

Cameroon: Review of the Staff-Monitored Program and Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility, and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cameroon

In the context of the review of the Staff-Monitored Program and request for a three-year arrangement under the Poverty Reduction and Growth Facility, and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries with Cameroon, the following documents have been released and are included in this package:

- the staff report for the Review of the Staff-Monitored Program and Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative, prepared by a staff team of the IMF, following discussions that ended on September 8, 2005, with the officials of Cameroon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 14, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press Release summarizing the views of the Executive Board as expressed during its October 24, 2005 discussion of the staff report that completed the review.
- a statement by the Executive Director for Cameroon.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Cameroon*
Memorandum of Economic and Financial Policies by the authorities of Cameroon*
Technical Memorandum of Understanding*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

CAMEROON

Review of the Staff-Monitored Program and Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility, and for Additional Interim Assistance under the Enhanced Heavily Indebted Poor Countries Initiative

Prepared by the African Department
(In collaboration with other departments)

Approved by David Nellor and Adnan Mazarei

October 14, 2005

- Discussions for the review of the Staff-Monitored Program (SMP) and a program to be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) took place in Yaoundé during July 22-August 4, 2005 and August 26-September 8, 2005.
- The staff team comprised Ms. Ross (head), Messrs. Cossé and Weisfeld (all AFR), Mr. Mansour (FAD), and Mr. Kireyev (PDR). Ms. Kabedi-Mbuyi (Resident Representative) assisted the mission. Mr. Menye, advisor to the Executive Director for Cameroon, and World Bank staff also participated in policy discussions.
- Discussions were held with Prime Minister Inoni; Secretary General at the Presidency, Atangana Mebara; the Ministers of Economy and Finance Abah Abah, of Agriculture Clobert Tchata, of Industry Salé, of Public Works Okouda, of Territorial Administration Marafa Yaya, and of Public Service and Administrative Reform Amama; and other senior government officials, representatives of the private sector, and the donor community.
- The authorities have established a six-month track record of policy implementation under the 2005 SMP. To further the reforms initiated under the SMP, they are requesting IMF support under a three-year PRGF arrangement, in an amount equivalent to SDR 18.57 million (10 percent of quota), and additional interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (SDR 5.70 million).
- The second annual report on the implementation of the poverty reduction strategy paper (PRSP) will shortly be circulated to the Board for information, and the staff is preparing a joint staff advisory note (JSAN) together with the World Bank.
- The authorities have agreed to the publication of the letter of intent (LOI), the memorandum of economic and financial policies (MEFP), and the technical memorandum of understanding (TMU).

Contents	Page
Executive Summary	4
I. Introduction	5
II. Economic Developments and Performance Under the Staff-Monitored Program Through June 2005	5
III. Policy Discussions and the Proposed PRGF-Supported Program	11
A. Program Objectives.....	11
B. The 2005-06 Program.....	16
IV. Program Risks.....	21
V. Program Monitoring and Access.....	21
VI. Staff Appraisal.....	22
Boxes	
1. Poverty and Growth	7
2. Prospects for Cameroon’s Oil Sector.....	12
3. Medium-Term Fiscal Strategy	13
4. Reforms in Public Financial Management.....	15
5. Reducing Losses of Public Enterprises.....	18
6. Structural Conditionality Under the Proposed PRGF Arrangement.....	22
Figures	
1. Output, Prices, Savings, and Investment, 1990/91–2008	6
2. External Sector Development and Prospects, 1990/91–2008	8
3. Fiscal Developments and Prospects, 2002-08	9
Tables	
1. Selected Economic and Financial Indicators, 2002-08.....	25
2. Central Government Operations, 2002-08	26
3. Selected Fiscal Indicators, 2002-08	28
4. Oil Sector Contribution to the Government Budget, 2002-08.....	29
5. Monetary Survey, December 2003-December 2008	30
6. Balance of Payments, 2002-08	31
7. Millennium Development Goals.....	32
8. Fund Disbursements and Timing of Reviews Under the Prospective Three-Year PRGF Arrangement, 2005-08	33
9. Indicators of IMF Credit, 2003-08.....	34

Appendices	
I.	Letter of Intent .....35
	Attachment I: Memorandum of Economic and Financial Policies of the Government of Cameroon (July 2005-June 2008).....37
	Annex I: The Enhanced HIPC Initiative Completion Point Triggers— Progress through August 2005.....58
	Attachment II: Technical Memorandum of Understanding.....64
II.	Debt Sustainability Analysis.....76
III.	Relations with the Fund .....89
IV.	Relations with the World Bank.....94
V.	Statistical Issues .....98
	Press Release.....102
	Statement by the Executive Director .....107

EXECUTIVE SUMMARY

- **Cameroon's economic growth slowed in 2004-05 while inflation remained low.** Activity in the non-oil economy reflected electricity shortages and related weak manufacturing activity, low business confidence, and fiscal consolidation. Inflation remained subdued mostly because of an increased food supply.
- **Fiscal consolidation efforts were sustained and public finances improved markedly in the first half of 2005, exceeding the SMP targets.** This outcome reflected high oil prices and revenue, enhanced non-oil revenue collection, and better expenditure control. At the same time, the composition of expenditure continued to be skewed toward current spending, and investment was low. The government made significant payments on domestic arrears, partly with the help of windfall oil revenue.
- **The government's progress in implementing structural reforms was mixed.** It improved its financial management substantially and enhanced transparency in the oil sector. However, the restructuring and privatization of key loss-making public enterprises was delayed.
- **Building on the success of the SMP, the authorities have adopted a new medium-term economic program and requested IMF financial support under a PRGF arrangement as well as additional interim assistance under the HIPC Initiative.** Consistent with the PRSP objectives, the program focuses on (i) fiscal consolidation establishing and maintaining debt sustainability and macroeconomic stability; (ii) a higher quality of public spending, including higher investment in physical and human capital; and (iii) structural reforms to strengthen growth prospects. The fiscal program includes measures to enhance non-oil revenue and improve the management, quality, and efficiency of spending. This, together with improvements in infrastructure and governance, including the functioning of the judicial system and public enterprise restructuring and privatization, is expected to contribute to productivity gains in the private sector and improve the business environment.
- **There are important risks to the program.** Its success depends on whether the authorities have the will to strengthen ownership and enhance the momentum of reforms well beyond the HIPC completion point. Also, uncertainties about the volume of oil production and international oil prices remain. Although core fiscal operations were designed to be shielded from these uncertainties, a large drop in oil exports would pose a risk for attaining the program's overall macroeconomic objectives.

I. INTRODUCTION

1. **Cameroon's macroeconomic performance through 2004 was solid with real growth registering about 4 percent and inflation remaining low. However, public finances deteriorated, poverty remained widespread and sustained economic growth was hindered** by, among other obstacles, inadequate infrastructure, poor governance, low investment, and limited financial intermediation. In recent years, the business climate has also been adversely affected by the Treasury's accumulation of domestic payment arrears and the slow progress in restructuring loss-making public enterprises.
2. **The authorities adopted an ambitious economic program for 2005 to address the obstacles to growth and to improve fiscal management**, in line with the main recommendations of the ex post assessment (Country report No. 05/189). They asked the staff to monitor their program (Country report No. 05/164).
3. **Building on the broadly satisfactory implementation of the SMP during the first half of 2005, the authorities have adopted a medium-term economic program for which they are requesting Fund support through an arrangement under the PRGF.** This would be Cameroon's third successive arrangement, entailing low access to PRGF resources. In the attached Letter of Intent (Appendix I), the authorities are also seeking additional interim HIPC assistance. An updated debt sustainability analysis (DSA) using the low-income template shows that Cameroon's debt position will be sustainable after it receives HIPC completion point relief (Appendix II).
4. **Cameroon's political situation has been stable in recent years.** President Biya was reelected in 2004 for a fifth term, and parliamentary elections are scheduled for early 2007.

