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AGENDA

EBS/87/209

CONFIDENTIAL

October 7, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Chad - Request for Arrangements Under the
Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report on a request from Chad for arrangements under the structural adjustment facility, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 26.

Mr. McLoughlin (ext. 8665) or Mr. Harnack (ext. 8515) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

CHAD

Request for Arrangements Under the
Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Exchange and Trade Relations, Fiscal
Affairs, Legal, and Treasurer's Departments)

Approved by A. D. Ouattara and S. Kanesa-Thanan

October 6, 1987

I. Introduction

In the attached letter to the Managing Director, dated July 14, 1987, the Minister of Finance and Computing Services of Chad requests a three-year arrangement under the structural adjustment facility (SAF), together with the first annual SAF arrangement, in support of an economic and financial program covering the period July 1, 1987 to June 30, 1990 (Appendix I). 1/

The amounts available to Chad under the SAF are currently estimated at SDR 19.43 million, or 63.5 percent of quota, with SDR 6.12 million (20 percent of quota) available to Chad in one disbursement upon the Executive Board's approval of the requested arrangement for the first year. Upon approval of the arrangements for the second and third years, 30 percent and 13.5 percent of quota, respectively, would become available. The first disbursement under the SAF is in support of the Government's adjustment program for the period July 1987-June 1988. 2/

1/ The discussions on the program were held in N'Djaména during July 8-15, 1987. The Chadian representatives included Mr. Mbailemdana, Minister of Finance and Computing Services; Mr. Beremadji, Economic Advisor to the President; Mr. Mawata, Director General of Finance; Mr. Madji, National Director of the Bank of Central African States (BEAC); and other senior officials. The staff representatives were Messrs. McLoughlin (head), Harnack, Dicks-Mireaux, Bourhane, and Ms. Earll (secretary), all AFR. Mr. Obame, Advisor to the Executive Director for Chad, attended the meetings during the second half of the mission.

2/ The Chadian authorities wish to revise the benchmarks for the period January-June 1988 when the budgetary process for 1988 is more advanced. In early 1988 a paper will be presented to the Executive Board with the revised benchmarks.

A Memorandum of Economic and Financial Policies with an attached table (Annex A) annexed to the Minister's letter details the Government's adjustment program. The related policy framework paper (PFP), prepared by the authorities in March, was reviewed by the World Bank and the Fund on June 2, 1987 and June 19, 1987, respectively. On the latter occasion, when the 1987 Article IV consultation (EBS/87/98 and SM/87/122) with Chad was also discussed, Executive Directors expressed the hope that negotiations would begin in the near future on a possible arrangement under the SAF.

Chad's outstanding use of Fund credit consists of its 1985 purchase under the compensatory financing facility and as of September 30, 1987 amounted to SDR 7.0 million, or 22.9 percent of quota (Table 1). In addition, there is an outstanding Trust Fund loan amounting to SDR 0.85 million. After taking into account disbursement of the first loan under the proposed SAF, Fund credit outstanding by end-September 1988 would be SDR 13.1 million, or 42.9 percent of quota. There are no scheduled repurchases before December 17, 1988. Chad made a repayment of SDR 0.54 million in July against the Trust Fund loan and the repayment of the remaining SDR 0.85 million (or 2.78 percent of quota) will fall due in January and July 1988.

Chad continues to avail itself of the transitional arrangements of Article XIV. Summaries of Chad's relations with the Fund and with the World Bank group are provided in Appendices II and III, respectively. Basic economic and financial data are presented in Appendix IV.

II. Background and Recent Economic Developments

Recent economic developments in Chad are described in detail in the staff report for the 1987 Article IV consultation (EBS/87/98, 5/8/87). Following the end of the civil war in 1982, Chad embarked on the process of national reconciliation and reconstruction and of creating the conditions needed to tackle the country's serious economic and financial problems. In recent years, the security situation has continued to be a major concern, absorbing sizable resources from the budget.

Two other major factors have dominated economic developments in Chad in recent years. First, in 1984, the recurrence of drought had a devastating effect on foodstuff production, and real GDP fell sharply. In 1985, weather conditions returned to normal, and real GDP is estimated to have grown by 29 percent (Table 2). Second, in 1985, world prices for cotton, Chad's principal export, plummeted, and the financial position of the public sector, which was already weak, deteriorated further. In 1986, real GDP fell by an estimated 2.3 percent, reflecting a slight decline in foodstuff production and a 7 percent drop in manufacturing, the latter linked to a fall in purchasing power resulting from the crisis in the cotton sector. Per capita income in Chad in 1986 was estimated at about SDR 139, one of the lowest levels in the world.

Table 1. Chad: Fund Position During Period of Arrangement

	Outstanding on Sept. 30, 1987	1987 Oct. 1- Dec. 31	1988 Jan. 1- Mar. 31 Apr. 1- June 30 July 1- Sept. 30		
<u>(In millions of SDRs; during period)</u>					
Transactions under tranche policies (net)	...	—	—	—	—
Purchases	...	—	—	—	—
Repurchases	...	—	—	—	—
Structural adjustment facility loans	...	6.12	—	—	—
<u>(In millions of SDRs; end of period)</u>					
Total Fund credit and Trust Fund loans outstanding	7.85	13.97	13.43	13.43	13.12
Under compensatory financing facility	7.00	7.00	7.00	7.00	7.00
Under structural adjustment facility	—	6.12	6.12	6.12	6.12
Trust Fund loans	0.85	0.85	0.31	0.31	—
<u>(As percent of quota, unless otherwise specified; end of period)</u>					
Total Fund credit and Trust Fund loans outstanding	25.65	45.65	43.90	43.90	42.88
Under compensatory financing facility	22.88	22.88	22.88	22.88	22.88
Under structural adjustment facility	—	20.00	20.00	20.00	20.00
Trust Fund loans	2.78	2.78	1.02	1.02	—
<u>Memorandum items:</u>					
Quota (in millions of SDRs)	30.60	30.60	30.60	30.60	30.60

Source: MF, Treasurer's Department.

Table 2. Chad: Selected Economic and Financial Indicators, 1983-88

	1983	1984	1985	1986 Prov.	1987 Est.	1988 Proj.	1987/88 Program
(Annual percentage change, unless otherwise specified)							
Gross domestic product and prices							
GDP at current prices	14.3	4.6	33.2	-5.3	3.6	7.1	5.4
GDP at constant prices	5.6	-5.7	29.0	-2.3	0.5	2.0	1.2
GDP deflator	8.2	11.0	3.3	-3.0	3.1	5.0	4.0
Central government finance ^{1/}							
Revenue	...	115.0	16.8	-21.1	13.4	12.6	...
Total expenditure	...	71.6	35.6	38.6	37.2	9.9	...
Of which: current expenditure	(...)	(83.8)	(6.4)	(-3.5)	(10.3)	(0.9)	(...)
Money and credit							
Domestic credit	3.7	30.0	21.3	19.6	2.9	12.0	14.5
Government	-7.6	-4.0	-66.9	97.5	11.3	11.5	47.7
Private sector	8.2	41.5	41.4	15.5	2.1	12.0	12.3
Money and quasi-money	22.3	59.9	6.1	1.1	-5.4	13.1	8.1
Interest rate ^{2/}	9.0	9.0	9.0	8.6	8.0	8.0	8.0
External sector							
Exports, f.o.b. (in SDRs)	47.1	31.0	-32.6	1.9	-5.0	18.2	...
Of which: cotton, f.o.b.	(99.3)	(71.4)	(-53.7)	(-12.8)	(-12.8)	(33.9)	(...)
Imports, f.o.b. (in SDRs)	45.2	19.8	25.1	13.3	23.0	7.0	...
Export volume ^{3/}	51.4	50.0	-37.9	1.6	-1.6	5.7	...
Import volume ^{4/}	46.3	7.7	29.7	-1.8	17.6	3.3	...
Terms of trade ^{5/}	32.4	12.6	-22.7	-25.6	-15.5	22.6	...
Nominal trade-weighted effective exchange rate (depreciation -)	--	0.1	2.8	2.3	...	...	...
(In percent of GDP, unless otherwise specified)							
Overall government deficit (-) ^{6/}	-6.2	-8.5	-9.7	-18.8	-26.2	-26.8	-26.4
Domestic financing	-0.2	0.8	-0.4	0.5	-0.6	-2.2	-0.5
External financing	5.7	7.1	9.6	17.8	24.7	25.5	24.4
Change in arrears (increase +)	0.7	0.6	0.5	0.5	-0.6	-0.5	-1.1
Additional financing commitments ^{7/}	--	--	--	--	2.7	4.0	3.6
Overall government deficit (-) ^{8/}	-5.8	-8.2	-9.5	-18.5	-26.5	-27.3	-27.6
External current account balance							
Including official transfers	3.9	2.5	-9.8	-6.6	-10.3	-10.5	-10.4
Excluding official transfers	-12.8	-12.8	-30.0	-31.1	-36.5	-35.6	-36.1
External debt outstanding ^{9/}	...	23.4	16.9	18.6	25.5	33.4	29.6
Debt service ratio ^{10/}							
Including the Fund	11.4	7.6	9.9	6.3	5.3	5.8	...
Excluding the Fund	10.1	5.0	6.2	4.3	4.7	4.8	...
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments	11.1	19.0	-23.9	-18.7	-15.0	-4.5	-9.8
Gross official reserves (weeks of following year's imports, f.o.b.)	11.9	15.9	10.2	3.8	1.5	2.7	2.1
Net foreign assets (end of period) ^{11/}	21.7	53.0	41.1	11.1	-4.7	-6.7	6.4
External payments arrears (outstanding at end of period)	...	51.4	54.6	62.1	--	--	--
GDP at current market prices (in billions of CFA francs)	214.3	224.2	298.7	283.0	293.1	313.5	303.3

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

^{1/} Includes consolidated operations of the Treasury and the Autonomous Amortization Fund (CAA) as well as foreign-financed investment expenditure, but excludes the National Reconstruction Fund, and the stabilization funds for cotton, petroleum, and sugar.

^{2/} Basic rediscount rate (in percent); period average.

^{3/} Exports of cotton only; volume data for other exports are not available.

^{4/} Import value deflated by an import price index calculated as a weighted average of partner countries' export prices adjusted for exchange rate variations.

^{5/} Export price index for cotton divided by import price index.

^{6/} On a commitment basis, including foreign-financed investment expenditures and before grants.

^{7/} Obtained after June 30, 1987.

^{8/} On a cash basis, including foreign-financed investment expenditures and before grants.

^{9/} Excluding interest arrears.

^{10/} Scheduled debt service in percent of exports of goods and nonfactor services.

^{11/} Of banking system.

Recent economic developments in Chad reflect in large part the direct and indirect effects of developments in the cotton sector. Cotton production during the period 1983-85 provided the bulk of monetized income, about 13 percent of budgetary revenue, and 62 percent of export receipts were derived directly from the cotton sector. In 1984/85 and 1985/86, world cotton prices fell precipitously, and Chad's average export price was only CFAF 481 per kg compared with an average export cost of CFAF 912 per kg (Table 3). As a result, COTONTCHAD--the mixed enterprise engaged in the cotton sector--recorded losses over the two years totaling CFAF 43 billion, which were financed by the domestic banking system.

In response to the dramatic deterioration in the cotton sector, during 1986 the authorities embarked on a comprehensive rehabilitation program, which is designed to restore profitability by the 1991/92 crop season. A key assumption underlying the rehabilitation is that there will be a gradual recovery in world cotton prices to a level of CFAF 650 per kg by 1991/92. Recent world market developments suggest that prices may recover more rapidly. During 1986, a number of significant cost-cutting measures were taken, reducing the average export cost (f.o.b.) to CFAF 634 per kg or 173 percent of the export price, compared with 205 percent a year ago. As a member of the Central African monetary area, Chad is unable to use the exchange rate as a means of influencing the relation between costs and returns. The rehabilitation program is being supported financially by a number of foreign donors and creditors, including the World Bank, and financing for 1986/87 and 1987/88 has already been secured.

