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Statement of an IMF Staff Mission at the Conclusion of the 2008 Article IV Discussions with Chad

An International Monetary Fund (IMF) staff mission led by Mr. Sukhwinder Singh, Deputy Division Chief in the African Department, visited Chad during November 6-19, 2008, to conduct the 2008 Article IV Consultation discussions. The following statement was issued in N'djamena today:

"Over the last two weeks, IMF staff held constructive discussions with Prime Minister Yousouf Saleh Abbas, cabinet ministers, including Finance Minister Gata Ngoulou and Infrastructure Minister Adoum Younousmi, the National Director of the Banque des Etats de l'Afrique Centrale, Christian Ngardoum, and other senior officials, as well as representatives of the private sector, civil society and the donor community.

"Real growth outside the oil sector in 2008 remains depressed at 3¼ percent. But this performance was similar to that in 2007 despite the economic disruption caused by the security developments in February 2008, demonstrating some resilience in the non-oil economy. Absent another flare-up of security problems, real non-oil growth could increase to 5 percent in 2009. With oil production stabilizing at the end-2008 level, overall real GDP could grow by 3½ percent in 2009.

"Inflation picked up sharply in 2008 mainly due to higher food prices, and is likely to reach 7½ percent on average by the end of the year. Thanks to the advent of the main harvest, however, prices are coming down. Supported by higher agricultural production, inflation could trend back in 2009 to the Communauté Économique et Monétaire de l'Afrique Centrale convergence target of 3 percent.

"Chad has not been hit by the international food and fuel crisis as much as other countries in sub-Saharan Africa. Nonetheless the government should remain vigilant and provide the food security agency (ONASA) the funding to replenish its buffer stocks. Meanwhile, Chad will feel the effects of the global economic slowdown through lower oil prices and less demand for its exports. Oil revenue receipts in 2009 and beyond are currently expected to be around half of those received in 2008. Chad's financial system has not been affected by the credit tightening in the developed and emerging market economies.

"Public finances in Chad must urgently be set on a sustainable path. Spending should be gradually reduced to a level that can be covered by non-oil revenues. In 2008 spending was sharply increased. The non-oil primary deficit—a measure leaving out oil revenue and debt service—could reach 29 percent of non-oil GDP in 2008, compared with a sustainable level below 4 percent. An ambitious adjustment should be made over the medium term. The strategy should comprise raising non-oil tax revenues, reining in spending—especially current spending, and boosting spending effectiveness. Implementation of this strategy should begin with the 2009 budget, where savings should be sought in some current spending categories that have grown dramatically over recent years such as the wage bill and transfers to loss-making public enterprises. The government should also begin to address significant weaknesses in tax collection. The mission highlighted various risks to the budget, particularly overly optimistic oil price assumptions. Spending restraint in lower priority areas will allow a cushion of savings to deal with any shocks.

"The mission recognizes the progress being made in the critical sectors of education and health. But construction spending in those sectors is starting to exceed absorption capacity. Project costs are high and budget allocations for recurrent costs, such as school and health supplies and skilled human resources, are insufficient. Existing investments should be rendered operational and new constructions limited. Investment in key areas such as transport, irrigation and electricity may not face similar capacity constraints and could be stepped up. To lower investment costs, more competitive and transparent procurement practices and strict observance of budget procedures are imperative.

"Chad's weak competitiveness is a major impediment to growth and poverty reduction. Improvements in the business climate, governance and infrastructure are critically needed for competitiveness and the future of Chad's non-oil sector.

"The IMF is ready to support Chad through policy advice, technical assistance and, if there is sufficient improvement in fiscal management, through a staff-monitored program."