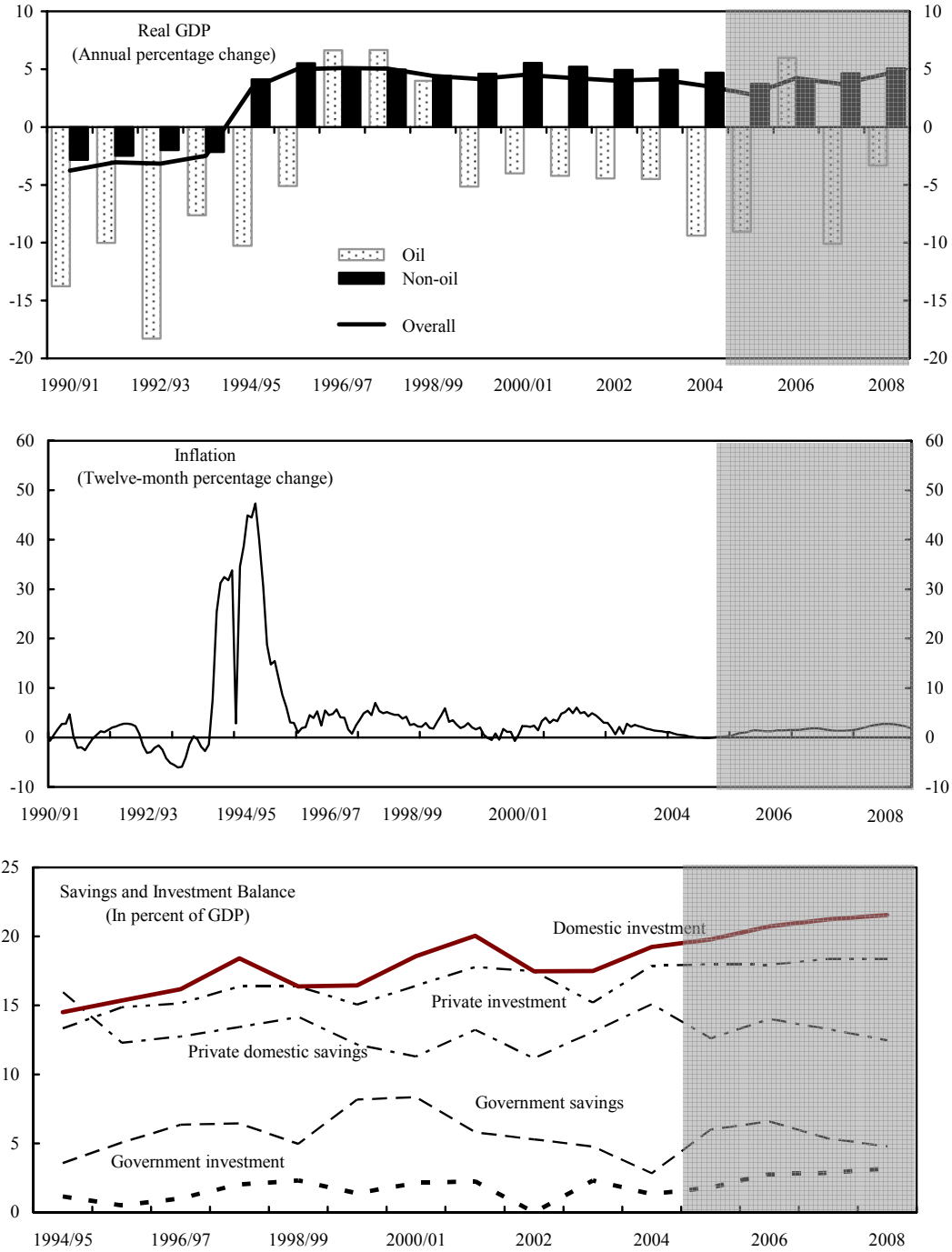
II. ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM THROUGH JUNE 2005

Economic activity in Cameroon has weakened, but program implementation was broadly satisfactory. All quantitative targets were met, albeit one with a delay; some were exceeded by wide margins. Progress on structural reforms was mixed reflecting mainly delays in enterprise privatization.

5. **Economic activity has weakened.** Real GDP growth for 2004 was revised down to 3.5 percent (Table 1 and Figure 1) mainly because of lower-than-expected electricity generation and the ensuing effects on manufacturing.¹ Growth projections for 2005 are now below 3 percent with sluggish manufacturing output and weak consumption caused, in part,

¹ With STA technical assistance, the authorities revised the GDP series to improve the coverage of the informal sector. As a result, nominal GDP has been revised upward by some 10 percent each year.

Figure 1. Cameroon: Output, Prices, Savings and Investments, 1990/91-2008



Sources: Cameroonian authorities; and IMF staff estimates and projections.

by fiscal consolidation. As a result, per capita income growth has slowed to less than 1 percent in 2005 (Box 1).

Box 1. Poverty and Growth

Income poverty in Cameroon appears to have fallen substantially between 1996 and 2001 (the latest data available). According to household surveys conducted in 1996 and 2001, 53 percent of the population was poor in 1996, whereas 40 percent was poor in 2001.¹ The depth of poverty fell from 19 percent to 14 percent.²

Nonincome poverty indicators have evolved less favorably. Some indicators, such as school enrollment, school attendance, immunization, and child mortality rates, have improved. However, a number of human development indicators have not improved or have even deteriorated. For example, life expectancy fell from 51 to 48 years between 1999 and 2002.

A modest acceleration of GDP growth (by 1-2 percentage points a year) **could lower income poverty to 25 percent by 2015, one of the Millennium Development Goals.** Simple linear simulations suggest that if per capita GDP continued to grow during 2006-15 at its 2000-05 pace of 3.9 percent, this goal would be missed by a large margin. These projections are, however, subject to a high degree of uncertainty because of the scarcity of observations (the two household surveys constitute a single observation of a decline in poverty in Cameroon), possible measurement error, and possible shifts in the relationship between a rise in average per capita income and a decline in the overall poverty rate.

