Chad Country Brief

December 2018

Introduction

The Republic of Chad is located in Central Africa with no access to sea. It is the fifth-largest country on the continent in terms of land mass and borders Libya to the north, Sudan to the east, the Central African Rebuplic to the south, Cameroon and Nigeria to the southwest, and Niger to the west. Chad is heavily dependent on oil —ever since becoming an oil-producer in 2003 with the completion of a US$4 billion oil-pipeline linking its oilfields to terminals on the Atlantic coast via Cameroon—but also rich in gold and uranium. Chad faces a number of socio-political challenges linked in part to a young and rapidly expanding population and terrorist activities in the Lake Chad Basin. According to United Nations, Chad's population reached 15.5 million as of November 2018 with an annual growth rate of over 3 percent per annum, a dependency ratio of 100.1 percent and a life expectancy of 51 years for men and 54 years for women. Chad is ranked 186 out of 189 countries, according to the 2017 United Nations Development Program (UNDP) Human Development Index.

Political environment

President Idriss Deby Itno, who has been in power since 1990, won a fifth Presidential election in 2016 and is serving another five-year term—there is currently no Presidential term limit in Chad. President Deby is credited with ushering in multiparty politics to Chad and promoting stability within the central African region which has been victim to terrorist attacks. In particular, he has been at the forefront of the operation to root out terrorist groups, especially Boko Haram which has been a source of insecurity in the region and for countries in the Lake Chad Basin. Conflicts in neighboring countries, and the effect of climate change through the desertification and the drying up of Lake Chad have also fuelled political tensions in the region. Chad is ranked 47th out of 54 in the 2016 Mo Ibrahim Index of African Governance with a score of 35.2/100. While this is still below the African average (50) it is the country's best score on record, a sign of improving political and democratic governance over the last few years.

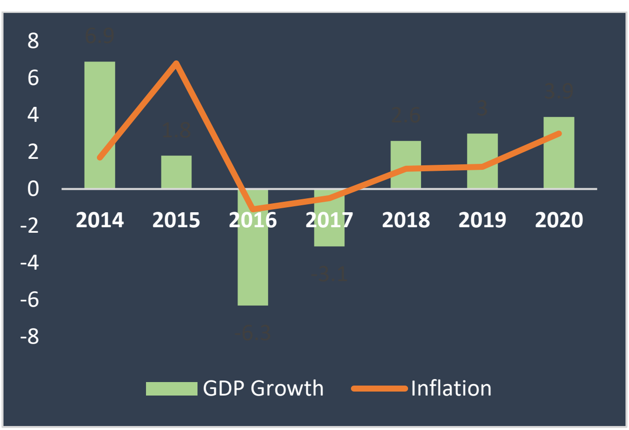
Economic overview

GDP: The Chadian economy contracted for two consecutive years by 3.1 percent and 0.7 percent in 2016 and 2017 respectively—on account of a sharp deterioration in commodity terms of trade and especially due to the collapse in oil prices after the end of the commodity super-cycle, and geopolical challenges facing ESSO Chad, one of the main operators in the oil sector – in a country where oil exports account for more than 55 percent of fiscal revenue and 60 percent of foreign exchange earnings. The government's attempt to adjust to sluggish public revenues by reducing public sector wages and investment outlays significantly dampened disposable incomes and consumption and slowed down economic activity. The economy has also strained under the weight of refugees, primarily from the Central African Republic, as well as the government's involvement in regional peace-keeping efforts which take up already scarce financial resources. Although the relative rebound in oil prices since the second half of 2017 has slightly reduced the pressure on government finances, fiscal and current account deficits remain large.

However, Chad's economy is expected to recover from recession in 2019 with GDP rebounding to 2.8 percent largely driven by rising oil production; increasing demand from Nigeria – a major trading partner; and the partial privatisation of a key cotton company (i.e. Coton Tchad Société Nouvelle) which will boost economic activity in the non-oil sector. Economic growth will also be strongly supported by the government's commitment to diversify the sources of growth and export-promoting value addition under its National Development Plan 2017-21 which focuses on a number of sectors including livestock, mining and agriculture.

