and financial performance will be extremely difficult as long as the maintenance of security remains the overriding concern. Nevertheless, the staff took the position during the discussions that, even in the prevailing circumstances, certain economic and financial measures could be implemented to improve financial management.

The level of budgetary receipts in 1983 was lower than anticipated, mainly due to administrative difficulties in tax assessment and collection. As a consequence, receipts earmarked for debt service were far below requirements for the timely settlement of existing obligations. Since the basic priorities relative to the current budget were also changed during the year, the budgetary situation has become increasingly precarious. In preparing the 1984 budget, the authorities should formulate their policies with reference to the existing administrative structure. Accordingly, budgetary expenditure appropriations should be limited to what can realistically be financed by anticipated fiscal receipts and external budgetary aid, rather than being developed in terms of hypothetical minimum requirements for reconstituting a central administration of the size that existed in 1977-78. This would be in keeping with the Government's stated decision to pursue in 1984 the same personnel policies that had applied in 1983. As regards budgetary resources, the staff welcomes the Government's determination to explore various options for new revenue sources while attempting to broaden the base and increase the rates of existing taxation. There is a clear need for a comprehensive review of existing taxation along the lines specified in the report of the Fund's 1977 technical assistance mission. A fiscal expert visited N'Djaména for this purpose in February 1984. The

authorities have also requested technical assistance from the Fund's Fiscal Affairs Department with a view to improving budget preparation and tax administration.

Action to provide resources to meet current public debt service obligations and to begin to settle outstanding arrears should be included among the most pressing short-term priorities. Consequently, part of the prospective increase in budgetary resources should be allocated in a timely fashion to the CAA to enable it to resume servicing the public debt. At the same time, it will be necessary to continue the dialogue with the principal creditors concerning refinancing, rescheduling and/or additional cancellation of debt, since the domestic resources needed for scheduled debt service payments are high in relation to budgetary receipts, even under the most optimistic revenue assumptions. Although technically, the arrears in payments for external debt servicing do not evidence exchange restrictions subject to approval under the Fund's Article VIII, as they reflect lack of budgetary resources to purchase foreign exchange from the common central bank (BEAC), the staff notes that they have similar deleterious effects on Chad's external relations and economic management. The authorities are therefore encouraged to take early steps, both in fiscal and external policy areas, to normalize payments relations as soon as possible.

The reopening of a second bank in the capital should help to increase the availability of credit, particularly since the syndication of commercial credits will now become possible. Since this bank may also be able to extend longer-term credit, it could play an important role in the rehabilitation and revival of the small- and medium-size enterprises in the capital. It will also be important in this context to establish ceilings on central bank rediscounting at a level appropriate to the financing needs of these enterprises.

Given that a broad-based development policy is not feasible in the circumstances, the authorities' renewed emphasis on the cotton productivity program in the south seems appropriate. However, since it is planned to increase the farmers' required contributions to the cost of this program, the proposed producer prices for 1984/85 should be raised further, particularly if the price prospects for Chad's cotton on the world market turn out to be more favorable than presently envisaged. An appropriate pricing policy in this sector would encourage increased production through higher productivity while sustaining farmers' incomes in real terms.

The coverage and timeliness of statistical information in the area of general economic statistics should be given priority attention, particularly with respect to consumer prices and external commerce. The authorities agree that efforts should be made to organize the collection and presentation of these statistics and have requested Fund technical assistance for this purpose.

It is recommended that, consistent with existing guidelines, a flexible approach be taken toward the timing of the next Article IV consultation with Chad.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Chad, in light of the 1983 Article IV consultation with Chad conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Chad continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

CHAD - Relations with the Fund

Date of membership	July 10, 1963
Quota	SDR 30.6 million (effective December 30, 1983)
Exchange system	The currency of Chad, the CFA franc, issued by the Bank of Central African States (BEAC), is pegged to the French franc, the intervention currency, at the rate of CFAF 1 = F 0.02.
Local currency/SDR equivalent (January 31, 1984)	CFAF 430.48 = SDR 1
Fund holdings of Chad's currency (January 31, 1984)	SDR 34.24 million (111.9 percent of quota), of which compensatory financing facility SDR 7.1 million (23.2 percent of quota).
SDR position	
Net cumulative allocation	SDR 9.41 million
Holdings of SDRs (January 31, 1984)	SDR 1.47 million (15.7 percent of net cumulative allocation)
Trust Fund loans outstanding	SDR 5.16 million
Gold distribution	11,126 fine ounces
Direct distribution of profits from gold sales	US\$2.09 million
Staff contacts	
Last Article IV consultation mission	December 1978; the staff report (SM/79/64) was discussed by the Executive Board on April 25, 1979 (EBM/79/63).
Negotiations on use of Fund resources	Request for use of the compensatory financing facility, (EBS/80/278). Executive Board approval on January 7, 1981 (EBM/81/3).