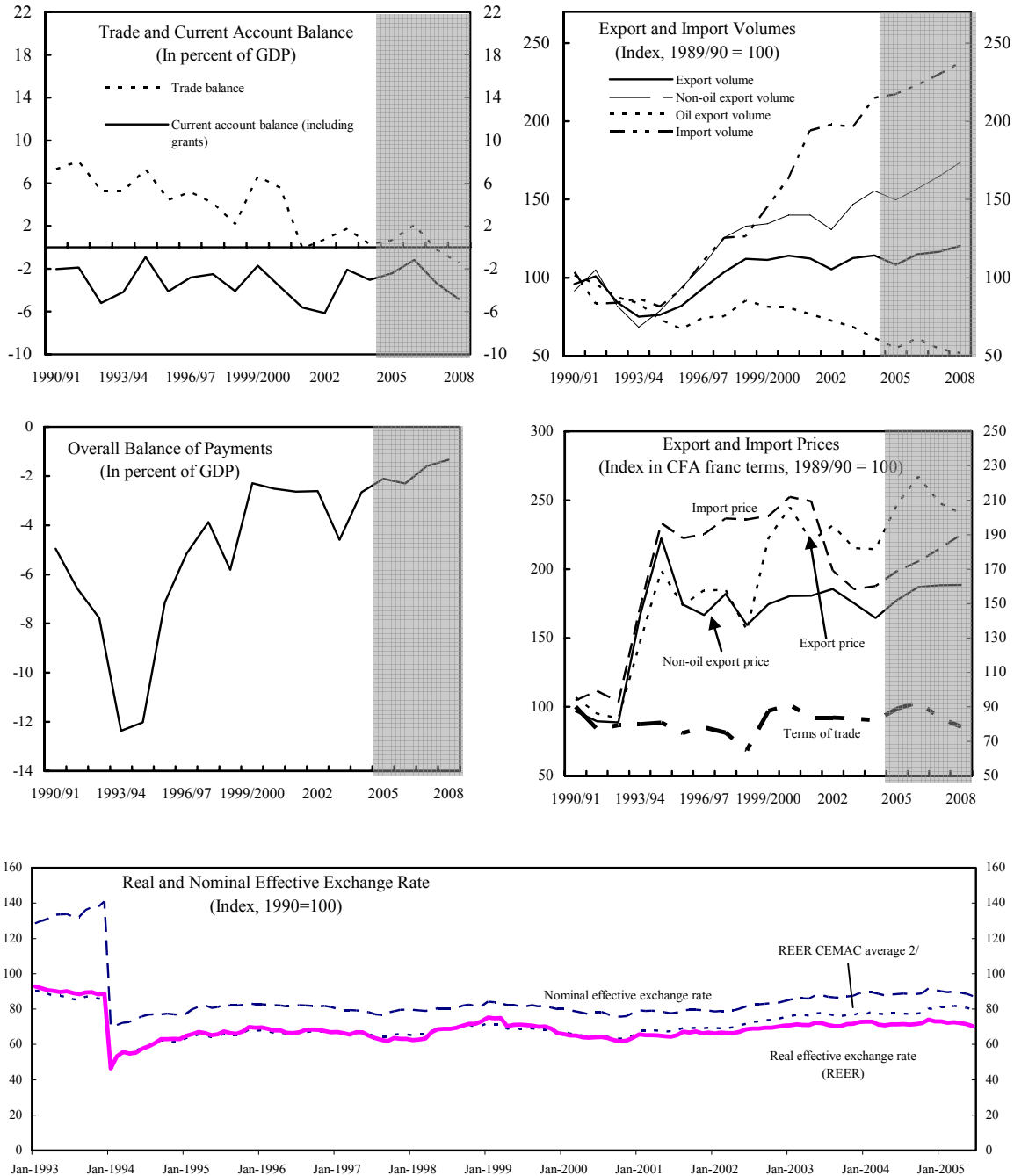
The authorities could further poverty reduction by updating Cameroon's 2003 poverty reduction strategy in light of recent experience, prioritizing actions more clearly toward growth enhancement, and implementing the strategy with determination. The strategy comprised seven pillars: (i) promoting a stable macroeconomic framework; (ii) strengthening growth through economic diversification; (iii) empowering the private sector as the main engine of growth and partner in social service delivery; (iv) developing basic infrastructure and natural resources in an environmentally sustainable manner; (v) accelerating regional integration in the CEMAC; (vi) strengthening human resources, bolstering the social sector, and promoting the integration of vulnerable groups into the economy; and (vii) strengthening institutions, administrative management, and governance.

¹ As measured against the national poverty line of a yearly income of CFAF 185,000, which corresponds to a daily income of about one U.S. dollar at the present market exchange rate.

² The depth of poverty is an indicator of how poor the average poor person is. It is defined as the ratio of (a) the difference between the poverty line and the income of the average poor person to (b) the poverty line.

6. **Inflation has remained low**, reflecting a good harvest and sluggish domestic demand, and is projected to be about 1 percent in 2005; the surge in international oil prices has not substantively affected inflation in Cameroon because fuel prices were adjusted only partially. Broad money grew by 1½ percent in the 12 months to June 2005, as the improvement in fiscal performance allowed the government to reduce its liabilities towards the banking system and private sector credit grew in line with nominal GDP. Private sector credit growth is projected to accelerate slightly during the remainder of the year, bringing broad money growth to 4½ percent.

Figure 2. Cameroon: External Sector Developments and Prospects, 1990/91-2008 1/

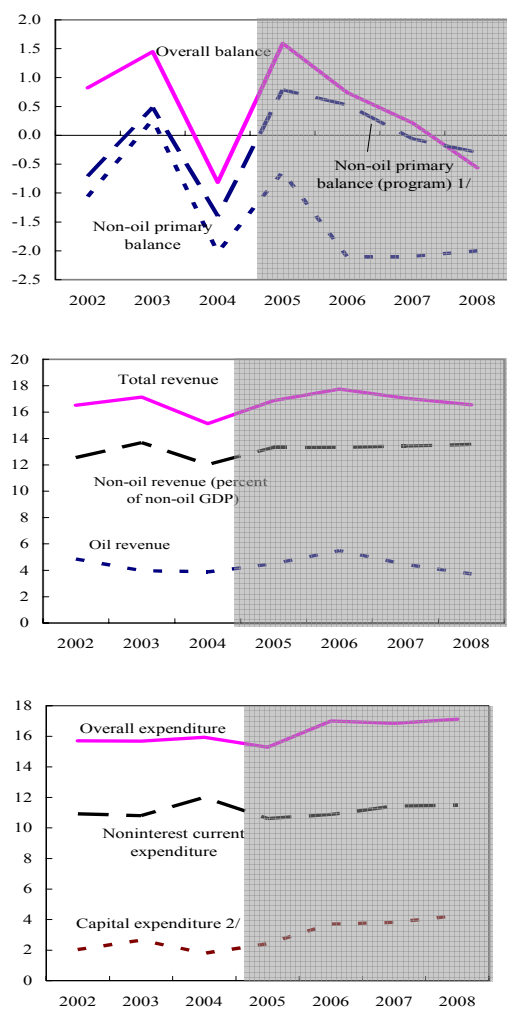


Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ Fiscal year begins in July. Starting in January 2003, the fiscal year corresponds to the calendar year. Shaded area indicates projections.

2/ CEMAC: Cameroon, Chad, Central African Republic, Congo, Equatorial Guinea and Gabon.

Figure 3. Cameroon: Fiscal Developments and Prospects, 2002-08
(In percent of GDP)



Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ Excluding grants, foreign-financed investments, debt relief spending, and restructuring.

2/ Excluding restructuring expenditures.

7. **High international oil prices are helping to strengthen Cameroon's overall external position** (MEFP ¶2-3). Non-oil exports are projected to fall by 4 percent in 2005 after two years of healthy growth mainly because of weaker exports of some primary commodities that typically show a strong variability in year-on-year growth rates. Manufactured exports remain weak. The economy's price competitiveness appears to have

changed little in recent years. Despite the strong nominal appreciation of the CFA franc against the US\$ seen in 2003-04, the CPI-based real effective exchange rate² appreciated by less than 1 between 2003 and the first half of 2005 (Figure 2) because about two thirds of Cameroon's trade is with the euro area and inflation remained low. The terms of trade have improved strongly in 2005, given higher oil and non-oil export prices.