However, downside risks including volatility of commodity prices in world markets, especially oil prices, in a country where oil production contributes a significant proportion to growth and trade could undermine growth prospects and macroeconomic stability.

Figure 1: GDP Growth and Inflation (%)

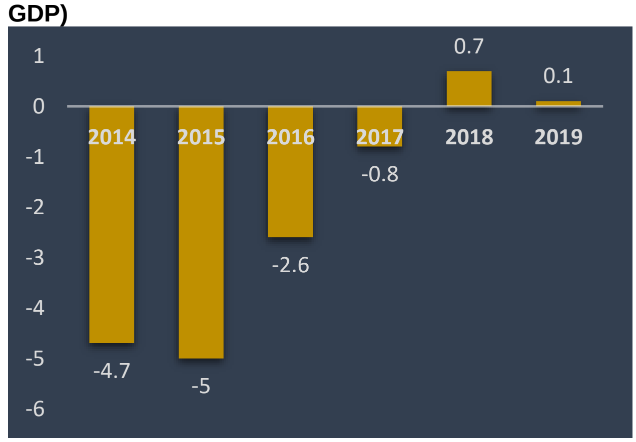


Source: IMF, 2018

Inflation. Falling non-oil prices and economic recession, along with consecutive contractions in broad money and a deceleration in private sector credit resulted in deflationary pressures with consumer prices averaging -1.1 percent and -0.5 percent, respectively during 2016 and 2017 compared with 6.8 percent in 2015. Consumer prices are expected to rise (albeit moderately) averaging around 1.2 percent in 2018-19 as economic activities pick up with rising domestic and external demand along with rising global oil prices.

Fiscal balance: Fiscal pressures abated significantly with the fiscal deficit narrowing to 0.8 percent of GDP in 2017 compared to 2.6 percent in 2016. This improvement is largely attributed to the slight recovery in oil prices. While the increase in oil prices in 2017 remained well below historical levels, the improving fiscal balance was further supported by the 2016 emergency measure introduced by the government to cut spending consistent with the large decline in oil revenue during 2015-16.

Figure 2: Overall Fiscal Deficit, excluding grants (% of GDP)



Source: EIU (various issues), 2018

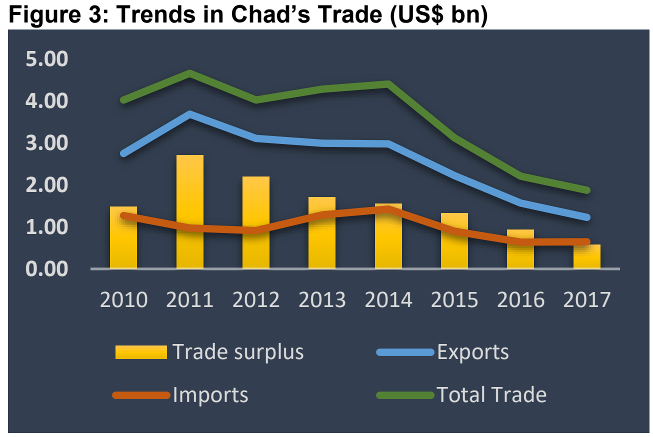
The government's commitment to diversify the revenue base and boost receipts, including through measures to increase non-oil revenue and partly through the introduction of a tax on non-oil products, has recorded some success. Further, the introduction of an excise tax on communications as well as the use of technology to monitor tax collection and a simplification of personal income tax significantly helped to narrow the fiscal deficit in 2017.

Government's continued efforts to maintain a tight fiscal stance, its commitment to diversify the revenue base, and its close collaboration with the IMF for better expenditure management alongside high oil prices are expected to raise government revenue and lead to a switch from a deficit of 0.8 percent of GDP in 2017 to a surplus of 0.7 percent of GDP in 2018, though oil price volatility remains a major risk to fiscal sustainability.