The overall public finance situation has been very difficult in recent years. When the Government assumed power in 1982, public administration had virtually ceased to function and needed to be re-established. Reflecting the absence of effective tax administration and a small tax base, revenues have been insufficient even to finance an extremely compressed level of expenditures. In the two years 1984 and 1985, the overall fiscal deficit, including foreign-financed investment outlays, was equivalent to about 9 percent of GDP (Table 4). Excluding such outlays, the deficits averaged about CFAF 4 billion, or the equivalent of 1.7 percent of GDP, on a commitment basis. These deficits were essentially financed by foreign budgetary grants and highly concessional loans; however, there was also an accumulation of domestic and external arrears. In 1986, the overall fiscal deficit, including foreign-financed investment outlays, rose sharply to the equivalent of 19 percent of GDP. Excluding such outlays, the deficit amounted to CFAF 7.3 billion on a commitment basis, equivalent to 2.6 percent of GDP, and to CFAF 6.6 billion on a cash basis. Apart from the sharp expansion in investment outlays, a major factor underlying this deterioration was a decline in revenues by 21 percent, largely attributable to the suspension of taxes on cotton exports. To lessen the impact of the loss of revenue, several new tax measures were taken in late 1986, but the additional yield was very small.

Table 3. Chad: Cotton Production and Related Data,
1982/83-1987/88 1/

	1982/83	1983/84	1984/85	1985/86	1986/87 Est.	1987/88 Program
Raw cotton						
Area under cultivation (thousand hectares)	137.7	176.7	141.9	148.1	124.1	170.8
Production (thousand metric tons)	102.1	158.4	98.4	99.5	89.5	95.0
Producer price (CFAF per kg of white cotton)	60.0	70.0	80.0	100.0	100.0	100.0
Ginned cotton						
Production (thousand metric tons)	38.1	59.8	35.4	38.8	33.9	37.0
Exports (thousand metric tons)	37.6	56.3	34.0	37.6	33.0	36.0
(In CFAF per kg of ginned cotton)						
Export unit value <u>2/</u>	<u>598</u>	<u>752</u>	<u>571</u>	<u>390</u>	<u>366</u>	<u>402</u>
Export unit cost <u>2/</u>	<u>559</u>	<u>559</u>	<u>1,024</u>	<u>799</u>	<u>634</u>	<u>572</u>
Producer price	186	211	276	253	264	256
Ginning cost	240	155	442 <u>3/</u>	241	177	161
Other	113	137	218	238	193	155
Export taxes	20	56	88	67	--	--
Net profit or loss (-)	<u>39</u>	<u>193</u>	<u>-453</u>	<u>-409</u>	<u>-268</u>	<u>-170</u>
In percent of export unit value	6.5	25.7	-79.3	-104.9	-73.2	-42.3

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

1/ Marketing years starting November 1.

2/ F.o.b. Douala.

3/ Ginning costs were adversely affected by noneconomic factors.

Table 4. Chad: Central Government Operations, 1983-88 ^{1/}

(In millions of CFA francs)

	1983	1984	1985	1986	1987 Est.	1988 Proj.	1987/88 Program
Total revenue	8,495	18,266	21,341	16,836	19,093	21,499	20,981
Tax revenue	6,465	14,814	17,224	14,246	16,608	19,375	18,427
Of which: export taxes	(281)	(2,739)	(3,365)	(106)	(132)	(138)	(135)
Nontax revenue	2,030	3,452	4,117	2,590	2,484	2,123	2,553
Of which:							
BEAC profit distribution	(445)	(581)	(1,008)	(641)	(540)	(567)	(540)
exchange rate guarantee scheme	(1,223)	(2,107)	(1,247)	(—)	(—)	(—)	(—)
Total expenditure	21,701	37,236	50,504	69,986	96,012	105,559	100,940
Current	12,763	23,456	24,958	24,086	26,560	26,801	26,773
Of which: interest due	(845)	(766)	(914)	(1,129)	(1,151)	(1,635)	(1,392)
Capital	8,938	13,780	25,546	45,900	69,452	78,758	74,168
Deficit (-) on a commitment basis	-13,206	-18,970	-29,163	-53,150	-76,920	-84,060	-79,960
Change in payments arrears (increase +)	802	518	691	700	-805	-1,500	-3,626
External	600	411	-317	165	-157	—	-430
Domestic	202	107	1,008	535	-648	-1,500	-3,196
Deficit (-) on a cash basis	-12,404	-18,452	-28,472	-52,450	-77,725	-85,560	-83,585
Financing	12,404	18,452	28,472	52,450	77,725	85,560	83,585
External (net)	12,866	16,616	29,534	50,977	71,652	79,648	74,176
Grants	11,928	15,047	23,133	43,953	48,555	52,067	49,582
Of which: nonproject	(3,928)	(2,971)	(4,387)	(5,572)	(4,600)	(2,100)	(2,621)
Loans	938	1,704	6,800	8,267	24,997	28,416	26,707
Amortization ^{2/}	—	-135	-399	-1,243	-2,648	-1,795	-3,340
Debt relief ^{3/}	—	—	—	—	748	960	1,228
Domestic (net)	-462	1,836	-1,062	1,473	-1,827	-6,687	-1,490
Banking system	-1,176	1,200	-2,016	1,631	-1,345	-1,719	-664
Central bank	-1,143	1,359	-2,042	1,592	-1,205	-1,719	-664
Of which: net use of Fund counterparts	(468)	(-1,015)	(1,185)	(-509)	(-36)	(-341)	(—)
Commercial banks	-33	-159	26	39	-140	—	—
Nonbank sector	714	636	954	-158	-482	-4,968 ^{4/}	-826
Additional financing commitments ^{5/}	—	—	—	—	7,900	12,600	10,900
Nonproject budgetary aid	—	—	—	—	5,500	6,000	8,500
SAF counterparts	—	—	—	—	2,400	3,600	2,400
IBRD nonproject loan counterparts	—	—	—	—	—	3,000	—
Memorandum item:							
Overall deficit (-) excluding capital expenditures, on a commitment basis	-4,268	-5,190	-3,617	-7,250	-7,468	-5,302	-5,792

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

^{1/} Including the CAA.

^{2/} On a cash basis, including change in arrears.

^{3/} Projected debt relief on scheduled interest and amortization payments.

^{4/} Provisions for the payment of interest on the rescheduled arrears of COTONCHAD.

^{5/} After June 30, 1987.

As a result of the adjustment undertaken, total current expenditure in 1986, at CFAF 24.1 billion, was 3 percent lower than in 1985. Salary payments continued to be made at less than the nominal salary scales established in 1967, although the rate was increased from 50 percent to 60 percent in 1986. The already low level of expenditure on materials and supplies was reduced further in 1986. Reflecting continuing security problems, military outlays remained high, amounting to 35 percent of current expenditure. Although budgetary assistance, at CFAF 6.3 billion, was, together with foreign financing of investment outlays, the major source of financing for the fiscal deficit, the margin under the statutory ceiling on central bank advances to the Government was almost fully utilized. The Government also drew down its deposits with the banking system.

Developments in the cotton sector have also been the major factor underlying the evolution of monetary and credit aggregates. Between end-1984 and end-1986, domestic credit (excluding private sector credits frozen under a bank moratorium) rose by 122 percent to CFAF 52.3 billion (Table 5). ^{1/} This was largely accounted for by crop credits to COTONTCHAD, which it has been unable to repay; these credits more than quadrupled, amounting to CFAF 32.8 billion or 63 percent of active domestic credit at end-1986. The private sector credits frozen under the bank moratorium amounted to CFAF 29.5 billion (CFAF 10 billion on account of COTONTCHAD) at end-1986. During the twelve months ended December 1985, net claims on the Government fell by 67 percent, equivalent to 10.4 percent of the beginning period money supply, and active claims on the noncotton sector doubled, reaching 36 percent of active domestic credit. However, during the twelve months ended December 1986, net claims on the Government doubled, representing 4.7 percent of the beginning period money supply, while active claims on the noncotton sector remained virtually unchanged. In the two-year period ended December 1986, the money supply rose by 7 percent to CFAF 72.7 billion. In the past few years, progress has been made in gradually unblocking part of the deposits frozen under the moratorium.

In 1984, world cotton prices were very high, and Chad's export receipts reached a record level. In 1985, with the drop in cotton prices, export receipts fell by one third to SDR 86 million (Table 6). This sharp decline was only marginally offset by other exports, primarily livestock, which recovered from their drought-induced lows of 1984. Import payments rose sharply in 1985, and the current account deficit, excluding official transfers, was SDR 196 million, equivalent to 30 percent of GDP. Capital inflows rose sharply in 1985, largely because of oil exploration activities and higher drawings on loans, and the overall balance of payments deficit was SDR 24 million. The deficit

^{1/} The moratorium was formally declared in April 1983, the result of the forced closing of the banking system in March 1980 when civil unrest prevented further operations; it is scheduled to expire at end-1988.

Table 5. Chad: Monetary Survey, 1984-88

(In millions of CFA francs; end of period)

	1984	1985	1986	March	April Prov.	1987 June	Sept.	Dec.	March	1988 June	Dec.
									Projections		
Foreign assets (net)	24,939	17,068	4,288	7,790	8,305	8,100	4,100	-1,822	2,250	2,500	-2,620
Central bank	20,312	10,499	2,615	6,135	5,725	...	...	...	...	...	...
Commercial banks	7,430	9,372	4,476	4,458	5,383	...	...	...	...	...	...
Postal debt	-2,803	-2,803	-2,803	-2,803	-2,803	...	...	...	...	...	...
Domestic credit	56,428	68,423	81,862	81,892	82,482	80,455	81,079	84,240	94,685	92,134	94,315
Claims on Government (net) ^{1/}	10,498	3,473	6,858	5,697	5,543	4,966	5,306	7,633	7,428	7,337	8,508
Of which:											
Claims on Treasury, and the CAA (net) ^{2/}	(9,551)	(6,713)	(7,095)	(6,717)	(6,607)	(6,030)	(5,976)	(7,699)	(7,704)	(7,613)	(8,906)
Post Office ^{3/}	(3,089)	(3,089)	(3,016)	(3,055)	(3,067)	(3,067)	(3,067)	(3,067)	(3,067)	(3,067)	(3,067)
Claims on private sector ^{4/}	45,930	64,950	75,004	76,195	76,939	75,489	75,773	76,607	87,257	84,797	85,807
New claims	13,083	34,492	45,457	46,602	47,346	45,896	46,180	47,014	57,664	55,204	56,214
Of which: COTONCHAD	(6,971)	(21,940)	(32,830)	(33,839)	(33,821)	(31,533) ^{5/}	(30,217)	(29,451) ^{5/}	(38,351)	(34,141) ^{5/}	(31,651)
Frozen claims	32,847	30,458	29,547	29,593	29,593	29,593	29,593	29,593	29,593	29,593	29,593
Of which: COTONCHAD	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)	(9,957)
Money and quasi-money	67,759	71,898	72,714	74,590	77,127	74,835	71,619	68,808	83,385	80,934	77,817
Currency outside banks	44,925	47,354	46,665	48,753	50,710	...	...	...	...	...	...
Demand deposits ^{6/}	20,200	20,990	22,473	21,945	22,302	...	...	...	...	...	...
Quasi-money	2,634	3,554	3,576	3,892	4,115	...	...	...	...	...	...
Medium- and long-term foreign liabilities	2,296	1,628	1,140	915	920	920	710	710	500	500	378
Other items (net)	11,312	11,965	12,289	14,179	12,740	12,800	12,850	12,900	13,050	13,200	13,500
Memorandum items:											
Claims on COTONCHAD	18,035	31,898	42,788	43,796	43,778	41,490	40,174	39,408	48,308	44,098	41,608
Claims on noncotton private sector	27,895	33,052	32,216	32,399	33,161	33,999	35,599	37,199	38,949	40,699	44,199
Margin under statutory ceiling on advances to the Central Government	205	2,391	153	668	143	66	360	653	903	1,038	1,380

Sources: Data provided by the BEAC; and staff projections.

^{1/} Government deposits in the monetary survey include deposits of entities which are not included in the treasury balance sheet.

^{2/} Includes SAF counterparts and Trust Fund repayments and therefore does not fully correspond to net domestic bank financing of central government operations shown in Table 3.

^{3/} Counterparts of postal debt and private sector and commercial banks' deposits with the postal system.