8. **Fiscal consolidation efforts were sustained** (Figure 3, Tables 2-4). Revenue collection benefited from increased corporate tax and dividend payments, due in part to stronger administration efforts, as well as from higher-than-anticipated international oil prices. Expenditure was contained, partly because of savings against a generous wage bill allocation and a return to a more normal level of spending on goods and services after an increase of 20 percent in 2004.³ However, the composition of spending continued to be skewed toward current goods and services, and investment lagged behind budgeted resources (MEFP ¶4-5).

9. **All quantitative benchmarks under the SMP through June 2005 were observed**, and some were exceeded by large margins (MEFP Table 1). The target for the use of the oil windfall to reduce domestic debt was met but with a month's delay because of lags in the availability of the data required to assess the windfall.

² Other indicators of competitiveness, such as data on wages and unit labor cost, are not available.

³ Excluding debt-relief funded spending.

10. **The government's progress on structural reforms was mixed because the implementation of some key measures was delayed.** Four out of 10 SMP benchmarks were fully met at end-June, 5 were partly observed, and 1 was missed (MEFP ¶6 and Table 2).

- The authorities took measures to enhance transparency in budget execution and expenditure management. They improved the preparation, timeliness, and quality of monthly data on budget execution. In early September, preliminary data (for end-July) began to be presented on a consistent cash and commitment basis. Budget implementation data were published for the first time in August; they covered January-May 2005 (www.spm.gov.cm). The authorities took steps to limit spending without prior payment orders to cash advances (*interventions directs*) by the state oil company (SNH) and payment of legal fees, but did not fully meet the SMP target. Similarly, they did not fully meet the SMP commitment to limit, from July onward, *interventions directs* by the SNH to sovereign spending. Also, although the authorities closed a large number of government accounts in commercial banks and transferred outstanding balances to the treasury account at the regional central bank (BEAC), a significant number of government accounts remained in commercial banks as of end-July 2005.
- The completion of the domestic debt audit and the preparation of a settlement plan were delayed. The audit estimated the stock of domestic debt/arrears at end-2004 at 17 percent of GDP (see App. II). The authorities prepared a plan to replenish arrears to the HIPC account and made timely payments. The authorities made substantial payments on other domestic debt in the first half of 2005.
- Data on oil production and the main elements of the audit reports for SNH through 2003 were posted on the web (www.snh.cm and www.spm.gov.cm).
- The privatization of a number of public enterprises was delayed by three to six months. That of the state airline (CAMAIR) was held up while the funding for specialist consultants, including the International Finance Corporation (IFC), was being identified. Nonetheless, the authorities cut some costs including by reducing staff and renegotiating fuel contracts and aircraft leases. A detailed action plan for CAMAIR's liquidation/privatization is now expected by November 2005.
- The benchmark for the update of the National Governance Program (NGP) was missed. The NGP and is now expected to be completed in the fourth quarter with assistance from the United Nations Development Program (UNDP).

11. **The authorities met most other program targets or are working to meet them.** Preparations for the privatization of the state telecommunications company (CAMTEL) are ongoing. The authorities reduced the staff of the postal services and savings bank (CAMPOST) in line with their retrenchment plan, and prepared an audit of its liabilities. Fuel prices were only partially adjusted in 2005, resulting in continued losses at the state oil

refinery (SONARA) that are to be covered by a subsidy from the budget (0.2 percent of GDP) in 2005.⁴

III. POLICY DISCUSSIONS AND THE PROPOSED PRGF-SUPPORTED PROGRAM

On the basis of SMP implementation to date and the government's intention to continue strengthening macroeconomic management, the authorities have requested support for their three-year program (July 2005-June 2008) through an arrangement under the PRGF.

A. Program Objectives

12. **The authorities' medium-term program aims to enhance growth and reduce poverty consistent with Cameroon's PRSP so as to make progress toward the Millennium Development Goals (MDGs).** It seeks to (i) remove impediments to private sector activity, including by accelerating the restructuring and privatization of loss-making public enterprises; (ii) strengthen the fiscal position and increase investment in physical and human capital; and (iii) safeguard longer-term fiscal sustainability (MEFP ¶7-11). The authorities prepared an updated macroeconomic framework for the PRSP that is consistent with the program.

13. **The program's key macroeconomic objectives are** (i) real GDP growth in the non-oil economy averaging at least 4.4 percent a year during 2005-08; (ii) inflation below 3 percent, consistent with the regional convergence criterion; and (iii) an external current account deficit (excluding official transfers) below 5 percent of GDP by 2008.

14. **Although oil production is expected to decline over the medium term (Box 2), the authorities expect growth in the non-oil economy to strengthen as the business climate improves.** One contributing factor is increased public investment, which would target infrastructure and other areas that would generate productivity gains for the private sector, as well as the social sectors, notably through an increase in the use of resources freed up by debt relief. Also, public enterprise reform and expected improvements in the energy supply and measures to strengthen governance should increase private sector confidence in government policies.

15. **The medium-term fiscal strategy seeks to ensure the availability of resources to cover core expenditure independent of the level of oil revenue (or debt relief).** The government agreed with the staff that it should increase non-oil revenue by making tax administration more efficient, and by broadening the tax base. Policy efforts should focus on containing exemptions under the VAT and import tariffs, and limiting the use of tax incentives to encourage investment. The indirect tax system should be made consistent with CEMAC provisions and the tariff aligned with the CEMAC common external tariff. Domestic tax administration should consolidate recent progress at the large taxpayers unit

⁴ The subsidy is also capped at 0.2 percent of GDP for 2006 (see Box 5 for detail).

and aim at increasing taxation of the informal sector, particularly medium-size enterprises and the self-employed. These steps would help to prepare for the projected decline in oil revenue and a likely decline in trade taxes after 2008.

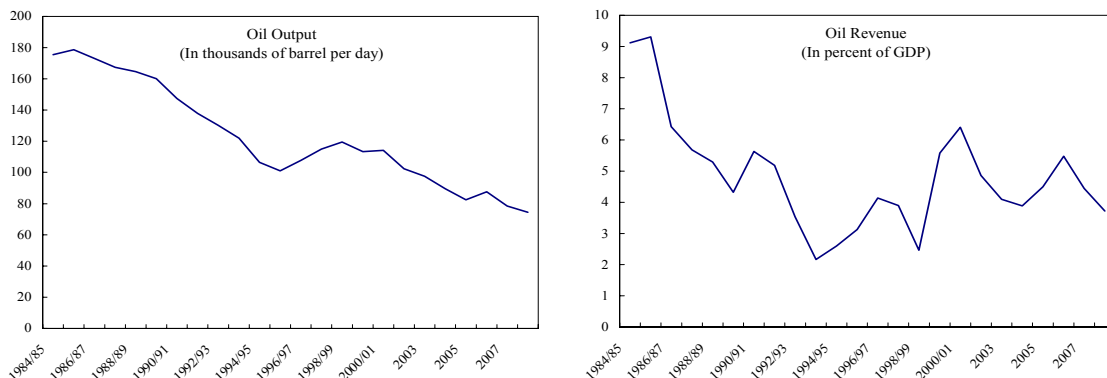
Box 2. Prospects for Cameroon's Oil Sector

Cameroon is a small oil producer. Its output is expected to decline over the medium term, although the pace of the decline is uncertain (see Box 1 of Country report No. 05/164). Output is now expected to decline by 9 percent in 2005, but in light of recent exploration activity, an increase in production of 6 percent is projected for 2006. Thereafter, the declining trend is projected to resume.