Overview of trade, reserves and financial sector

Total Trade. Chad's total trade slid for the second consecutive year by 14.86 percent to US$1.89 billion in 2017 from US$2.22 billion in 2016 compared to US$3.12 billion in 2015. The sustained decline arose as both exports and imports declined by 19.01 percent and 4.4 percent respectively in 2017. However, a total export value of US$1.28 billion against an import value of US$0.61 billion resulted in a trade surplus of US$0.67 billion in 2017– making Chad one of the few countries enjoying a surplus in the region. Chad sources over 50 percent of its imports from France, China, Cameroon, India and the United States. The top export destinations of Chad are the United States, India, Japan and China which collectively account for over 85 percent of total exports. The top exports of Chad are Crude Petroleum, Raw Cotton, Insect Resins, Refined Petroleum and other Oily Seeds. Its top imports are Packaged Medications, Refined Petroleum, Tractors, Soap and Telephones.

Figure 3: Trends in Chad's Trade (US$ bn)



Source: IMF Direction of Trade Statistics, 2018

Intra-African Trade: Chad sources around 20 percent of its imports from Cameroon and Sénégal—with Cameroon alone accounting for around 15 percent of total imports. However, African destinations only account for under 2 percent of total exports owing in part to excessive dependence on natural resources and primary commodities and the fact that the country does not have access to the sea. Chad relies heavily on Cameroon's port of Douala and both countries have now agreed to carry out a feasibility study into the extension of a railway line linking Ngaoundéré in northeast Cameroon with Ndjamena, the Chadian capital. Chad's leading African trade partners are Cameroon, Côte d'Ivoire, Nigeria, and Sénégal which account for 91.5 percent of Chad's total intra-African trade.

Current account balance: Balance of Payment figures suggest that Chad has started to emerge from an extremely weak external position although its current and capital accounts continue to show signs of significant stress. The current account improved to -6.6 percent of GDP in 2017 from -11.4 percent in 2016 and -12.3 percent in 2015. This improvement has been driven by rebound in oil prices. Exports are expected to rise supported by improving commodity terms of trade and an increase in oil production and could lead to a gradual, but steady reduction of current account deficit to 3.2 percent and 3.5 percent of GDP in 2018 and 2019 respectively, although the deficit in the services account may remain relatively high owing to high demand for technical expertise to boost production in the oil sector.

Reserves. Chad's foreign exchange reserves have fallen dramatically over the last few years and stood at just about US$100 million at the end of 2016 and 2017 (equivalent to about 0.19 month of imports) suggesting that the country has not yet recovered from the global shock emanating from sharp deterioration in commodity terms of trade. This compares with reserves of around US$1.1 billion or 9.3 months of import cover in 2014 and US$369 million or 4.9 month of imports in 2015. Foreign exchange reserves could improve over the medium term if oil prices stabilise at more elevated levels but gross reserves could remain below 3 months of imports cover in the short to medium term.

Exchange rate: Chad is a member of the CFA Franc arrangement which is pegged to the Euro at CFA 655.96: €1 and therefore fluctuates in line with Euro-Dollar movements. However, the deterioration in the reserve position which has fallen below the minimum threshold of three months of import cover has—reignited the debate on the possible devaluation of the currency to achieve an orderly adjustment in the face of sustained deterioration of terms of trade. However, there appears to be little political will for such a move and risks for a change to the peg appear muted for now.