^{4/} Includes parastatals.

^{5/} After repayment of rescheduled arrears: CFAF 2.1 billion by end-June 1987; CFAF 7.7 billion by end-1987; and CFAF 11.1 billion by end-June 1988.

^{6/} Includes private sector deposits with the postal checking system.

Table 6. Chad: Balance of Payments, 1983-92

(In millions of SDRs)

	1983	1984	1985	1986 Prov.	1987 Est.	1988	1989	1990 Projected	1991	1992
Current account balance, excluding official transfers	-67.5	-64.3	-196.2	-228.9	-274.2	-286.2	-305.9	-324.9	-347.4	-370.2
Trade balance	-11.5	-2.8	-77.5	-96.8	-143.8	-144.5	-154.0	-162.6	-173.4	-184.6
Exports, f.o.b.	97.8	128.1	86.4	88.8	84.4	99.8	106.1	115.7	124.4	134.0
Of which: cotton	(55.2)	(94.6)	(43.8)	(38.2)	(33.3)	(44.6)	(47.0)	(52.5)	(56.7)	(61.5)
livestock	(28.7)	(19.6)	(25.4)	(31.2)	(32.6)	(35.0)	(37.5)	(40.0)	(43.0)	(46.0)
Imports, f.o.b.	-109.3	-130.9	-163.8	-185.6	-228.2	-244.2	-260.1	-278.3	-297.8	-318.6
Services (net)	-49.8	-59.2	-125.5	-125.1	-123.6	-134.5	-144.3	-154.3	-165.4	-176.4
Credit	31.2	34.8	37.1	42.6	44.9	48.1	51.4	55.6	60.0	64.8
Debit	-81.0	-94.0	-162.6	-167.7	-168.6	-182.6	-195.7	-209.9	-225.4	-241.2
Of which: interest due	(-4.4)	(-3.6)	(-3.0)	(-3.3)	(-3.9)	(-5.1)	(-6.0)	(-6.8)	(-7.6)	(-8.8)
Private transfers (net)	-6.3	-2.3	6.7	-6.9	-6.7	-7.2	-7.5	-8.1	-8.6	-9.2
Official transfers (net)	87.8	77.1	131.9	180.7	196.7	201.7	220.5	231.5	243.1	255.2
Capital account, including errors and omissions	-9.2	6.3	40.4	29.5	62.5	80.0	96.3	93.2	107.8	124.6
Medium- and long-term official capital	-1.7	-1.0	13.9	16.0	59.5	76.9	96.3	93.2	107.8	124.6
Drawings	2.3	3.8	19.3	21.5	64.1	81.5	100.4	97.5	112.1	128.9
Amortization due	-4.0	-4.8	-5.4	-5.5	-4.6	-4.6	-4.1	-4.3	-4.3	-4.3
Direct investment (net)	—	7.2	52.9	30.0	3.1	3.1	—	—	—	—
Other (net)	-1.1	-0.1	-0.3	0.6	—	—	—	—	—	—
Short-term capital	-9.4	-4.5	-28.8	-17.1	—	—	—	—	—	—
Monetary capital	0.2	-11.6	-4.3	12.7	—	—	—	—	—	—
Nonmonetary capital (including errors and omissions)	-9.6	7.1	-24.5	-29.9	—	—	—	—	—	—
Exchange rate guarantee scheme	3.0	4.7	2.7	—	—	—	—	—	—	—
Overall balance	11.1	19.0	-23.9	-18.7	-15.0	-4.5	11.0	-0.2	3.4	9.5
Financing	-11.1	-19.0	23.9	18.7	15.0	4.5	-11.0	0.2	-3.4	-9.5
Change in net official reserves	-17.3	-22.9	21.5	16.1	15.6	2.0	-11.0	0.2	-3.4	-9.5
Of which: net Fund credit	(—)	(-2.7)	(3.5)	(-2.1)	(6.1)	(8.3)	(0.6)	(-2.6)	(—)	(—)
purchases	(—)	(—)	(7.0)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
SAF disbursements	(—)	(—)	(—)	(—)	(6.1)	(9.2)	(4.1)	(—)	(—)	(—)
repurchases	(—)	(-2.7)	(-3.5)	(-2.1)	(—)	(-0.9)	(-3.5)	(-2.6)	(—)	(—)
Change in arrears (decrease -)	6.1	3.8	2.4	2.6	-2.6	—	—	—	—	—
Debt relief	—	—	—	—	1.9	2.4	—	—	—	—
Memorandum items:										
Debt service ratio (after change in arrears)										
Including the Fund	6.6	5.2	7.9	4.8	6.9	5.8	7.0	6.6	5.3	5.4
Excluding the Fund	5.3	2.7	4.2	2.8	6.3	4.8	4.8	5.0	5.1	5.2
Debt service ratio (before change in arrears)										
Including the Fund	11.4	7.6	9.9	6.3	5.3	5.8	7.0	6.6	5.3	5.4
Excluding the Fund	10.1	5.0	6.2	4.3	4.7	4.8	4.8	5.0	5.1	5.2
Current account, including official transfers	20.3	12.7	-64.3	-48.2	-77.6	-84.5	-85.4	-93.5	-104.3	-115.0
Current account as percent of GDP, excluding official transfers	-12.8	-12.8	-30.0	-31.1	-36.5	-35.6	-35.5	-35.3	-35.3	-35.1
Current account as percent of GDP, including official transfers	3.9	2.5	-9.8	-6.6	-10.3	-10.5	-9.9	-10.2	-10.6	-10.9

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

was financed mainly by a drawdown of reserves. Chad made a purchase of SDR 7 million in September 1985 under the compensatory financing facility, to compensate for the decline in cotton prices.

Cotton prices continued to decline in 1986, offset somewhat by a modest recovery in exports of livestock, but an appreciation of the CFA franc caused total receipts in SDR terms to rise slightly to SDR 89 million. Imports continued to grow, only partly compensated by higher net inflows of transfers, and the current account deficit, excluding official transfers, rose further to SDR 229 million, equivalent to 31 percent of GDP. The overall deficit of the balance of payments was SDR 19 million, mainly financed by a further reduction in reserves.

In recent years, Chad has followed a prudent foreign debt policy, with limited recourse to external borrowing, which has been restricted to loans on concessional terms. The debt service ratio, at about 9 percent, was also moderate. Nevertheless, Chad has experienced difficulties in servicing its external debt obligations on schedule, primarily because of the fall in budgetary receipts as a result of the decline in cotton prices. It is estimated that external arrears amounted to SDR 62 million at end-1986, or some 70 percent of export receipts during the year. Between end-1984 and end-1986, the nominal effective exchange rate appreciated by about 5 percent.

III. Medium-Term Objectives and Policies

Notwithstanding the progress made during the past few years, Chad is still experiencing serious external and internal imbalances and continues to face major structural constraints on growth. For these reasons, the Chadian authorities have decided to pursue their structural adjustment efforts in the context of a three-year program covering the period July 1987-June 1990, described in detail in the PFP (EBS/87/98). ^{1/} The quantitative objectives of the medium-term adjustment program are to achieve an annual rate of real economic growth of 2 percent; to keep the rate of inflation from exceeding 5 percent per annum; to contain the current account deficit of the balance of payments (including official transfers) to 10 percent of GDP, compared with 8.2 percent, on average, in 1985-86; and to contain the overall balance of payments deficits to an average SDR 2 million annually in 1987-90, compared with average annual deficits of some SDR 21 million in 1985-86.

The growth target of 2 percent per annum, though modest, reflects the existing constraints on the Chadian economy, and will require determined adjustment efforts and increased external assistance if it is to be reached. A major structural constraint facing the Chadian economy is its dependence on the cotton sector, which, at present, is severely

^{1/} Figures presented in that paper have been updated, in line with the rolling character of the PFP.

depressed. Up to now, relatively weak administrative capacity, an inadequate transport network and means of transport, and the shortage of raw materials have hindered efforts to develop, diversify, and promote import substitution in the Chadian economy. In the short term, progress in alleviating these constraints will be only modest. However, for the medium term, Chad has considerable development potential, and the possibilities for expanding agricultural output are encouraging. Although only 15 percent of the land is arable, this represents nearly ten times the area now under cultivation. There is also significant potential for irrigation. Chad's landlocked position gives locally produced foodstuffs an inherent advantage over imports, in view of the latter's high transportation costs. However, interregional marketing is limited, causing major regional price differences and localized food shortages. Recognizing this bottleneck, the Government has established self-sufficiency and regional food security as priority objectives, together with the creation of better marketing channels, especially to neighboring countries, in order to provide increased incentives for food production.

In 1985-86, Chad has been self-sufficient in food and can remain so in the medium term, barring a recurrence of drought. Food aid, an important element in earlier years, may be largely phased out. At the UNDP-sponsored Round Table in December 1985, the World Bank and the United Nations agreed to take the lead in coordinating external assistance provided to achieve these objectives and to sponsor meetings for the productive sectors. Aside from financing the rehabilitation program of the cotton sector, the World Bank is also aiding the authorities in defining and executing a sectoral agricultural strategy, in particular by examining the role of government agencies involved in the agricultural sector.

Regarding the livestock sector, potential for production and export are promising, although only slow progress is expected in the near future. Official exports to Nigeria, which were interrupted in late 1986, are picking up again, and the renewed trade should provide incentives to herdsman to increase the size of their herds in anticipation of future profits. As mentioned in the PFP, the authorities, with the help of the World Bank, are reviewing the rules and administrative procedures for marketing and exports, and are redefining the roles of SOTERA and MAGAVET, the government agencies involved in the exporting of livestock and marketing of veterinary products, respectively, with a view to eliminating the monopoly on exports of the former and on the provision of inputs of the latter.

Chad has untapped petroleum resources whose exploitation is being planned over the medium term. An IDA-financed project to develop these resources started in 1986 in spite of the prevailing low world prices, because the high cost of importing petroleum products still makes the project profitable. If the project proceeds on schedule, Chad should be able to satisfy 80 percent of its demand for petroleum products beginning in the early 1990s.

In order to attain the objectives described above, the medium-term program places emphasis on strengthening the financial performance of the cotton sector, containing the fiscal deficit within manageable proportions, and pursuing cautious credit policies. At the same time, possibilities of diversifying the economy will be identified and pursued, particularly with the assistance of the World Bank, which is considering a major expansion of its activities in Chad in the period ahead. The assumptions for the medium term are based on strong adjustment measures; without a strong implementation of adjustment policies over the medium term, Chad would encounter prolonged external and financial disequilibria.

It is assumed that during the period 1988-92, (i) real GDP grows by 2 percent on average; (ii) inflation averages 5 percent; (iii) cotton export prices increase by 10 percent a year on average; (iv) the producer price for cotton remains at CFAF 100 per kg; (v) 50 percent of existing domestic arrears are eliminated by end-1992; and (vi) no new external or domestic arrears are accumulated after June 1987.

Budgetary policies are assumed to contain the following elements: (i) a limit of 2 percent a year on the growth of all nonmilitary expenditures in real terms; (ii) the maintenance of military outlays at a constant level in nominal terms; and (iii) an assumption that underlying capital inflows in the balance of payments increase by 15 percent a year.

Under this scenario, which is in line with the thrust of the policies discussed in the next section, Chad's economic and financial situation would remain difficult but manageable. However, the resulting balance of payments situation would result in cumulative surpluses of nearly SDR 20 million, provided the anticipated external concessional assistance materializes (Table 7). Thus, under this scenario, the external sector position would be sustainable and Chad could begin the process of reconstituting reserves. The fiscal deficits would remain high, averaging 27 percent of GDP, and would require, in addition to concessional foreign project assistance, external budgetary support of an average CFAF 11 billion annually, or the equivalent of some 3 percent of GDP. The need for budgetary support would, however, be declining during the period.

1. The cotton sector

The principal area where structural change is occurring is in the cotton sector; the medium-term rehabilitation program is described in detail by a World Bank report (P-4340-CD, 6/3/86). Even over the medium term, Chad will continue to depend on cotton production as the primary source of monetized income and of foreign exchange. On the assumption of a gradual recovery in the world price of cotton, the adjustment strategy being followed is to reduce costs as much as possible in order that COTONTCHAD become profitable by 1991/92. In the intervening years, financing from sources other than the government budget is to be secured to cover the inevitable losses.