Cameroonian crudes are heavy, and the price discount relative to the WEO benchmark has widened. Shortages in existing global refining capacity have contributed to a rise in light-heavy spreads. The differential of the price of Cameroonian crude against the WEO benchmark rose to US\$3.6 per barrel in the first half of 2005, compared with about US\$2 per barrel before 2004.

Given the large uncertainties surrounding oil prices, the proposed PRGF arrangement is based on a conservative oil price assumption (average export prices of US\$45.3/48.0/43.3/42.0 per barrel in 2005-08, respectively). It has a built-in contingency mechanism, whereby oil revenue exceeding program targets will be used for predetermined purposes, such as to reduce domestic debt in 2005-06.

In addition to a decline in oil output, fiscal oil revenue reflects developments in oil prices and exchange rates. Oil revenue is expected to peak at about 30 percent of government revenue in 2006 and decline in 2007 and 2008 to about one-fourth.



Sources: Cameroonian authorities; and IMF staff estimates.

16. **The fiscal strategy also aims to strengthen priority spending while ensuring long-term debt and fiscal sustainability** (Box 3). Core noninterest spending is projected to rise strongly, especially the investment component. As a result, the non-oil primary balance (program definition)⁵ would gradually weaken by about 1 percentage point of GDP during 2005-08 and reach a deficit of just over 1 percent of GDP by the end of the decade. At the

⁵ This excludes interest, grants, foreign-financed investment, debt relief, and restructuring expenditure.

same time, core expenditures would be complemented by foreign-financed investment; the use of resources freed up by debt relief, especially after Cameroon reaches its HIPC completion point; and restructuring outlays. Combined with the projected substantial—albeit declining—oil revenue, the overall fiscal balance is projected to fall by 2½ percentage points during 2005-08.

Box 3. Medium-Term Fiscal Strategy

Cameroon's medium-term fiscal strategy builds on the consolidation it achieved under the SMP and aims at enhancing growth and reducing poverty, as well as establishing and maintaining debt sustainability. **Key objectives include:**

- **Ensuring fiscal and external sustainability.** Cameroon's external debt ratios should be gradually reduced through HIPC relief and prudent borrowing policies.
- **Basing fiscal planning on conservative oil revenue assumptions so as to protect core government operations from the fluctuations in oil revenue and safeguard fiscal sustainability.** The strategy envisages using any oil revenue windfall above the program for nonrecurrent spending, such as to reduce domestic debt, keeping in mind absorption constraints. A scenario testing the sensitivity to lower oil prices, namely using €25/barrel, i.e., €5/barrel above the 20 year historical average oil price for Cameroonian crude, shows that the overall balance would turn into a deficit already in 2006 (against 2008 at the program oil prices) and instead of declining domestic debt would begin to increase moderately from 2007 onwards.
- **Gradually increasing non-oil revenue to compensate for the expected decline in oil production and the loss of tariff revenue from a potential trade association with the EU (expected to start in 2008).** After a substantial strengthening in 2005, non-oil revenue is projected to increase gradually from 13 percent non-oil GDP to reach 13.6 percent by 2008.
- **Expanding capital expenditure to boost growth while keeping a lid on current spending and improving public services.** Domestically-financed capital spending (excluding the use of debt relief) is to double from its low level of about 1 percent of GDP in 2005. This increase will be complemented by foreign-financed projects and the use of debt relief resources. Spending on goods and services will be raised more gradually, while the wage bill is projected to remain relatively stable below 5 percent of GDP.
- **Restructuring public enterprises to limit the burden they impose on the budget.** The program allows for significant resources to cover restructuring costs (especially for CAMAIR and CAMPOST).
- **Regularizing domestic arrears to enhance confidence in the government.** The currently and projected high oil revenue enables the authorities to reduce arrears substantially in 2005-06. The domestic debt audit and a strict implementation of the updated repayment plan should help the government regain the confidence of economic agents.

Keys risks include:

- the government's ability to ensure efficient and high quality spending;
- uncertainties about the level of domestic government liabilities, in particular, the cost of liquidation/restructuring of several large enterprises;
- uncertainties about oil reserves and production;
- the volatility arising from oil prices.

Cameroon: Medium-term Fiscal Strategy, 2003-11
(In percent of GDP, unless otherwise indicated)

	2003	2004 Est.	2005	2006	2007	2008	2009	2010	2011
			Projections						
Non-oil revenue	12.0	11.2	12.4	12.3	12.6	12.8	13.0	13.1	13.2
Noninterest expenditure 1/	12.3	12.6	11.6	11.7	12.7	13.1	13.8	14.3	14.4
Current expenditure (excl. debt-relief spending)	11.0	11.7	10.6	10.6	11.0	11.2	11.5	11.7	11.7
Capital expenditure (domestic finance; excl. debt relief spending)	1.3	1.0	1.0	1.2	1.7	2.0	2.3	2.6	2.7
Non-oil primary balance 1/	-0.3	-1.4	0.8	0.5	-0.1	-0.3	-0.9	-1.2	-1.3
Oil revenue	4.1	3.9	4.5	5.5	4.4	3.7	3.3	2.9	2.7
Grants	0.5	0.1	0.4	0.4	0.1	0.1	0.1	0.1	0.1
Capital expenditure (foreign finance)	0.5	0.7	0.7	1.2	0.8	1.1	1.2	1.5	1.5
HIPC and additional bilateral relief spending	0.2	0.5	0.9	1.7	1.7	1.5	1.2	0.9	0.8
Restructuring expenditure	0.2	0.1	0.6	1.0	0.3	0.2	0.2	0.2	0.1
Interest	2.3	2.0	1.6	1.5	1.3	1.1	0.9	0.8	0.7
Overall balance, excl. net change in arrears, incl. grants	1.2	-0.7	2.0	1.2	0.4	-0.4	-1.0	-1.5	-1.7
Financing	-1.2	0.7	-1.9	-1.2	-0.4	0.4	1.1	1.6	1.8
External financing (net)	0.3	1.1	-0.2	1.3	1.0	1.2	1.2	1.3	1.3
Amortization	-4.1	-3.5	-3.3	-2.9	-2.2	-1.9	-1.8	-1.4	-1.2
Drawings	0.5	1.1	0.6	1.0	0.9	1.1	1.2	1.4	1.4
Debt relief granted/assumed	4.0	3.5	2.6	3.2	2.4	2.0	1.8	1.3	1.1
Domestic financing (net)	-1.5	-0.5	-1.6	-2.5	-1.4	-0.8	-0.1	0.2	0.5
Memorandum items:									
Key fiscal indicators at €25/barrel 2/									
Oil revenue differential (adjusted WEO price vs. € 25/b.) 3/	1.2	1.4	1.0	2.0	2.1	1.8	1.6	1.4	1.2
Total revenue	14.9	13.7	15.8	15.8	15.0	14.7	14.7	14.6	14.7
Overall balance	0.0	-2.1	0.9	-0.8	-1.7	-2.2	-2.6	-2.9	-2.9
Change in domestic debt (net)	-0.3	1.0	-0.6	-0.5	1.6	1.0	1.4	1.6	1.7
Impact of revenue measures (in percent of non-oil GDP): 4/									
Non-oil revenue	12.8	12.0	13.0	13.2	13.4	13.6	13.6	13.7	13.7
Non-oil revenue measures	...	...	0.9	0.3	0.2	0.1	0.1	0.1	0.0
Total expenditures 5/	15.4	15.9	15.3	17.0	16.8	17.0	17.3	17.6	17.4

Sources: Cameroonian authorities; and Fund staff projections.