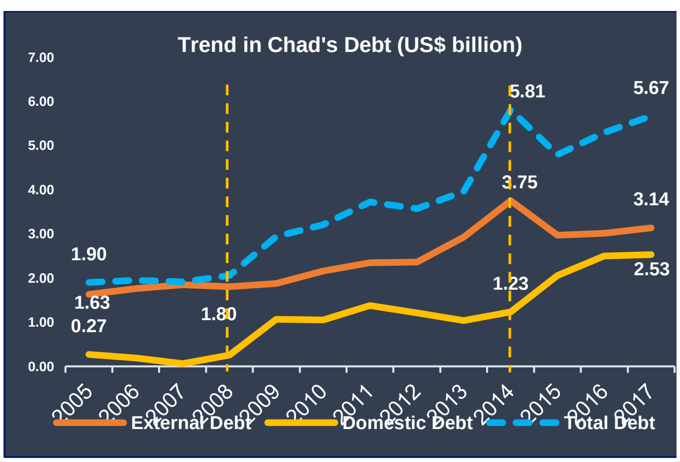
Financial Sector: Chad's financial system is still fledgling with limited capital and money market instruments available to the private sector. In all, there are eight commercial banks, following the acquisition of the country's four largest banks mainly by regional financial institutions including Ecobank, Orabank and Commercial Bank of Cameroon. The financial sector also hosts Libyan and Nigerian Banks —BCC, BSCIC and UBA.

However, despite ongoing efforts by the government to promote financial inclusion, especially with the expansion of commercial banks in the country, the use of financial services by Chadian households is still very limited. Official statistics indicate that the share of population with a bank account is around 13 percent compared with the regional average of 35 percent. Additionally, the agricultural sector which represents about 25 percent of GDP, receives around 2 percent of total credit provided by commercial banks. Given that the public sector is the major client to commercial banks, the liquidity crunch faced by the government and the subsequent accumulation of arrears has similarly strained banking sector liquidity. The resulting effects have been a steep rise in NPLs which reached 22.9 percent in 2017 from 20.8 percent in 2016; and deterioration in the capital adequacy ratio in the financial sector.

Debt Sustainability

Chad's total debt has grown from US$1.9 billion in 2005 to US$5.67 billion in 2017 with the total debt stock peaking during 2014 at US$5.81 billion (Figure 4). While, Chad's total debt has usually been driven by external borrowing, the shift in the composition has led to increasing reliance on domestic financing. In this regard, domestic debt increased from US$0.27 billion in 2005 to US$2.53 billion in 2017, an increase of over 900 percent and now accounts for about 44 percent of the debt portfolio (from about 14 percent in 2005). As a ratio of GDP, total debt increased from 28.5 percent in 2005 to 52.5, well above the 35 percent debt sustainability threshold.

Figure 4: Trend in Chad's Total Debt



Source: World Bank, *WDI*, 2018

Chad scored 2.7 in the 2017 World Bank Country and Policy Institutional Assessment (CPIA) index[1]—down from a 3.0 in 2016 and below the IDA[2] borrowers average of 3.2, indicating increasing challenges with macroeconomic management and macroeconomic stability. With an overall CPIA score of 2.7, the applicable thresholds for debt sustainability indicators are as follows: Present value (PV) of external debt/GDP at 30 percent; PV of total debt/GDP at 35 percent; PV of external debt/exports at 140 percent; PV of external debt service/revenue at 14 percent. Accordingly, Chad's debt sustainability is assessed against these benchmarks.

(i) PV of external debt/GDP

At end-2017, Chad's total outstanding external debt stood at US$3.1 billion compared to US$1.8 billion at end-2008. The increasing debt has been underpinned primarily by commercial borrowings on non-concessionary terms (oil sale advances) from Glencore in 2013 to cover revenue shortfalls and in 2014 to purchase a share in the Doba oil Consortium and widening current account deficit in a context of falling oil prices. The PV of public and publicly guaranteed external debt as a share of GDP declines gradually from 24.4 percent at end-2017 to under 20 percent by 2021 and remains below the recommended threshold of 30 percent in the medium-term.

[1](1=lowest, 6=highest): Debt thresholds corresponding to strong performers are highest, indicating that countries with good macroeconomic performance and policies, can generally handle greater debt accumulation.