Table 7. Chad: External Financing Requirements, 1987-92

(In millions of CFA francs)

	1987 Est.	1988	1989	1990	1991	1992
		Projected				
External current account deficit, excluding official transfers	-106,953	-111,620	-119,270	-126,740	-135,485	-144,400
Scheduled amortization	-1,804	-1,795	-1,594	-1,687	-1,687	-1,694
Fund repurchases	— 1/	-341	-1,365	-1,024	—	—
Reduction in external arrears through cash settlement	-1,001	—	—	—	—	—
Total financing requirements	<u>-109,758</u>	<u>-113,756</u>	<u>-122,229</u>	<u>-129,451</u>	<u>-137,172</u>	<u>-146,094</u>
Total financing available	<u>109,758</u>	<u>113,756</u>	<u>122,229</u>	<u>129,451</u>	<u>137,172</u>	<u>146,094</u>
Disbursements: existing commitments	<u>87,457</u>	<u>82,103</u>	<u>74,264</u>	<u>72,498</u>	<u>75,552</u>	<u>79,330</u>
Official transfers	63,364	65,265	68,528	71,954	75,552	79,330
Medium- and long-term loans	22,893	15,638	5,736	544	—	—
IDA project loans	10,249	8,662	3,345	—	—	—
World Bank program loans	—	—	—	—	—	—
OCCE	8,500	3,400	—	—	—	—
Other	4,144	3,576	2,391	544	—	—
Direct investment	1,200	1,200	—	—	—	—
Disbursements: expected commitments	<u>15,443</u>	<u>29,554</u>	<u>50,873</u>	<u>55,795</u>	<u>62,961</u>	<u>70,485</u>
Official transfers	13,339	13,395	17,450	18,322	19,241	20,207
Medium- and long-term	2,104	16,159	33,423	37,473	43,720	50,278
IDA project loans	—	—	—	—	—	—
World Bank program loans	—	3,050	6,100	—	—	—
OCCE	—	—	—	—	—	—
Other	2,104	13,109	27,323	37,473	43,720	50,278
Direct investment	—	—	—	—	—	—
Other financing	<u>6,858</u>	<u>2,099</u>	<u>-2,908</u>	<u>1,158</u>	<u>-1,341</u>	<u>-3,721</u>
Debt rescheduling	748	960	—	—	—	—
Change in official reserves (increase -) 2/	6,110	1,139	-2,908	1,158	-1,341	-3,721
Of which: SAF disbursements	(2,387)	(3,580)	(1,610)	(—)	(—)	(—)
Memorandum items:						
Overall balance of payments (deficit -)	-5,856	-1,759	4,272	-134	1,341	3,721

Sources: Table 6; and staff projections.

1/ Excluding revaluations.

2/ Excluding Fund repurchases, which are shown as part of financing requirements.

While the prospects for covering the financing gaps that COTONTCHAD will still face in its current operations in the coming years appear to be good, the rehabilitation program explicitly assumes that COTONTCHAD will make no amortization payments on past debt and that no provision will be required for the accumulated arrears vis-à-vis the banking system. However, progress has been made toward a formal agreement between COTONTCHAD, the local commercial banks and the BEAC on a re-scheduling of these arrears and a down payment on the amounts outstanding; possible resources for the payment have been identified and a partial amount, CFAF 2.1 billion, has already been paid.

2. Fiscal policies

The authorities expect that, at least for the next five years, revenue will grow no faster than nominal GDP, which is expected to rise by about 7 percent a year. In recognition of this, tight expenditure policies will be pursued, involving in particular strict vigilance over the wage bill and tight control over outlays on materials and supplies. This will be achieved by the new expenditure control system that has already been put in place together with a revised nomenclature of the budgetary accounts. It is expected that this would limit the growth in current expenditure to an average 2 percent per annum. The authorities also recognize that any major increase in average salaries could only be accommodated in the context of a substantial reduction in the size of the civil service. Such policies are needed to ensure that the deficits are kept to a level that can be financed by available resources without accumulating arrears.

In 1987, for the first time in 12 years, the authorities prepared and adopted an investment budget, with Fund and World Bank technical assistance. It is expected that this and future budgets will contain only projects financed completely from abroad, thus minimizing the domestic resource burden on the budget of investment expenditures. The financing will be mainly in the form of grants, with some highly concessional loans.

Over the medium term, the fiscal deficits, on a commitment basis and including foreign-financed investment outlays, are projected to average 26.7 percent of GDP; excluding such outlays, the deficits would be contained to 2 percent of GDP. After taking account of the gradual reduction of domestic arrears, the overall deficits on a cash basis, including foreign-financed investment outlays, would average 27.1 percent. It is expected that a very substantial part of the projected financing requirements will be covered by projects financing which will mainly be in the form of grants. Substantial inflows of budgetary assistance are also foreseen and it is likely that there will also be modest amounts of debt relief. In this way, the Government should not need to have recourse to domestic bank borrowing and should improve its position vis-à-vis the banking system in the medium term.

3. External sector

The external situation is likely to remain difficult over the medium term, mainly because of the slow recovery in export receipts, reflecting the projected gradual recovery in cotton prices and limited prospects for diversification. The maintenance of tight fiscal and monetary policies, to help contain the growth in imports, and sustained increases in inflows of external assistance should make it possible to limit the current account deficit, including official transfers, to about 10 percent of GDP on average. Deficits of this amount are expected to be financed primarily by foreign capital inflows, and thus a reasonable rate of growth in imports, consistent with Chad's objectives for real economic growth, should be sustainable.

In order to avoid debt-servicing difficulties in the future, the authorities intend to make only limited recourse to external borrowing, and then only on highly concessional terms. This would result in debt service ratios averaging 6 percent. Furthermore, the authorities are in the process of strengthening debt management. Since late 1986, Chad has been approaching its creditors with a view to seeking arrangements on favorable terms for the liquidation of existing arrears, as well as for the rescheduling of current amounts due on interest and capital during 1987-88. As a result of these contacts, it is expected that about SDR 3.1 million in debt relief can be obtained during the program period. At the same time, arrears to multilateral creditors are being reduced through cash settlements and are to be eliminated by end-1987.

IV. The Program for July 1987-June 1988

The first annual program supported by the SAF covers the period July 1987-June 1988 and is set in the context of the medium-term policy framework described above. The objectives of the first year program are to achieve a 1.2 percent growth in real GDP, a rate of inflation limited to 4 percent, and an external current account deficit (excluding official transfers) equivalent to about 36 percent of GDP. To achieve these targets, emphasis will be placed on containing the overall central government deficit (on a commitment basis, including foreign-financed investment outlays) to about CFAF 80 billion, the equivalent of 26.4 percent of GDP. In addition, emphasis will be placed on rehabilitating the cotton sector, as well as on following prudent credit and monetary policies. Also, policies to promote the livestock sector, rehabilitate infrastructure, improve the environment for the private sector, and redress the financial situation of loss-making public enterprises will be pursued, as described in the PFP.

1. Fiscal policies

Since the fiscal year in Chad coincides with the calendar year, the 1987/88 program spans two fiscal years. In formulating fiscal policy for 1987, the authorities' major objective was the containment of the

financing requirement to a level which could be covered by projected foreign budgetary assistance. This translates to an overall deficit of CFAF 76.9 billion, equivalent to 26.2 percent of GDP, on a commitment basis and excluding foreign grants; excluding foreign-financed investment outlays, it would amount to CFAF 7.5 billion, equivalent to about 3 percent of GDP. There will be no recourse to domestic bank borrowing, and, in fact, the program seeks to improve the Government's position vis-à-vis the banking system with a view to providing a margin of liquidity for treasury operations.

As the economic recession in 1987 is more severe than had been anticipated, revenue projections for the year as a whole are below budgeted amounts, and during the first half of the year there was a further accumulation of arrears. In the circumstances, the authorities are strengthening tax administration, especially with a view to reducing exonerations on the payment of import taxes, ensuring payment of petroleum taxes and of the poll tax, as well as generally improving tax collection. A major reform of the petroleum tax system is being implemented on an interim basis, pending the establishment of a permanent system to be introduced with the assistance of the World Bank by the end of 1987. The reform is expected to result in revenue from petroleum taxation reaching about CFAF 6 billion on an annual basis. During calendar year 1987 the yield from the new system, which was introduced in August, is expected to be about CFAF 2 billion. Nevertheless, revenue is now forecast to reach only CFAF 19.1 billion, a shortfall of 12 percent compared with the 1987 budget forecasts.

On the expenditure side, the authorities have also taken additional measures aimed at containing total outlays to CFAF 96.0 billion, or slightly below budgetary estimates. Current expenditure, at CFAF 26.6 billion, has been reduced by 3 percent from the originally budgeted level; capital outlays, at CFAF 69.5 billion, are as envisaged in the budget. Outlays on goods and services are being reduced further in both nominal and real terms, even though this may have some negative effects on the efficiency of the administration. Furthermore, strict vigilance will be kept over the wage bill, as well as military expenditure included in the budget, by rigorously applying the new expenditure control system, introduced with the help of Fund technical assistance. With respect to wages, the authorities will continue to pay 60 percent of the salary scales established in 1967, implying a further reduction in real wages.

As the authorities intend to reduce domestic and external arrears by CFAF 0.8 billion, the deficit on a cash basis in 1987 is estimated at CFAF 77.7 billion. All domestic arrears accumulated in 1986 and the first half of 1987 would be eliminated in the second half, together with a small amount of previously accumulated domestic arrears--the first step in a process which should result in the elimination of such arrears by end-1997. Moreover, during 1987 all arrears to multilateral creditors are being liquidated through cash payments, and the remaining external arrears are being rescheduled bilaterally.

Amortization payments, after debt relief and reduction in arrears, on the external debt amount to CFAF 1.9 billion in 1987, while nonbank financing will be negative in the amount of CFAF 0.5 billion. The financing need for the second half of 1987, after taking into account other below the line items, is estimated at CFAF 7.9 billion. The authorities have received a commitment from France to provide an additional CFAF 5.5 billion in budgetary aid toward meeting this need. The remaining financing need of CFAF 2.4 billion will be covered by the counterparts of the SAF, of which CFAF 0.5 billion would be deposited into a blocked account at the BEAC to be used only for meeting obligations to the Fund. The program provides that in 1987 net claims of the banking system on the Government will be reduced by CFAF 1.3 billion.

In formulating fiscal policy for 1988, the authorities again intend to limit the overall financing requirement to a level that can be covered by expected flows of external assistance. Because the 1988 budgetary process has only just begun, the fiscal targets in the program are preliminary. It is projected that the overall deficit on a commitment basis will be limited to CFAF 84.1 billion, equivalent to 26.8 percent of GDP.

Revenue for calendar year 1988 is targeted at CFAF 21.5 billion (including higher petroleum tax revenue), current expenditure at CFAF 26.8 billion, and investment expenditures at CFAF 78.8 billion. Domestic arrears would be reduced by a further CFAF 1.5 billion through cash settlement, producing an overall deficit on a cash basis of CFAF 85.6 billion. Scheduled amortization payments, after debt relief on the external debt, are estimated at CFAF 0.8 billion and the Government is again projected to improve its position vis-à-vis the banking system by CFAF 1.7 billion. Toward the end of 1988, interest payments will become due on COTONTCHAD's arrears rescheduled with the central bank in the amount of some CFAF 5 billion. Because to date there are no provisions by the enterprise to fulfill these obligations, the authorities have committed themselves to set the amount aside in a reserve fund in the event that special transfers to COTONTCHAD may become necessary.

Given the above projections and already committed project and nonproject financing of CFAF 80.5 billion, including CFAF 2.1 billion from the United States, the financing need in calendar year 1988 is projected at CFAF 12.6 billion. This would again be filled mainly by French budgetary assistance, while the counterparts of the second annual SAF disbursement would amount to CFAF 3.6 billion. The remaining CFAF 3 billion would be filled by the counterparts of nonproject lending by the World Bank.

For the program period July 1987-June 1988 the above estimates and projections produce an overall deficit on a cash basis of CFAF 83.6 billion, with a financing need of CFAF 10.9 billion to be filled from the sources mentioned above.