1/ Excluding spending of foreign financed investment, HIPC and additional debt relief and restructuring expenditures.

2/ €25/barrel corresponds to €5 above the average oil price in Cameroon over the past 20 years.

3/ The WEO price is adjusted by a conservative discount to reflect Cameroon's lower crude quality and current high volatility of international oil prices.

4/ Excludes a partial retention of local government revenues at the central level in 2005-06, and an exceptional dividend from the state oil company in 2005.

5/ Including HIPC, additional debt relief, and restructuring expenditures.

17. The program's financing needs reflect largely the external debt service falling due and could be met by debt relief. The authorities intend to seek debt relief from Paris Club creditors in the form of a flow rescheduling on Cologne terms and are continuing their efforts to obtain comparable treatment from other creditors. However, they have not been able to persuade Cameroon's remaining commercial creditors to provide such debt relief, and some creditors obtained court judgments in their favor and attached Cameroonian assets abroad. Staff have advised the authorities to strengthen their legal representation and persist in their efforts to seek settlement with these creditors on terms at least comparable with Paris Club treatment.

18. **The authorities will continue to improve public financial management (Box 4) and the effectiveness of spending.** They will thus need to improve expenditure quality, efficiency, and control, as well as absorptive capacity. Also, the budget documents need to be simplified and made more clear, and budget nomenclature should be revised to identify better the appropriations for poverty reduction. To ensure that spending in priority sectors is geared toward the attainment of the Millennium Development Goals, the staff emphasized that budget preparation and execution would need to be linked more closely and explicitly to Cameroon's PRSP objectives and sectoral MTEFs, particularly for priority sectors. The authorities are working on several sectoral MTEFs with support from the World Bank. A successful restructuring and privatization of loss-making public enterprises will also contribute to the efficacy of fiscal policy.

Box 4. Reforms in Public Financial Management

Significant progress has been made in monitoring budget execution in 2005. Preliminary cash budget execution data have been produced monthly within three weeks, on a consistent basis with treasury data. More recently, commitment data that was consistent with cash data was produced for the first time covering January-July 2005.

Budget allocations and expenditure monitoring have become more transparent. A prime-ministerial decree of September 2005 amended the 2005 budget allocations to accommodate actual spending patterns in the first half of the year, in particular cash advances made by SNH, and additional sovereign spending anticipated in the second half of the year. The 2006 budget is to set adequate appropriations for each ministry so as to facilitate budget execution and monitoring.

Progress was also made to produce budgetary data on a functional basis consistent with the commitment basis. Consistent data is only available for January-July 2005, reflecting the decree that amended the 2005 allocations (i.e. reclassifying expenditures that were shown as domestic debt payments or use of the budgetary reserve instead of actual spending that was related to defense and the Presidency). It is unlikely that such reclassification could be done retroactively for past years.

Functional spending data for January-July 2005 point to a large share of sovereign spending in total budgetary expenditure. Defense spending accounted for one fourth of the total, other sovereign spending for 10 percent. Education, health and infrastructure accounted for 29, 5 and 10 percent, respectively.

Further improvements are needed for effective and transparent fiscal management, consistent with the priorities of the PRSP. The production of budget execution data on a commitment, cash, and functional basis should be sustained and expanded to ministerial presentations. It is now essential to use budget execution data by economic and ministerial function to ensure the alignment of fiscal policy to the sectoral medium-term expenditure frameworks and the priorities of the PRSP. This is particularly important in light of the projected large increase in capital spending over 2005-2008 and the recent audit of HIPC operations, which found irregularities in project execution.

19. **Through their program, the authorities are seeking to meet the conditions for the HIPC completion point so as to achieve debt sustainability through debt relief.** Already in 2005 high oil export prices are lowering Cameroon's debt ratios. Overall, the net present value (NPV) of public external debt is projected to decline from 153 percent of

exports (before completion point relief) at end-2004, and further to 50 percent at end-2006 after Cameroon receives completion point relief. As indicated in the low-income country DSA exercise (Appendix II), Cameroon's long-term debt profile after the HIPC completion point appears to be sustainable but hinges on continued strong macroeconomic policies, including a prudent strategy for future borrowing. Cameroon would be eligible for debt relief under the multilateral debt cancellation initiative (G8 proposal) when it reaches its HIPC completion point.

B. The 2005-06 Program

20. Within the framework of Cameroon's medium-term objectives, the first year of the program (July 2005-June 2006) will build on the government's achievements under the SMP.

Achieving debt sustainability and maintaining macroeconomic stability

21. Consolidating the ambitious fiscal objectives of the SMP is at the center of the first-year program. Reversing the deterioration in 2004, the non-oil primary balance is programmed to strengthen by 1.9 percentage points of GDP in 2005-06, slightly lower than envisaged in the SMP. This reflects in part a better-than-anticipated 2004 result and the explicit inclusion of a fuel subsidy of 0.2 percent of GDP in light of higher oil prices (MEFP ¶12).

22. The authorities intend to continue the revenue efforts begun under the SMP. Excluding temporary measures,⁶ non-oil revenue is projected to increase by almost 1 percentage point of non-oil GDP in 2005, and the program provides for measures that would yield an additional 0.3 percent in 2006, raising non-oil revenue to 13.2 percent of non-oil GDP. These measures take into account several recommendations of two technical assistance missions of the Fiscal Affairs Department (FAD) in mid-2005, including the strengthening of tax and customs administration and the elimination of exemptions. The authorities declined, however, to follow a key FAD recommendation—namely, to introduce a cap on wage abatements in the personal income tax—citing social and political concerns. Notwithstanding conservative future oil price assumptions, oil revenue is projected to increase significantly in 2006, reflecting also the expected rise in production (MEFP ¶13-16).

23. The authorities plan to increase investment and other priority spending to spur growth. Total capital spending is projected to more than double in 2005-06 to 4.7 percent of GDP, including sizable allocations for the restructuring of major enterprises (MEFP ¶18-20). This will require a significant increase in the capacity of the government to absorb

⁶ Temporary measures in 2005 are projected to yield 0.4 percent of non-oil GDP, including the retention by the central government of part of the local government VAT surcharge and the payment of exceptional dividends by the SNH.

investment resources, including the better preparation of investment projects and a more timely implementation beginning from the start of the year to avoid the lengthy technical delays encountered in the past. This will be financed mostly from domestic resources, and, in particular, accumulated resources from HIPC relief.

24. **The government's determination to regularize domestic debt will be important for rebuilding confidence.** Using the results of the audit of domestic payment arrears completed in October 2005, the government prepared a repayment plan that is in line with the fiscal program. The plan will be funded through regular budgetary resources and any additional oil revenue windfall. To facilitate the efficient implementation and monitoring of the payments, the government agreed with the staff to continue to entrust the debt payment agency with servicing and monitoring domestic debt (MEFP ¶22).

Enhancing the transparency of budget operation and improving the allocation of resources

25. **The transparency of budgeting and budget implementation will be enhanced.** Actual spending through July 2005 showed significant overruns for sovereign expenditure (Ministry of Defense and Presidency), which necessitated a reallocation of the 2005 budget appropriations. The revised allocations will form the basis for the 2006 budget, to be submitted to parliament at end-October. To improve budget implementation, the government has committed to following proper expenditure procedures and making payments only after expenditures have been committed within the appropriate and available budget allocations. Cash is to be advanced by the SNH only with the approval of the Minister of Economy and Finance; the advances would be authorized only for sovereign spending and discontinued altogether from January 2006. The government intends to build on the significant progress it has made in fiscal reporting and financial management and to continue these efforts (Box 4; MEFP ¶17, 29-30). The Audit Chamber of the Supreme Court is to become fully operational at end-2005 and will examine the execution of the budget commencing with 2004.