[2] There are currently 75 borrowing IDA countries spread across Africa, Asia, Latin America and the Middle East

(ii) PV of total debt/GDP

The PV of Chad's total debt to GDP has been rising, from 39.3 percent in 2014 to 52.5 percent in 2017. It is well above the 2017 threshold of 35 percent but is forecast to trend downwards from 2018. Notwithstanding the projected decline, Chad's total debt to GDP ratio will remain above the recommended threshold by 2021 pointing to a challenging macroeconomic environment and vulnerability to adverse shocks. The high level of this indicator suggests heightened public debt vulnerabilities for weak policy performers.

(iii) PV of external debt/exports

The PV of external debt to exports is forecast at 76.4 percent in 2018, from 88.7 percent in 2017, below the debt sustainability framework threshold of 140 percent. The ratio is expected to remain on a downward trajectory over the medium-term. It is however important to note that a negative shock to exports for a country which relies heavily on a single commodity for export earnings, could push the PV of external debt-to-exports well above the threshold.

(iv) External debt service/Government revenue

The external debt service/revenue ratio of 23.7 percent registered in 2017 is above the 14 percent threshold. Even though it is forecast to decrease to 15.6 and 16 percent in 2020 and 2021 respectively, and expected to be below the threshold during 2018-19, averaging around 12.6 percent. The impact of external debt servicing costs on total revenue could further improve through fiscal reforms to raise revenue.

An assessment against the four debt sustainability threshold indicators shows that, Chad's total public debt vulnerabilities remain elevated. Current performance of the debt sustainability indicators is not expected to improve in the medium-term pointing to risk of debt distress. On balance and in light of the debt indicators discussed above, the risk of debt distress in Chad is rated high and calls for the implementation of prudent fiscal policy to stem the growth of public debt.

Table 1: Debt Sustainability Indicators

DSF and (threshold)	**2017**	**2018 F**	**2019F**	**2020F**	**2021F**
PV external debt/GDP (30%)	24.4	22.8	22.2	19.9	17.9
PV total debt/GDP (35%)	52.5	48.1	45.4	41.7	38.6
PV of external debt/exports (140%)	88.7	76.4	78.4	67.4	62.0
External debt service/revenue (14%)	23.7	13.2	11.9	15.6	16.0

Opportunities for Bank Support

As a result of poor infrastructure and distance to the sea especially with the absence of reliable cross-border transport infrastructure, Chad has one of the highest trade costs in the world. Anecdotal evidence suggests that the cost of transporting a cargo from a seaport in Cameroon to the capital N'Djamena could be as high as the cost of moving a cargo from East Asia to Cameroon. Although there have been some investments in infrastructure, the quality of the country's infrastructure trails its peers. The Bank could support ongoing collaboration between the Government of Cameroon and Chad in extending the Cameroon Chad railway which can potentially boost cross-border and extra-African trade. There is also great merit in supporting the government's efforts at diversifying sources of growth, perhaps through Special Economic Zones, under the country's National Development Plan (NDP). Sectors such as agriculture and livestock, mining, and artisanal crafting are also given priority within the NDP and could benefit from additional support from the Bank. Further, the Bank could consider funding communication technologies to the extent that they have the potential of lowering trade costs and fostering greater financial inclusion, a core component for expanding trade. Chad has been an Afreximbank member country since 2015.

Table 2: Chad: Selected Macroeconomic and financial indicators

	2014	2015	2016	2017	2018F	2019F	2020F
Real GDP (%)	6.9	1.8	-3.1	-0.7	2.8	2.8	3.9
Inflation (%, Annual average)	1.7	6.8	-1.1	-0.5	1.2	1.2	3.0
Exports of Goods and Services percent y/y	1.4	-34.0	-15.4	29.4	5.7	4.6	5.7
Current acc. (% of GDP)	-8.9	-12.3	-11.4	-6.6	-3.2	-3.5	-3.3
Gross reserves, Months of imports	9.3	4.9	0.19	0.19	0.4	0.8	1.3
External Gov't debt, (% of GDP)	29.1	25.0	27.1	28.6	27.8	26.3	24.2
Total Gov't debt, (% of GDP)	39.4	43.3	51.2	50.5	47.7	44.8	41.1

Source: IMF, EIU (various sources), 2018