The authorities are committed to complete the consolidation of the Government's financial operations by March 1988, in connection with the adoption of a new treasury accounts nomenclature. Furthermore, the authorities are proceeding with their plans for reducing the size and improving the efficiency of the parapublic sector in line with the commitment in the PFP.

2. Cotton sector policies

In line with the medium-term objectives for the cotton sector, the authorities are concentrating their efforts during the first annual SAF program on improving the financial and operating position of COTONTCHAD. The actions contained in the first year SAF program are consistent with those of the first phase of the cotton rehabilitation program, which during the two-year period July 1986-June 1988 emphasizes remedial measures to permit COTONTCHAD to continue operations pending the preparation of a comprehensive medium-term rehabilitation program. The main impact of the first phase is to provide foreign financing to COTONTCHAD which will allow it, and the economy, to survive the abrupt and drastic drop in cotton export earnings. The authorities have expressed their firm commitment to the execution of the rehabilitation program, realizing that without drastic reform COTONTCHAD would go bankrupt, and the whole economy would be severely affected.

In June 1987 donors, including the World Bank, expressed their satisfaction with the progress already made, particularly with respect to the substantial reductions in production costs and the improvement in COTONTCHAD's financial position. In particular, although the nominal producer price is being maintained for the time being at CFAF 100 per kg, the cost of inputs to producers has been increased gradually by reducing the subsidy from the 50 percent existing in 1984/85. Beginning with the 1987/88 crop year, the producer is to pay the full cost of inputs, thus taking over a major cost component previously borne by COTONTCHAD. This policy is also forcing marginal producers to leave the cotton sector, an effect welcomed by the authorities since it improves the average efficiency of the cotton sector and frees manpower for other agricultural activities. It is expected that, even with such a policy, export volume can initially be maintained at the 1986 level and then be increased. This and other policies are of particular importance in cutting the operating and financial costs of COTONTCHAD, because the exchange rate cannot at present be used as a tool in the case of Chad, given the country's membership in a monetary area.

A number of studies and audits will be completed during the 1987/88 program period, all aimed at further reducing production costs and restoring profitability to the cotton sector in the medium term. These include, in line with the PFP: a management audit and the subsequent adoption of a reform program; development and implementation of a mechanism to determine producer prices; establishment of a system to adjust the sale price of cotton oil to ensure the disposal of oil and unprocessed seed stocks; establishment of a system for the regular

adjustment of the sale price of staple cotton to the textile company in accordance with the world price; and redefinition of the role and objectives of the Cotton Price Stabilization Fund (CSPC).

3. Credit policies

The authorities will pursue a cautious credit policy consistent with the balance of payments and fiscal objectives, while fulfilling the legitimate financing needs of the economy. Seasonal credit to the cotton sector will be based on realistic estimates of sales revenues, and vigilance over the quality of credit to be extended to other productive sectors of the economy will be maintained. During 1986, in order to exercise some control over the growth of domestic credit, the monetary authorities, through moral suasion, severely restricted the availability of domestic credit to the noncotton private sector. Indeed, the level of active noncotton private sector credit remained virtually unchanged between end-1985 and end-1986. The incipient recovery in private sector activity may have been limited by this restrictive policy, and, therefore, provision has been made in the program for an expansion of credit, which should permit the noncotton sector to develop. Domestic credit expansion in 1987 and 1988 is to be limited to 3.3 percent and 14.6 percent, respectively, of the beginning period broad money stock. During the 1987/88 program period, domestic credit would increase by 15.6 percent of the beginning period broad money stock. This would reflect an increase in the level of seasonal cotton sector and noncotton sector credit of 3.5 percent and 9.0 percent, respectively, of beginning period broad money stock. Net credit to the Government will rise by 3.2 percent of beginning period broad money stock in 1987/88, reflecting the use of the SAF counterparts and a rundown in other than central government deposits. Broad money is expected to expand by 8.1 percent during 1987/88. Given that Chad's economy has been at a depressed level with relatively high excess capacity, the increase in broad money would be consistent with a 3 percent inflation rate target. Real interest rates were positive in 1986, and the authorities, in consultation with other members of the monetary area, intend to maintain positive real interest rates during the program period.

4. External sector policies

Export receipts in 1987 are forecast to decline by 5 percent to SDR 84 million, as the continuing decline in cotton export receipts will more than offset the recovery in other exports. Both the volume and unit value of cotton exports are estimated to decline in 1987, the latter because the practice of forward sales contracts has meant that Chad has not yet benefited from the current firming of cotton prices on world markets. Imports are estimated to rise by 23 percent to SDR 228 million, in large part attributable to higher project activity, resulting from increased foreign assistance. Despite the sharp rise in imports, the debit on the services account is to rise only to SDR 169 million as the virtual cessation of petroleum exploration will

greatly reduce the outflow under this heading. The current account deficit, excluding official transfers, will widen sharply to SDR 274 million, the equivalent of 37 percent of GDP. Net inflows of official unrequited transfers will reach about SDR 197 million, an increase of some 9 percent, reflecting both higher project aid and budgetary assistance. Capital inflows will more than double to nearly SDR 63 million, consisting largely of the counterparts of the higher project-related imports as noted above. The borrowing would all be on highly concessional terms, maintaining the scheduled debt service ratio at around 5 percent. The overall deficit is forecast to reach SDR 15 million, 20 percent below the level recorded in 1986. Net official reserves will decline by SDR 15.6 million, including the utilization of disbursements under the SAF amounting to SDR 6.1 million. External arrears will be reduced by SDR 2.6 million through cash settlements and it is expected that debt relief amounting to SDR 1.9 million will be obtained.

The recovery in cotton prices, which began in 1986, will strongly affect export performance in 1988, and total receipts should rebound by 18 percent to reach SDR 100 million. Import payments are forecast to rise by 7 percent to SDR 244 million, and, with a similar deterioration on the services account, the current account deficit is projected to widen further to SDR 286 million, the equivalent of 36 percent of GDP. Net inflows of official unrequited transfers will be slightly higher at SDR 202 million, reflecting additional project and budgetary aid. Capital inflows are also projected to rise to SDR 80 million, partly as a result of the expected disbursement of nonproject assistance by the World Bank. Thus, the overall balance of payments is forecast to register an overall deficit of SDR 4.5 million. Throughout the period 1989-92, the balance of payments will record surpluses, except in 1990 when a small deficit is foreseen. These surpluses, which are largely the result of inflows of foreign assistance for project-related local expenditures, will enable Chad to reconstitute its seriously depleted reserve position.

Chad's external debt burden remains relatively low, and the debt service ratio, over the period 1987-92, is of the order of 6 percent, reflecting both the small size of the debt stock and its highly concessional nature. At end-1986, the stock of Chad's external debt, including arrears on interest and capital, stood at SDR 148 million, equivalent to 21 percent of GDP. Of this amount, SDR 62 million was in arrears. Some suppliers' credits have been rescheduled bilaterally during the first half of 1987, and the authorities are pursuing contacts with other creditors on a bilateral basis which should allow them to obtain debt relief totaling some SDR 4.3 million for the two-year period 1987-88. Chad does not anticipate approaching the Paris Club in the near future.

V. Benchmarks

To monitor the implementation of the program, quantitative benchmarks have been set for domestic credit and claims on Government (net), the level of external and domestic arrears, and external debt. Quantitative targets have also been set for the fiscal current account deficit, yields from the new petroleum taxation, and the operating deficit of COTONTCHAD. Structural benchmarks include the standard clause on the exchange and trade system and improvements in government accounting and budgeting. Because of the preliminary nature of the fiscal target for 1988, the authorities wish to revise the benchmarks for the latter half of the program period in late 1987. A paper containing the revised benchmarks will be presented to the Executive Board in early 1988. The benchmarks are contained in the table in Annex A.

VI. Staff Appraisal

Chad continues to face severe structural problems, as well as large internal and external financial imbalances. The prospects for a significant diversification away from cotton even in the medium term are not very encouraging. Economic growth, at least through the rest of the decade, is likely to remain low, and there will be a continued need for very substantial external assistance to cover gaps in the budget and the balance of payments.

The first annual program and the three-year program emphasize macroeconomic policies which will provide the basis for structural change in the economy, although the policy instruments at the disposal of the authorities are constrained by the unavailability of the exchange rate as an adjustment tool. In the cotton sector, efforts will continue in order to strengthen the financial position of COTONTCHAD in the context of the current rehabilitation program. Results to date have been encouraging, with substantial reductions being achieved in production costs and a major improvement in the enterprise's financial and operating position. A more rapid recovery in cotton prices than expected will facilitate the task of returning COTONTCHAD to a sound financial footing, but continued vigilance, particularly in the area of reduction of production costs, including cost recovery, will be necessary to ensure that the implementation of the rehabilitation program remains on track.

Commitments for the development of other productive sectors need to be adhered to as described in the PFP. In the livestock sector, there is considerable scope for expanding production and exports, and an IDA-financed project should yield significant results. Efforts must continue, with foreign concessional assistance, to restore the country's war-torn infrastructure and rehabilitate the transport system. The operations of the loss-making public enterprises and, in particular, STEE--the water and electricity company--need major improvement.

Chad's fiscal situation is very difficult, and will remain so over the medium term. The country faces the urgent need to reconstruct its economy and to restart the development process that has been neglected over the last decade. The provision of minimum social services and the maintenance of an adequate infrastructure, which are prerequisites for development, will inevitably burden the budget. At the same time, the revenue base is limited and has been further reduced by the crisis in the cotton sector. In these circumstances, the efforts of the Chadian authorities to mobilize revenues in the context of the three-year program will not be sufficient, and considerable external budgetary assistance will be needed for quite some time. However, the authorities recognize that political resolve to implement strong policies in the fiscal sector, as well as in other sectors, is important. In particular, the impact of the drop in commodity prices needs to be addressed through policies with quick-yielding results, especially as the CFA franc has been appreciating significantly. Over the medium term, an urgent objective is to reduce dependence on external assistance, but, during this time, it is vital that creditors and donors act expeditiously to support the adjustment effort. Given the limited scope for new taxes, tax enforcement, especially in the case of the customs administration, needs to be strengthened. The authorities are cognizant of the need to maximize the yield from the low tax base and are in the process of improving tax collection procedures. The new interim system for petroleum taxation constitutes a major advance and should enhance revenue collections substantially. Nevertheless, there will be a need to monitor its application carefully, and the staff urges the authorities to make any required adjustments promptly, with a view to having a permanent system in place by the end of 1987 at the latest. After reviewing the 1988 budget with the authorities during the mission in late 1987, the staff will present a paper to the Executive Board proposing the revised benchmarks for the January-June 1988 period of the program.

Regarding expenditure, it will be essential that the growth of current outlays be kept under strict control. A more realistic wage policy should be introduced gradually, but this can only be done if there is a substantial reduction in the size of the civil service. In the meantime, the size of the wage bill will be reduced in real terms, and the authorities' policy of paying 60 percent of the 1967 salary scales will be maintained. Concerning outlays on materials and supplies, including the maintenance of government property, it would be desirable to see some increase in their share in total expenditures, as current levels are not conducive to the efficient operation of the administration. At present, foreign resources cover all costs associated with investment outlays: this situation cannot be expected to continue indefinitely, and it is now time to begin the process of carefully assessing the future recurrent budgetary costs of investment projects. The adoption of an investment budget in 1987, the first in more than a decade, and the creation of the associated administrative machinery, represent a major first step in this direction. Further

progress will be required in centralizing information on projects to ensure that the full financial consequences of investment decisions are assessed in advance.

Progress in the accounting aspects of budgetary control has been made in 1987 with the introduction of a new budgetary nomenclature. The expected reform of the nomenclature of treasury accounts in the near future would be a further step in this direction. However, it would be important that increasing attention be devoted to integrating extra-budgetary funds and transactions into the budgetary process as provided in the PFP.