26. **The quality of spending will be improved as the government focuses on the PRSP priorities and speeds up investment.** Investment spending and the use of debt relief are programmed to increase sharply in 2005-06, while current spending is to be contained. Program measures to improve the execution and quality of investment spending include better project planning so as to begin implementation at the start of the year and to facilitate multi-year projects, as well as stronger monitoring of projects; this will also enhance the sectoral MTEFs (MEFP ¶18, 20). Wage policy will remain prudent with the implementation of civil service reform and recruitment in priority sectors, including the regularization of temporary teachers (MEFP ¶21, 26).

27. **The restructuring of public enterprises is intended to enhance fiscal efficiency and improve the quality of services.** Despite protracted delays, the government is determined to limit budgetary resources devoted to public enterprises, a drain that reflects weak management and/or a lack of adaptation to a competitive environment (Box 5). At the same time, the reforms aim to improve the services provided by these enterprises and thus support the government's growth objective (MEFP ¶33-41). The restructuring and

improvements in enterprise management is also important for the stability of the banking sector as these public enterprises often constitute large exposures for domestic banks.

Box 5. Reducing Losses of Public Enterprises

The authorities' restructuring program is partly supported by the World Bank and includes:

- privatizing the airline company (CAMAIR), the telephone company (CAMTEL), and the agro-industrial complex (CDC);
- establishing a public-private partnership for the water company (SNEC);
- improving the operations of the refinery (SONARA); and
- restructuring the illiquid post office and postal saving bank (CAMPOST).

Although some progress has been achieved, there have been delays of three to six months throughout. CAMAIR is unlikely to be liquidated before early 2006 because of delays in identifying the funding for consultants. Since mid-year about one-third of staff is being retrenched. An audit of CAMPOST's liabilities was prepared and an account established at the BEAC to safeguard new deposits; a social plan including staff reductions has been adopted. The strategy for the telecommunications sector is being revised, which will facilitate the privatization of CAMTEL.

SONARA's financial situation improved slightly in the first half of 2005 as a result of favorable export prices and some increases in domestic fuel prices. To avoid further losses, the government will raise fuel prices further and provide a subsidy for fuel consumers, payable to SONARA in 2005 and 2006; the subsidy is capped to limit its budgetary impact (0.2 percent of GDP).¹ The government will no longer incur arrears to SONARA, and SONARA has undertaken some cost-cutting measures. An audit of SONARA will be prepared in early 2006.

The government will support public enterprise restructuring with budgetary resources once specific action plans have been put in place. Restructuring allocations of 1.6 percent of GDP have been programmed in 2005-06.

¹The envisaged price increases would raise the weighted average fuel price by 8 percent during October 2005-February 2006 from their September 2005 levels of CFAF 524 (US\$0.97)/liter of super gasoline, CFAF 472 (US\$0.87)/liter of diesel, and CFAF 304 (US\$0.56)/liter of kerosene. A further increase in prices by about 5 percent would be needed to eliminate the subsidy at world oil prices of US\$60/barrel.

Accelerating progress toward the HIPC completion point and reinvigorating the PRSP process

28. **The government is making progress toward meeting the completion point triggers** (Appendix I, Attachment II, Annex I).⁷ It made substantial progress in the social sectors (especially education and health care) and in combating HIV/AIDS, but its improvements in governance have been less pronounced. The government's program is geared toward meeting the remaining triggers by early 2006 (MEFP ¶23). Also, the

⁷ Cameroon reached the HIPC decision point in October 2000 (www.imf.org).

government has undertaken to strengthen the mechanisms for the use of HIPC resources and the implementation of HIPC projects by clearing all arrears to the HIPC account at the BEAC by the first quarter of 2006, setting up a control unit at the HIPC Consultative Committee to monitor the implementation of projects, and following up on the recommendations of the 2004 HIPC audit (MEFP ¶25).

29. **The PRSP process has been slow because there has been little systematic follow-up on the 2003 PRSP.** The JSAN on the first annual progress report emphasized the need to enhance the analytical quality of reporting. In 2005, the government has restarted the dialogue with donors to improve the implementation and monitoring of HIPC projects. It has also begun to compile data on public spending on a functional basis, which should help in monitoring the consistency between budget execution and PRSP priorities. Donors have initiated efforts to align and harmonize their procedures and prompt the government to better focus on social and economic priorities; together with the government donors aim to develop sectorwide approaches in key areas and reinvigorate PRSP implementation (MEFP ¶24). The second annual PRSP progress report covering the period January 2004-March 2005 has just been adopted and will be circulated to the Board as soon as possible. The staff is preparing a JSAN together with the World Bank.⁸

30. **The statistical base will be improved to support the monitoring of PRSP implementation and progress towards the MDGs,** including through a priority action plan, implemented with donor assistance, and a new census (MEFP ¶51).

Reducing impediments to growth by strengthening the business climate

31. **The government is determined to improve governance in Cameroon.**

- **It plans to tackle corruption.** The government agreed with the staff on the need to pursue the priority action plan for the reform of the judicial system as the key to improving the business climate. It will also update and better prioritize, by end-November 2005, the National Governance Program, and implement it with the assistance of the UNDP with a focus on producing tangible results in a few key areas (MEFP ¶44). Enforcing penalties against proven cases of corruption would be an important step in this direction. More specific action in this area will be discussed at the time of the first review.
- **It intends to implement the Extractive Industries Transparency Initiative (EITI) principles.** An EITI committee has been set up and a technical secretariat put in place that will prepare an action plan with the assistance of a consultant funded by the

⁸ A supplementary progress report will be needed covering April-December 2005 in order to establish good PRSP implementation leading up to a possible HIPC completion point in the second quarter of 2006.

World Bank. The staff suggested that the action plan be adopted and implemented speedily. The preparation and publication of audits of the SNH will become more timely in the future. Updated information on oil production and revenue has been published in September 2005 with data for the second quarter, and this will be updated in the future with a one quarter lag (MEFP ¶31).

- **It will address promptly the remaining governance issues in the forestry sector and improve the functioning of the new public procurement system.** Both of these tasks involve follow-up with the World Bank (MEFP ¶19, 45).

32. **The government will pursue the restructuring of CAMPOST and other reforms to deepen financial intermediation, which remains low** (MEFP ¶42-43). It recognized the need to strengthen the institutions and instruments underpinning lending operations, such as accurate bookkeeping by enterprises, improved real estate registers to facilitate the provision of collateral, and the enforcement of property rights by the judicial system. The government intends to complete the licensing of microfinance institutions shortly and to ensure their ongoing supervision in collaboration with the regional bank supervisor (COBAC). The restructuring of the housing credit agency will be completed and alternatives identified for the financing of social housing. The activity of the stock exchange will be invigorated through the sale of some government holdings in profitable companies.

