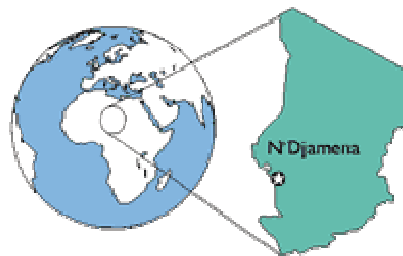


COUNTRY REVIEW

Chad



4 January 2010

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EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	N'Djamena
GDP:	USD 8,400 mn (2008e)
Population:	9.73 mn (2008e)
GDP per capita:	USD 863 (2008e)
Currency:	CFA franc (XAF)
Form of state:	Presidential republic
Head of government:	President Idriss DÉBY Itno (since 1991)
Next elections:	Legislative: 2010 / Presidential: 2011

CURRENT GRADE: D

Systemic political risk is assessed as very high. Chad is formally a republic but it lacks the checks and balances of a western-style democracy. President Idriss Déby altered the constitution (approved in a referendum in June 2005) to enable him to seek and win a third term in office, which he did in May 2006. Both the referendum and the presidential election were deemed as manipulated by international observers. The civilian opposition has remained largely ineffective owing to intimidation by the government and security forces. Nonetheless, President Déby has struggled to remain in power. In 2005 a growing insurgency emerged in Chad's east, which culminated in a serious rebel attack on the capital in early 2008. The major rebel group was defeated in May 2009 and government forces currently appear to have the upper hand in the conflict. However, the insurgents will continue to pose a threat to security, especially in the east. The political instability has led to the repeated delay of legislative elections, originally scheduled for 2006 and now probably to be held in 2010. Meanwhile, President Déby appears to have consolidated his power and is expected to retain control over parliament and to be re-elected in 2011. Relations with neighbouring Sudan have been very poor. Since 2003, the Darfur crisis has had an increasingly destabilising impact on Chad as refugees from the region in Sudan's west (referred to as rebels by Sudan) have been staying in eastern Chad and, nevertheless, have still been chased by marauding Arab Janjaweed militia from Sudan penetrating deeper into Chad. Sudan accuses Chad of supporting the Darfur "rebels". On the other hand, Chad alleges that Sudan backs the Chadian insurgents in its east. Diplomatic ties between the two countries broke down in 2006 and, although direct communication was reopened in October 2009, hostilities are likely to persist in 2010-11. Chad's relations with several other neighbours are also not very good, although relations with Libya are improving.

Since 2006, international relations have also suffered damage. The government's decision to shift large sums from the oil Fund for Future Generations to deal with its fiscal and security problems violated a key condition for receiving World Bank financing for Chad's oil projects—which had boosted the economy in previous years (13.1% annual average growth in 2001-05)—and triggered the suspension of Bank funding and the freezing of the offshore oil revenue escrow account. That dispute was later settled by a compromise but the World Bank again suspended assistance in 2008. Also, in 2006, President Déby opened an income tax dispute with two of the three foreign companies in the consortium producing Chad's oil. Although this row was also settled, Déby's claim of a sovereign right for Chad to take more control of its own oil and the threat of expropriation in the future are key uncertainties in the business environment. These disputes have frustrated western donors and IFIs and delayed indefinitely Chad's achievement of the completion point under the HIPC initiative, which had previously been expected to occur by June 2006. Significantly, Chad has intensified diplomatic ties with China, which is now an important player in exploring Chad's oil sector.

Chad's indicators on the Structural Business Environment as well as socio-economic conditions have remained among the lowest in the world. Very high political instability and unwillingness to reform have resulted in missing the opportunity of using windfall oil revenues to achieve poverty reduction and long-term sustained growth. Annual average real GDP growth fell back to just 0.5% in 2006-09 and most of the population remains heavily dependent on small-scale agriculture. The government has a poor record of budgetary performance, reflected in domestic debt and arrears continuing to accumulate and a fiscal deficit of around 9.5% of GDP in 2009. The current account deficit in relation to GDP is forecast to remain in double-digits in 2009-11, which is unsustainable without donor aid. On a positive note, Chad's membership of the CFA franc zone provides for low transfer risk in the medium term.

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