The program provides for a sharp deceleration in the growth of domestic credit in 1987 and for a modest expansion in 1988. This more moderate pace of credit expansion is a prerequisite if the severe external sector difficulties of earlier years are not to recur. Furthermore, since Chad's economy has been depressed and operating at relatively high excess capacity, the projected credit expansion in 1988, equivalent to 14.6 percent of beginning period broad money stock, would be consistent with the inflation target. Within the credit program, and excluding local currency counterparts of SAF disbursements, the net position of the Government will improve significantly, thus permitting a much needed expansion in private sector credit other than for cotton, while containing the overall rate of growth of domestic credit within reasonable limits. The liquidity difficulties of the private sector will be further alleviated by the reduction which is targeted in the Government's domestic arrears.

An initial payment has already been made on the COTONTCHAD arrears and further, larger, payments are expected in the near future. Following these payments, the position of the banking system will improve considerably, and the lifting of the bank moratorium scheduled for end-1988 will be facilitated.

Chad's external situation remains difficult, although the recent recovery in cotton prices has eased the pressures on the balance of payments somewhat. With the expected return of profitability to the cotton sector by the end of the decade, Chad's external position could be sustainable, provided demand-management policies remain restrained. However, the country will continue to depend over the medium term on substantial inflows of foreign financial assistance, averaging about 30 percent of GDP. Prospects for mobilizing the required resources are favorable, and Chad should not experience any financing gap during the three-year program.

External debt policy remains prudent in Chad, and the debt service burden is relatively low. Creditors are being contacted for the rescheduling of eligible debt, and it is hoped that external arrears can be liquidated by the end of 1987. Arrears to multilateral creditors are

being reduced through cash settlement and are also to be liquidated by year-end. Arrangements have been put in place to ensure that financial obligations to the Fund will be met on schedule during the program period.

VII. Proposed Decision

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

1. The Government of Chad has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.
2. The Fund approves the arrangements set forth in EBS/87/209.

Chad--Structural Adjustment Facility--
Three-Year and First Annual Arrangements

Attached hereto is a letter, with an annexed Memorandum of Economic and Financial Policies, dated July 14, 1987, from the Minister of Finance and Computing Services of Chad, requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth

(i) the objectives and policies of the program to be supported by the three-year arrangement, and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the administration of the structural adjustment facility:

1. For a period of three years from _____, 1987, Chad will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 19.43 million.

2. The first loan, in an amount equivalent to SDR 6.12 million, is available for disbursement at the request of Chad.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Chad. The amount of the second loan will be equivalent to SDR 9.18 million, and the amount of the third loan will be equivalent to SDR 4.13 million.

4. Before approving the second annual arrangement, the Fund will appraise the progress of Chad in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily: (a) the indicators described in paragraph 17 (i)-(vi) of the annexed Memorandum on Economic and Financial Policies and in the table annexed thereto, as well as the indicators to be established or confirmed for the same quantitative benchmarks for March and June, 1988; (b) progress in implementing the policies indicated in paragraph 17 (vii)-(viii) of the Memorandum of Economic and Financial Policies with regard to consolidation of government financial operations, regular compilation of a treasury balance sheet, and adoption of a three-year government investment budget and public investment planning system; (c) introduction or intensification of restrictions on payments and transfers for current international transactions; (d) introduction of multiple currency

practices; (e) conclusion of bilateral payments agreements which are inconsistent with Article VIII; (f) introduction or intensification of import restrictions for balance of payments reasons.

5. In accordance with paragraph 3 of the attached letter, Chad will provide the Fund with such information as the Fund requests in connection with the progress of Chad in implementing the policies and reaching the objectives supported by the first annual arrangement. A Fund mission will visit N'Djaména in late 1987 to review the 1988 budget and discuss definitive benchmarks for the January-June 1988 period of the program.

6. In accordance with paragraph 4 of the attached letter, Chad will discuss with the Fund and reach suitable understandings on the adoption of any appropriate measures at the initiative of the Government or whenever the Managing Director requests such discussions because he considers that discussions on the program are desirable. These discussions may include correspondence and visits of officials of the Fund to Chad or of representatives of Chad to the Fund.

Chad - Letter of Transmittal, Request for a Three-Year
Arrangement and the First Annual Arrangement Thereunder

N'Djaména, July 14, 1987

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U. S. A.

Dear Mr. Camdessus:

1. The policy framework paper prepared in collaboration with the staffs of the International Monetary Fund and the World Bank was discussed and noted by the Executive Board of the Fund on June 19, 1987. It describes Chad's major economic problems and the challenges it faces; the objectives of the three-year program; the priorities and general framework of macroeconomic and structural adjustment policies; and the foreseeable external financing requirements together with the resources available to meet them.
2. The annexed Memorandum on Economic and Financial policies, pursuant to the policy framework described above, sets out the objectives and policies that the Government of Chad intends to pursue during the period July 1987-June 1990, and the objectives and policies for the first year of this period, for which balance of payments assistance is needed. In support of these objectives and policies, Chad hereby requests from the Fund a three-year structural adjustment arrangement in the amount that will be available to Chad under the Fund's structural adjustment facility, and the first annual arrangement thereunder.
3. The Government of Chad will remain in close contact with Fund staff regarding any development and progress in the implementation of these policies, and the policy framework paper will be updated annually to reflect the progress of the program. The Government of Chad will provide the Fund with any information it may require concerning the implementation of policies by Chad and the achievement of the program objectives. To this end, the Government of Chad requests a Fund mission in late 1987 to review the draft 1988 budget and assist in revising benchmarks for the January-June 1988 period of the program.
4. The Government of Chad believes that the policies described in the annexed memorandum are adequate for the achievement of the program objectives, but it is prepared to take any additional measure that may be necessary for this purpose. Chad will discuss with the Fund and reach suitable understandings on the adoption of any measure which may

be deemed appropriate, at the initiative of the Government of Chad or whenever the Managing Director requests such discussions because he considers that discussions on the program are desirable. These discussions may include correspondence and visits of officials of the Fund to Chad or of representatives of Chad to the Fund.

Sincerely yours,

/s/

Ngarnayal Mbailemdana
Minister of Finance and Computing Services

Annex: Memorandum of Economic
and Financial Policies

Memorandum of Economic and Financial Policies

1. In recent years, the economic and financial situation of Chad has been plagued with problems stemming from a prolonged drought and the armed conflict, which have had disastrous effects on the economy and on the social quality of life of the country. The conflict has caused a marked deterioration in the country's wealth, the destruction of a large part of its infrastructure, the withdrawal of foreign capital, and the stagnation of the banking sector. Since 1983, the national reconciliation policy has enabled political stability to be re-established and the foundations of a national recovery program to be laid, in spite of another drought in 1984/85. Nevertheless, major structural problems persist, such as the need to reform the cotton sector, to diversify the productive basis, to rehabilitate the road infrastructure, to overhaul the banking system, to strengthen the administrative structures, and to improve the management of the public sector.

2. Despite the progress made in recent years, the country is still experiencing serious problems with its balance of payments and its public finance position. In the area of agriculture, the sharp fall in cotton prices on the world market since 1984 has aggravated the financial position of the cotton company (COTONTCHAD). This situation has highlighted the need to diversify the agricultural base--in particular by intensifying animal husbandry--and the need to stimulate the private sector, which has not yet resumed its normal rate of economic activity. The operating deficits of public enterprises (in particular of COTONTCHAD) have led to an accumulation of large arrears and weakened the banks' financial position.

3. In addition, the public finance position remains precarious, and expenditure greatly exceeds revenue. In the period 1984-85, the overall deficit of government financial operations, on a commitment basis and including foreign-financed investment expenditures, amounted on average to 9 percent of GDP. The yield of the tax system is low, especially in the case of taxes on petroleum products and from tax collection in general. Current expenditure, already greatly reduced, considerably exceeds revenue. Since 1975, Chad has not had an investment budget. Moreover, the Government does not yet have all the means of evaluating, monitoring, and controlling the large public investment program financed by foreign resources.

4. Thus, in view of the major domestic and foreign imbalances, made more acute by the fact that Chad is a landlocked country and by the fall in cotton prices, the Government has decided to intensify its adjustment efforts and to implement a balanced revival of its economy during the three-year period 1987-90. With the staffs of the Fund and the World Bank, it has prepared an economic policy framework paper (PFP) for the period July 1987-June 1990. This paper was examined by the Executive Directors of the World Bank meeting in the Committee of the Whole on June 2, 1987 and by those of the Fund on June 19, 1987.

5. The overall aims of the program in the medium term are

- (i) real growth of 2 percent per annum;
 - (ii) a supply and demand policy aimed at limiting the rate of inflation to 5 percent per annum;
 - (iii) contain the overall fiscal deficits to levels that can be financed by available resources; and
 - (iv) a reduction in the current account deficit of the balance of payments, excluding official transfers, from 36.5 percent of GDP in 1987 to 35.3 percent in 1990. This would lead to a viable balance of payments position without further accumulation of external arrears, taking into account, in particular, the anticipated foreign financing for the parapublic sector and for the cotton sector rehabilitation program.
6. In order to achieve the objectives and implement the policies of the three-year program, the Chadian authorities, within the framework of that program, have adopted a first-year program covering the period July 1987-June 1988. The 1987/88 program essentially aims at containing the imbalances in public finance and the balance of payments. For this purpose, the objectives of this first year of the structural adjustment facility (SAF) program are

- (i) a 1.2 percent increase in the level of GDP in real terms;
- (ii) an inflation rate, measured by the GDP deflator, of 4 percent; and
- (iii) a current account deficit (excluding official transfers) of 36 percent of GDP. During the program period Chad will continue to apply a trade and payments system that is virtually free of restrictions on payments and transfers for current international transactions.

7. A key element of the adjustment planned in 1987/88 is the continuation of efforts to rehabilitate the cotton sector. Efforts made so far have been fruitful and the f.o.b. export cost of cotton in the 1986/87 crop year was reduced to CFAF 634 per kg. The donors' meeting in N'Djaména in June 1987 noted with satisfaction the progress made, especially in improving COTONTCHAD's financial position. They decided to continue to finance the rehabilitation program for the 1987/88 crop year. At the same time, efforts will be intensified to promote the animal husbandry sector, which has a considerable export potential. The process of repairing destroyed infrastructure will be accelerated by the adoption of an investment budget in 1987, the first in more than ten years. Finally, the efforts to improve the financial position of loss-making public enterprises, as described in detail in the PFP, will be continued in 1987 and 1988, in particular in the case of STEE, which has a monopoly for the distribution of water and electricity.

8. Throughout the period of the program, the Government will continue to encourage the private sector by an increased liberalization of the economy and by an improvement in the economic and financial environment of the industrial and commercial sectors. For this purpose the Investment Code, which dates back to 1963, is being revised. Efforts will be made to help local businessmen prepare and submit loan applications to the domestic financial system.

9. The Chadian authorities are aware of the possibility of considerably increasing revenue by reforming the petroleum tax system. Accordingly, a new provisional system will be introduced on August 1, 1987. It is estimated that the new regime, consisting essentially of a simplification of the present system and concentrating on more effective collection, could yield approximately CFAF 6 billion on an annual basis, compared with estimated receipts from the present system of CFAF 3 billion during a normal year. In 1987, allowing for the delayed impact of its implementation, only some CFAF 2 billion are expected to be collected. By January 1, 1988, with the assistance of the World Bank, a permanent system will be implemented. This permanent system will define, inter alia, the institutional framework for the collection of the new petroleum tax.

10. According to projections, total revenue in 1987, including the yield from the new petroleum tax system, will amount to only CFAF 19.1 billion, an increase of 13.4 percent over 1986, but a 12.0 percent decrease in relation to the 1987 budget forecasts. The shortfall in revenue is, to a large extent, due to the economic stagnation experienced by Chad since the second half of 1986. This economic slump is attributable to the fall in revenue in the cotton sector and to the various taxes levied on locally manufactured beer and cigarettes in the last quarter of 1986. The reduction in domestic demand caused a decline in imports subject to import duties, which had a negative impact on revenue from taxes on foreign trade. Revenue also fell on account of the decision to suspend duties and taxes on the cotton sector under the COTONTCHAD rehabilitation program.