CHAD - Relations with the Fund (concluded)

Staff visits to N'Djaména	February 1980, November 1982, March 1983
Staff participation in donors' conferences for Chad	Paris, November 1981; Geneva, November 1982

Relations with the World Bank Group

In December 1982 a World Bank mission identified the need for a program-type operation in Chad to stimulate reconstruction and general economic recovery. A second mission in March 1983 established the priorities of a proposed rehabilitation program and discussed the modalities for resuming disbursements under existing IDA credits, for reactivating a pipeline project, and for additional reconstruction credits and technical assistance. The resumption of IDA disbursements would be subject to the settlement of outstanding arrears to the World Bank of about US\$1.5 million. The authorities have made an initial payment of US\$200,000 against the arrears, and the World Bank has agreed to provide financing in a maximum amount of US\$350,000 for the reactivation of two agricultural projects in the south of the country.

During the 1983 Annual Meetings, the World Bank Group took the position that there could be no large-scale financial commitments in Chad in view of the resumption of the internal conflict. However, this position would not affect the commitment to reactivate two agricultural projects in the south, and the modalities for this financing are expected to be discussed in early 1984.

CHAD - Basic Data

Area, population, and GDP per capita

Area	1,284,000 square kilometers
Population (1978 estimates)	
Total	4.3 million
Growth rate	2.1 percent

GDP per capita (1978) SDR 172

(In billions of CFA francs)

	1983			
	Budget	Est. outcome		
<u>Government finance</u>				
Budgetary revenue	8.3	7.4		
Budgetary expenditure	<u>36.8</u>	<u>13.3</u>		
Deficit (commitment basis)	-28.5	-5.9		
Arrears	--	<u>3.8</u>		
Deficit (cash basis)	-28.5	-2.1		
Financing	...	<u>2.1</u>		
Domestic	...	1.4		
External	...	0.7		
<u>Money and credit</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
(end of period)				Oct.
Foreign assets (net)	-7.1	-1.6	2.5	1.4
Domestic credit	<u>48.8</u>	<u>43.6</u>	<u>41.5</u>	<u>42.3</u>
Claims on Government (net)	<u>11.3</u>	<u>12.3</u>	<u>11.5</u>	<u>12.9</u>
Claims on rest of economy	37.5	31.3	30.0	29.4
Of which: central bank rediscounts	(23.2)	(18.0)	(17.8)	(17.8)
Money and quasi-money	28.1	33.2	34.6	33.9
Other items (net)	13.6	8.8	9.4	9.8

CHAD - Basic Data (concluded)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Balance of payments</u>	<u>(In millions of SDRs)</u>			
Exports, f.o.b.	46.4	64.2	46.5	66.3
Of which: cotton	(35.6)	(37.6)	(27.7)	(48.9)
Imports, c.i.f.	-49.3	-76.0	-85.3	-123.7
Trade balance	-2.9	-11.8	-38.8	-57.4
Services (net)	-23.0	-19.2	-14.6	-14.7
Private transfers	3.4	8.6	4.7	3.5
Balance on current account	-22.5	-22.4	-48.7	-68.6
Public transfers	17.6	39.1	50.8	92.1
Long-term capital (net)	-9.1	-7.5	-2.8	-24.6
Short-term capital (net)	-5.5	-1.4	-4.6	-3.9
Net errors and omissions	-0.4	2.1	4.5	-4.0
Allocation of SDRs	1.7	1.6	--	--
Overall balance (deficit -)	-18.2	11.5	-0.8	-9.0
<u>Gross official foreign reserves</u> (end of period)				<u>Oct.</u>
Holdings of SDRs	--	--	0.3	3.4
IMF reserve position	3.8	3.8	5.1	1.8
Foreign exchange	0.1	2.4	5.9	3.8
Gold	5.2	3.9	4.5	4.2
Total	9.1	10.1	15.8	13.2
	<u>(Annual averages; 1980=100)</u>			
				(11 months)
Nominal effective exchange rate (trade-weighted)	100.0	94.9	92.4	92.4