11. Current expenditure, amounting to approximately CFAF 26.6 billion, will rise by some 10.3 percent over 1986. In spite of this increase, allocations for goods and services are lower than actual requirements, which will have a negative impact on the efficiency of the Central Government. Nevertheless, they cannot exceed this level if the overall deficit is to be kept within acceptable limits, given available resources. Investment expenditures in 1987, which are wholly financed by foreign loans and grants, will amount to CFAF 69.5 billion. Thus, total expenditure in 1987 will amount to CFAF 96 billion, an increase of 37.2 percent compared with 1986.

12. On the basis of these developments in revenue and expenditure, it is estimated that the overall budgetary deficit, on a commitment basis and including foreign-financed investment expenditures, will amount to approximately CFAF 76.9 billion in 1987, or the equivalent of

26.2 percent of GDP. To a large extent, this deficit will be financed by grants and loans linked to projects estimated at CFAF 69.0 billion. Taking into account already committed budgetary aid of CFAF 4.6 billion, scheduled amortization on foreign loans of CFAF 1.8 billion, debt relief of some CFAF 0.7 billion, the CFAF 1.3 billion improvement of the Central Government's position vis-à-vis the banking system, the creation of a CFAF 0.8 billion reserve fund as a margin for a possible shortfall on revenue, the planned reduction in domestic and external arrears of CFAF 1.6 billion, and some CFAF 0.4 billion in other nonbank domestic financing, the residual financing requirement is estimated to be CFAF 7.9 billion. It is planned to finance this amount by the use of SAF counterparts in the amount of CFAF 2.4 billion and by additional budgetary aid in the amount of CFAF 5.5 billion. The Chadian authorities have received undertakings as to the amount and disbursement of the additional budgetary aid. It is the authorities' intention not to accumulate any new domestic arrears during the program period and, in fact, reduce outstanding arrears.

13. Preparations for the 1988 budget have commenced. The aim of the Chadian authorities will be to limit the overall deficit before grants, including investments financed by foreign resources, to some 27 percent of GDP. Revenue, including the yield from the new petroleum tax system, is expected to rise by 12.6 percent over 1987 to CFAF 21.5 billion. Current expenditure will increase by 0.9 percent and will not exceed CFAF 26.8 billion in 1988. In particular, the wage bill and military expenditure will be controlled tightly and will decrease in real terms, while outlays on goods and services will actually decline in nominal terms, mainly the result of expenditure on conferences held in Chad during 1987 which will not be repeated in 1988. Investment expenditure financed by foreign grants and loans is expected to rise to CFAF 78.8 billion, and the overall deficit on a commitment basis will reach CFAF 84.1 billion in 1988, or the equivalent of 26.8 percent of GDP. At present, it is not possible to identify precisely the sources of financing for 1988; however, it is expected that the sources of financing in 1987 will be available again in 1988. On this basis, the overall deficit on a cash basis for the period of the 1987/88 program is expected to amount to CFAF 83.6 billion, or the equivalent of 28 percent of GDP. The financing required will come largely from investment-linked loans and grants, debt relief, foreign budgetary aid, SAF counterparts, and from counterparts of World Bank nonproject operations. A Fund mission will visit N'Djaména in late 1987 to study thoroughly the 1988 budget proposal and to satisfy itself that the financing requirements for the budget are met. This mission will also examine the implementation of the new petroleum tax system and, if appropriate, will make recommendations in conjunction with the World Bank to improve the yield of that tax.

14. Hitherto, the rate of increase in domestic credit has been very high, owing in particular to COTONTCHAD's nonpayment of its liabilities, which has weakened the country's external position. In this connection, the Chadian authorities undertake to continue their selective credit

policy in the 1987/88 period. This will be done principally by granting credit to the cotton sector on the basis of a realistic forecast of export sales, thus ensuring that credit will be fully reimbursed at the end of the season. At the same time, great care will be taken concerning the allocation of credit to the other productive sectors of the economy. To improve control over the distribution of credit, benchmarks have been set for domestic credit and net banking credit to the Government for end-September and end-December 1987, and for end-March and end-June 1988. Accordingly, domestic credit should increase by 2.9 percent in 1987 compared with 19.9 percent in 1986, while net banking credit to the Government should increase by 11.3 percent in 1987, compared with an increase of 103.3 percent in 1986. During the program period of the first SAF year (July 1987-June 1988), domestic credit will increase by 14.5 percent. COTONTCHAD's arrears vis-à-vis the banking sector amounted to approximately CFAF 43 billion at end-May 1987. In 1987, COTONTCHAD will pay at least CFAF 7.7 billion of these arrears through cash settlements, largely through the use of extrabudgetary exceptional foreign resources; as of June 1987, CFAF 2.1 billion had been paid. A further amount of CFAF 3.4 billion will likewise be paid in 1988, through cash settlement and made possible by exceptional extrabudgetary foreign resources. The remaining balance will be rescheduled, as provided for by a resolution adopted in November 1986 by the Board of Directors of the BEAC, over a period of ten years with two years' grace for interest and five years' grace for principal. Interest rates were positive in real terms in 1985 and in 1986. In conjunction with the other members of the monetary area of the BEAC, the Government will endeavor to maintain positive real interest rates in Chad during the period of the program.

15. The three-year program and this 1987/88 program provide for a cautious policy regarding external indebtedness. The Government's policy will be aimed at maintaining the share of grants in the external financing of public investment. In any case, the Government will neither contract nor guarantee any nonconcessional foreign loans with repayment periods of less than twelve years. At the same time, short-term foreign credits will be limited to normal import-related commercial credits. Chad's level of indebtedness is quite low, as reflected in its 6.3 percent scheduled debt service ratio in 1986 (including obligations to the Fund). The program does not allow any accumulation of external arrears.

16. Chad's balance of payments situation will remain difficult at least until the end of the decade, despite the expected recovery in world cotton prices. However, it is anticipated that it will be possible to mobilize sufficient external resources in the form of grants and concessional loans to sustain the projected levels of imports and other outflows. For 1987, the current account deficit (excluding official transfers) will amount to SDR 274.2 million, or the equivalent of 36.5 percent of GDP, and the overall deficit will be SDR 15 million, or the equivalent of 2 percent of GDP. The overall deficit will be financed by the use of official international reserves in the amount of

SDR 15.6 million (including the SDR 6.1 million utilization of disbursements under the SAF), taking into account a payment of SDR 2.6 million of arrears and debt relief of SDR 1.9 million. In 1988 the current account deficit of the balance of payments (excluding official transfers) will amount to SDR 286.2 million, or the equivalent of 35.6 percent of GDP. It is expected that the overall balance of payments will show a deficit of SDR 4.5 million. For the period 1989-92, the balance of payments (except in 1990) should show surpluses, presuming the identified financing is obtained.

17. As the program is supported by SAF resources, it will be monitored by the quantitative benchmarks set forth in the attached table. 1/
These benchmarks are

(i) ceilings on domestic credit and net claims on Government at end-September and end-December 1987, and at end-March and end-June 1988; these are subject, *pari passu*, to downward adjustment if the receipt of exceptional external assistance is greater than programmed; the ceilings for domestic credit will be subject to adjustment to reflect differences between actual and programmed values for the volume of production and export price of cotton;

(ii) until end-June 1988, a net quarterly reduction in domestic and external arrears; no accumulation of new external or domestic arrears during the program period;

(iii) during the program period, no nonconcessional borrowing with an initial maturity of between one and twelve years;

(iv) targets for the fiscal current deficits excluding foreign-financed investment outlays;

(v) minimum CFAF 2 billion petroleum tax yield in 1987 and CFAF 4.5 billion yield between July 1987 and June 1988; and

(vi) ceilings on COTONTCHAD's operating deficit in 1986/87 and in 1987/88.

The structural benchmarks are

(vii) consolidation of government financial operations, based on the new treasury accounts nomenclature, and the regular compilation of a treasury balance sheet (by March 1988);

(viii) adoption of a three-year government investment program and a planning system coordinating the decision-making process regarding the

1/ The benchmarks for the first half of 1988 will be revised.

public investment program among the Ministry of Finance and Computing Services, the Ministry of Planning, and the Autonomous Amortization Fund (by June 1988); and

(ix) during the program period, an intention not to introduce new or intensify any existing restrictions on payments and transfers for current international transactions, not to introduce multiple currency practices, not to conclude bilateral payments agreements which are inconsistent with Article VIII, nor to introduce new or intensify any existing restrictions on imports for balance of payments reasons.

18. The Government remains convinced of the need to persevere in its medium-term adjustment efforts and, in this context, would appreciate continuing to receive the technical and financial support of the Fund.

Chad: Quantitative Benchmarks for the First
Annual Program (July 1987-June 1988) 1/

(In billions of CFA francs; unless otherwise specified)

	1987		1988	
	Sept.	Dec.	March <u>2/</u>	June <u>2/</u>
	(End of period)			
Domestic credit <u>3/</u> <u>4/</u>	81.079	84.240	94.685	92.134
Claims on Government (net) <u>4/</u>	(5.306)	(7.633)	(7.428)	(7.337)
	(During period)			
Reduction of external arrears through cash settlement by CAA	0.985	0.985	—	—
Reduction of domestic arrears through cash settlement	1.223	1.223	0.375	0.375
New foreign borrowing of less than 12 years without at least a 50 percent grant component excluding import-related short-term credits	—	—	—	—
Accumulation of new external or domestic payments arrears	—	—	—	—
	1987		1987/88	
	Jan. 1-Dec. 31		July 1-June 30 <u>1/</u>	
Current fiscal deficit on a commitment basis as percent of GDP <u>5/</u>	2.5		1.9	
Minimum petroleum tax revenue	2.0		4.5	
Maximum operating deficit of COTONCHAD	-9.0 <u>6/</u>		-6.5 <u>7/</u>	

1/ Benchmarks for the period January-June 1988 are to be revised.

2/ To be revised.

3/ On the basis of a 100,000 ton cotton crop in 1987/88.

4/ These indicators will be lowered if nonprogrammed external resources are received during the program period.

5/ Including yields from the new petroleum tax system and excluding foreign-financed investment outlays.

6/ 1986/87 crop year.

7/ 1987/88 crop year.

CHAD - Relations with the Fund

(As of August 31, 1987)

I. Membership Status

- (a) Date of membership: July 10, 1963
- (b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 30.6 million
- (b) Total Fund holdings of currency: SDR 37.34 million
(122.02 percent of quota)
- (c) Fund credit: SDR 7.00 million (22.87 percent of quota)
- (d) Reserve tranche position: SDR 0.26 million
- (e) Current operational budget (maximum use of currency): None
- (f) Lending to the Fund: None

III. Stand-By Arrangements and Special Facilities

- (a) Current stand-by arrangement: None
- (b) No previous stand-by arrangements; two credit tranche purchases with ordinary resources amounting to SDR 5.23 million
- (c) Current special facilities: Compensatory financing
facility: SDR 7.00 million

IV. SDR Department

- (a) Net cumulative allocation: SDR 9.41 million
- (b) Holdings: SDR 0.47 million (5.0 percent of net cumulative allocation)
- (c) Current designation plan (amount of maximum designation): None

CHAD - Relations with the Fund (continued)

V. Administered Accounts

- (a) Trust Fund loan: (i) Disbursed: SDR 5.39 million
(ii) Outstanding: SDR 0.85 million

(b) SFF Subsidy Account: None

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

Intervention currency and the rate	French franc; CFAF 1 = F 0.02
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Local currency/SDR equivalent CFAF 391.00 = SDR 1

VIII. Last Article IV Consultation

The staff report for the 1987 Article IV consultation (EBS/87/98) was discussed by the Executive Board on June 19, 1987. The following decision was taken:

1. The Fund takes this decision in concluding the 1987 Article XIV consultation with Chad, in the light of the 1987 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 other than the restrictions on tourism and business travel allowances as described in SM/87/122 (May 28, 1987).

IX. Fund Actions with Respect to Overdue Obligations

- (a) Complaint by Managing Director under Rule K-1 and notice of failure to settle Trust Fund obligations, July 27, 1984.
- (b) Mission on overdue financial obligations, August 6-15, 1984.
- (c) Staff report on the current status of overdue obligations to the Fund (EBS/84/193) discussed by the Board on September 12, September 27, and October 1, 1984.
- (d) Settlement of overdue obligations: November 8, 1984.

CHAD - Relations with the Fund (concluded)

X. Technical Assistance

FAD technical assistance for a review of the tax system, November 2-20, 1976.

FAD technical assistance in tax policy, January 30-February 22, 1984.

FAD technical assistance in tax administration, November 12-December 4, 1984.

FAD technical assistance in budget and treasury accounting, November 12-December 18, 1984.

STA technical assistance in the balance of payments area, November 20-December 6, 1984.

STA technical assistance in general economic statistics, April 26-May 18, 1985.

FAD general fiscal advisor for a period of two years beginning June 1985, extended through June 1988.

CBD advisor in the area of domestic and external debt for a period of one year beginning August 1985, extended through March 1987.

FAD technical assistance in cotton tax policy, November 18-26, 1985.

CBD technical assistance in the area of the bank moratorium, January 5-14, 1987.

Chad - Financial Relations with the World Bank Group

Chad became a member of the Bank on April 2, 1963, with a capital subscription of SDR 124 million. Since then, seven IDA credits totaling US\$20 million have been fully disbursed to Chad. Three of these credits were for education (21 percent of total lending); two, for agriculture (47 percent); one, for highway maintenance (22 percent); and one, for drought relief (10 percent). As a result of the civil unrest, World Bank activities in Chad were interrupted in 1979, and Chad began to accumulate sizable payments arrears to the Bank. Following the full payment of overdue obligations in May 1985 and the recent improvement in the security situation, the Bank has identified priority activities which have been financed by an acceleration of disbursements under existing credits. Amendments to these credits were approved by the Executive Board on May 24, 1985. In October 1985, a Bank mission visited Chad for the purposes of reviewing economic developments and prospects and of identifying additional productive projects in key sectors of the economy. Follow-up appraisal missions took place in February and March 1986 for an agricultural rehabilitation project and a highway maintenance project.

In response to the serious financial implications for Chad of the sharp fall in cotton prices, the Bank and other donors (EC, USAID, CCCE, ADF, and UNDP) participated in a meeting to discuss a report by France, CCCE, and CFDT (a shareholder of COTONTCHAD) on a cost reduction program for the cotton sector and its support through an emergency rehabilitation program. An IDA credit of SDR 12.8 million in support of this program was approved on June 23, 1986. The Bank is also the executing agency for a UNDP-financed study of medium-term prospects for the cotton sector, which would complement the French study and attempt to propose a detailed financial adjustment program. The Bank and other donors met in October 1986 to review progress in the emergency cotton program and give their initial consideration to the longer-term study. The donors met again in June 1987 and noted with satisfaction the progress made, in particular the substantial reductions in production costs and the improvement in COTONTCHAD's financial position.

An IDA credit of SDR 20.0 million for a highway maintenance project and a credit of SDR 14.5 million for an agricultural rehabilitation project were approved on July 29, 1986 and March 9, 1987, respectively. The Bank is also actively preparing action programs for the development of domestic petroleum resources and in the education and training sectors. In November 1986 and March 1987, Bank staff collaborated with Fund missions in the preparation of a PFP. On December 10, it was decided to move Chad from list B to list A of countries eligible for assistance under the Special Facility for Africa (SFA).

The World Bank is poised to play a major role in the development of Chad's economy over the medium term. During a UNDP-sponsored Round Table in December 1985, the Bank took the lead, together with the UNDP,

in coordinating external assistance to Chad. The Bank has already provided technical assistance in the elaboration of the 1987 investment budget, the first since 1975, and, in the context of the PFP elaborated jointly with the Fund, stands ready to provide large amounts of other technical assistance. Such assistance will be mainly oriented towards improving the performance of parastatals, especially in agriculture. Aside from the rehabilitation of COTONTCHAD, as described above, the Bank will assist the authorities in the elaboration of a development strategy for the agricultural sector; in the promotion of crop production and marketing, primarily through a re-examination of the role of the National Cereals Office; in the improvement in the operations of the livestock sector, by redefining the role of SOTERA and MAGAVET with a view to eliminating their monopolies on exports of livestock and on marketing of veterinary products, respectively; in the definition of a transport sector policy; in the development of the human resource base, with special emphasis on the training of teachers; and in the reduction of the size and improvement in the efficiency of the parapublic sector, with special emphasis on the electricity company, the STEE, and the Petroleum Products Intervention Fund. Finally, pre-project financing has already been made available for feasibility studies in the petroleum sector; the project will be formally signed shortly and should enter the exploration stage in 1989, with exploitation foreseen by 1993.

The Bank is providing assistance to economic and financial management by executing a US\$3.8 million UNDP-funded project providing technical assistance to the Ministry of Planning. This assistance consists of the provision of five experts for three years and 36 man-months of short-term assistance. In addition, the Bank will present to its Board in September 1987 a US\$12.8 million Economic and Financial Management project consisting of four parts: US\$4 million to fund a variety of studies, audits and technical and logistic support to help the Government comply with commitments under the PFP; US\$4.1 million for new buildings and equipment for the Ministries of Finance and of Planning; US\$0.6 million for training for agencies involved in economic and financial management; and US\$4.1 million for a sample survey of the population.

The Bank recently completed a draft country economic memorandum for Chad, which provides a broad macroeconomic and sectoral overview; it is the first such report in over ten years. The memorandum was discussed extensively from July 13-18, 1987 between a Bank mission in N'Djaména and a number of interministerial technical committees. Based on these discussions, a final version of the memorandum, entitled Chad: Situation and Priorities, will be available for distribution in early September 1987.

Chad: World Bank Loans and Debt Service,
1982/83-1986/87 1/ 2/

(In millions of U.S. dollars)

	1982/83	1983/84	1984/85	1985/86	1986/87
Loans					
Disbursement	133.95	390.45	3,558.97	4,709.97	14,772.29
Amortization	33.90	--	926.09	1,260.86	1,798.39
Interest payments	165.80	--	1,449.98 <u>3/</u>	415.86	433.60

Source: World Bank.

1/ All loans received from the World Bank are IDA credits.

2/ Fiscal years, July 1-June 30.

3/ Includes payment of arrears.

CHAD - Basic Data

Area, population, and GDP per capita

Area	1,284,000 square kilometers
Population (mid-1986 estimates)	
Total	5.1 million
Growth rate	2.3 percent
GDP per capita	SDR 139 (1986)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prov.	<u>1987</u> Est.
<u>Gross domestic product</u> (at current prices)					
Total (in billions of CFA francs)	214.3	224.2	298.7	283.0	293.1
Annual growth rate (in percent)					
Nominal	14.3	4.6	33.2	-5.3	3.6
Real	5.6	-5.7	29.0	-2.3	0.5
GDP deflator	8.2	11.0	3.3	-3.0	3.1

Central government finance 1/

(In billions of CFA francs)

Revenue	8.5	18.3	21.3	16.8	19.1
Expenditure and net lending	21.7	37.2	50.5	70.0	96.0
Overall deficit (commitment basis)	-13.2	-18.9	-29.2	-53.2	-76.9
Change in arrears (decrease (-))	0.8	0.5	0.7	0.7	-0.8
Overall deficit (cash basis)	-12.4	-18.4	-28.5	-52.5	-77.7
External financing	12.9	16.6	29.5	51.0	71.7
Gross disbursements	12.9	16.7	29.9	52.2	73.6
Amortization paid	--	-0.1	-0.4	-1.2	-2.2
Debt relief on interest	--	--	--	--	0.3
Domestic financing (net)	-0.5	1.8	-1.0	1.5	-1.8
Additional financing commitments	--	--	--	--	7.9

(In percent of GDP)

Overall deficit (commitment basis)	-2.0	-8.5	-9.8	-18.8	-26.2
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Money and credit (end of period)

(In billions of CFA francs)

Net foreign assets	9.5	24.9	17.1	4.3	-1.8
Domestic credit	43.4	56.4	68.4	81.9	84.2
Net claims on Government	10.9	10.5	3.5	6.9	7.6
Credit to private sector	32.5	45.9	65.0	75.0	76.6
Money and quasi-money	42.4	67.8	71.9	72.7	68.8

CHAD - Basic Data (continued)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prov.	<u>1987</u> Est.
	<u>(In percent of GDP)</u>				
<u>Money and credit (continued)</u>					
Money and quasi-money	14.6	30.2	24.1	25.7	23.5
	<u>(In millions of SDRs)</u>				
<u>Public external debt 2/</u>					
Disbursed and outstanding (end of period)	...	111.6	121.4	133.0	191.6
In percent of GDP	...	23.4	16.9	18.6	25.5
Interest due 3/	4.4	3.6	3.0	3.3	3.9
Amortization due 4/ (including Fund repurchases)	4.0	7.5	8.9	7.5	4.6
Debt service ratio in percent of exports of goods and nonfactor services 5/					
Excluding the Fund	10.1	5.0	6.2	4.3	4.7
Including the Fund	11.4	7.6	9.9	6.3	5.3
	<u>(In millions of SDRs)</u>				
<u>Balance of payments</u>					
Merchandise trade	-11.5	-2.8	-77.4	-96.8	-143.8
Exports, f.o.b.	97.8	128.1	86.3	88.8	84.4
Of which: cotton	(55.2)	(94.6)	(43.8)	(38.2)	(33.3)
Imports, f.o.b.	-109.3	-130.9	-163.8	-185.6	-228.2
Services (net)	-49.8	-59.2	-125.5	-125.1	-123.6
Transfers (net)	81.5	74.8	138.6	173.8	190.0
Current account balance					
Including public transfers	20.3	12.7	-64.3	-48.2	-77.6
Excluding public transfers	-67.5	-64.3	-196.2	-228.9	-274.2
Medium- and long-term capital	-2.8	6.0	66.5	46.6	62.5
Disbursements	2.3	3.8	19.3	21.5	64.1
Amortization	-4.0	-4.8	-5.4	-5.5	-4.6
Other capital	-1.1	7.1	52.5	30.6	3.1
Short-term capital (including errors and omissions)	-9.4	-4.5	-28.7	-17.1	--
Exchange rate guarantee scheme	3.0	4.7	2.7	--	--
Overall balance (deficit -)	11.1	19.0	-23.9	-18.7	-15.0
External payments arrears (outstanding, end of period)	...	51.4	54.6	62.1	--
	<u>(In percent of GDP)</u>				
Merchandise trade	-2.2	0.6	-11.8	-13.1	-19.1
Exports, f.o.b.	18.6	25.6	13.2	12.1	11.2
Imports, f.o.b.	20.8	26.2	25.0	25.2	30.3

CHAD - Basic Data (concluded)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prov.	<u>1987</u> Est.
<u>Balance of payments (continued)</u> (In percent of GDP)					
Current account balance					
Including official transfers	3.9	2.5	-9.8	-6.6	-10.3
Excluding official transfers	-12.8	-12.8	-30.0	-31.1	-36.5
Overall balance	2.1	3.8	3.7	-2.5	-2.0
(In millions of SDRs; end of period)					
Gross official reserves	16.2	48.6	33.8	16.6	7.2
<u>Exchange rates</u> (CFA francs per SDR)					
End of period	436.97	470.11	415.26	394.78	...
Period average	407.35	447.89	456.14	406.26	...
<u>Social indicators</u>					
Population (in millions)	4.8	4.9	5.0	5.1	...
Infant mortality rate (percent)	...	13.9	13.9	...	...
Inhabitants per physician (thousands)	...	...	38.5	...	...
Inhabitants per nurse (thousands)	...	...	3.4	...	...
Number of schools	...	1,170	1,243	...	...
Students in primary schools <u>6/</u>	38.0	...	...	...	...

1/ Includes consolidated operations of the Treasury and the Autonomous Amortization Fund (CAA) as well as foreign-financed investment expenditure, but excludes the stabilization funds for cotton, petroleum, and sugar.

2/ Public and publicly guaranteed external debt. Complete reliable records are not available to make estimates for years prior to 1984.

3/ Accumulation of arrears (net) were SDR 2.5 million in 1983, SDR 0.8 million in 1984, minus SDR 0.6 million in 1985, and SDR 0.4 million in 1986.

4/ Accumulation of arrears (net) were SDR 3.7 million in 1983, SDR 3.0 million in 1984, SDR 3.0 million in 1985, and SDR 2.1 million in 1986.

5/ Scheduled debt service.

6/ As percent of age group.