33. **Recognizing the constraints of weak infrastructure on economic activity, the government will improve the availability of electricity and strengthen the transport system.** Energy shortages have limited manufacturing and other activities in recent years. This bottleneck was eased as normal rains in 2004 refilled the reservoirs of the hydro-power stations that supply the bulk of Cameroon's electricity. Also, a new thermal power plant started operations in late 2004/early 2005. Additional generation on capacity may be needed as soon as 2008 to meet growing demand. The government plans to adopt a long-term energy sector strategy in consultation with the World Bank to enhance generation and transmission capacity cost-effectively (MEFP ¶46). It also plans to carry forward the port sector reforms of recent years (MEFP ¶47-48). The liquidation/privatization of CAMAIR should help to improve air transport services.

34. **Given Cameroon's central role in the regional monetary union (CEMAC), the government will pursue further regional trade liberalization** consistent with multilateral principles and WTO rules, and will contribute to regional negotiations with the European Union on an Enhanced Partnership Agreement that is expected to enter into force in 2008. The government will take measures as necessary to improve the competitiveness of Cameroon products in light of the impact of trade liberalization and a possible adverse effect on the real exchange rate of the strong increase in the terms of trade projected in 2005-06 (MEFP ¶49-50).

IV. PROGRAM RISKS

35. **Successful program implementation will depend on the authorities' determination to maintain, and in some areas accelerate, the momentum of reforms initiated in 2005**—not just leading to the completion point under the HIPC Initiative, but going well beyond it—and on their resolve to strengthen ownership of these reforms. Although Cameroon's recent progress provides a reasonable basis for a successful program, important risks remain:

- Public expenditure management and absorptive capacity remain weak despite Cameroon's CPIA classification as a medium performer in terms of the quality of its policies and institutions.⁹
- The authorities will need a strong political will to implement the fiscal strategy and adhere to the budget targets under the program..
- Uncertainties surrounding future oil output and international oil prices are large. Despite the conservative fiscal assumptions that seek to isolate core fiscal operations from swings in oil revenue, a sharp decline in oil exports would pose a risk for attaining the overall macroeconomic objectives of the program.

V. PROGRAM MONITORING AND ACCESS

36. **Program monitoring will be based on agreed actions and indicators.** The program will be monitored on the basis of quantitative performance criteria and indicative benchmarks (MEFP Table 3) and structural performance criteria and benchmarks (Box 6, MEFP Table 4). The monitoring will be based on six-monthly reviews, the first one to be completed on the basis of performance during the second half of 2005 (Table 8).

37. **The staff proposes that Cameroon's access over the period of the new PRGF arrangement be equivalent to SDR 18.57 million, or 10 percent of its quota.** This takes into account Cameroon's indebtedness to the IMF and its limited balance of payments needs over the medium term. Reflecting the projected repayments, disbursements, and HIPC relief, Cameroon's total IMF credit outstanding would decline from 107 percent of quota in August 2005 to 50 percent by end-2008 (Table 9). The authorities have implemented the Cameroon-specific recommendations of the 2004 Safeguards Assessment.

⁹ CPIA is the World Bank's Country Policy and Institutional Assessment index.

Box 6. Structural Conditionality Under the Proposed PRGF Arrangement

Structural conditionality covers the following key areas, which are critical for the achievement of the program's macroeconomic objectives:

- **Fiscal issues—measures needed to enhance transparency and ensure that the 2006 budget is in line with the program:** preparation of a repayment plan on domestic debt for 2005-10; submission to Parliament of a 2006 draft budget consistent with the program (performance criterion); preparation of fiscal operations tables exhibiting consistency between commitment and cash data and in an adequate functional breakdown; completion of the single treasury account; and adjustment of retail fuel prices and initiation of subsidy payments to SONARA.
- **Governance—measures needed to strengthen the use of debt relief and accelerate the implementation of the strategy to enhance governance:** completion of the audit of the 2004 HIPC operations; and update of the National Governance Program.
- **Public enterprise restructuring—measures needed to reduce the cost they impose on the government budget and strengthen the services they provide to the economy:** adoption of a privatization strategy for CAMAIR and issuance of the invitations for bids (performance criterion); issuance of the invitation for bids for the management contract for SNEC; recruitment of a management contract team for CAMPOST and completion of preparations for establishment of its financial subsidiary; and finalization of privatization strategy of CAMTEL and issuance of the invitation for bids.
- **Financial sector—measures needed for financial deepening:** completion of the licensing process for microfinance institutions and closure of all institutions without license.

The World Bank is supporting the authorities' efforts to privatize and restructure public enterprises, particularly the airline, the telephone, water and postal companies and the agroindustrial complex. Measures leading to the completion of the privatizations/restructuring are therefore followed in collaboration with the World Bank. In addition, the Bank follows up on its past lending operations related to the forestry sector, port operations, and public procurement.

VI. STAFF APPRAISAL

38. **Cameroon's fiscal performance has improved under the SMP in the first half of 2005 and all quantitative targets of an ambitious SMP were met.** Fiscal consolidation has recovered some of the ground lost in 2004, especially in terms of non-oil revenue. The government's efforts to contain spending have also yielded results, although improvements in the structure of spending are lacking. The cost of the partial price adjustments for fuel has been accommodated through a modest and contained fuel subsidy in the budget while broadly safeguarding the fiscal targets of the program.

39. **The staff welcomes the improvements made in public financial management and urges the government to persist in its efforts.** The government encountered some technical difficulties (e.g., with closing accounts of government entities in commercial banks), but also was not able to fully implement other SMP commitments. Nonetheless, the progress made to date and the further efforts under way to improve public financial management should

greatly enhance the transparency of government operations, simplify budgeting and budget execution, and thus allow a further strengthening of treasury operations and the establishment of clear linkages between the budget and the PRSP. Enhanced transparency will also facilitate the work of the Audit Chamber and parliamentary oversight. Follow-up and monitoring of the quality of public spending, including from debt-relief resources, and full implementation of the domestic debt repayment plan will be important in rebuilding confidence and strengthening private investment.

40. **The staff welcomes the governments' decision to adhere to EITI principles and the initial steps it has taken to increase transparency in the oil sector.** It encourages the authorities to follow up with making the EITI committee and secretariat operational quickly and to adopt and implement a time-bound EITI action plan.

41. **Nonetheless, the mixed performance in structural reforms indicates that the underlying policy stance is weak.** There have been little follow-up on the PRSP, delays in enterprise reforms and fuel price increases, and little progress in improving the business climate. In order to reap the full benefits of their program, the authorities will need to strengthen their ownership and their resolve to fully implement all elements of their program.

42. **The staff supports the objectives of the government's medium-term program,** namely, to consolidate fiscal performance and invigorate structural reform in order to build a sound basis for enhancing growth and reducing poverty. Thus reform priorities are raising non-oil revenue, improving the quality of public spending, especially of investment, and the transparency of financial management, restructuring public enterprises and removing obstacles to private sector activity.

43. **This program carries forward the fiscal consolidation of 2005, moderated as appropriate by the increased availability of debt-relief resources after Cameroon reaches its HIPC completion point.** The staff emphasized that a further strengthening of non-oil revenue over the medium and long term would be important to deal with the declining trend in oil revenue and the likely loss of trade taxes that will accompany further trade liberalization. Also, the government needs to improve the quality and efficiency of public spending, focusing on high-quality investment in physical infrastructure and human capital. The measures under way to enhance medium-term planning, better prepare investment projects and their timely implementation should facilitate progress in this area in 2006 and beyond.

44. **The government's structural reforms rightly aim to enhance the economy's growth potential, stimulate private sector activity, and further social progress.** To be successful, these reforms need to remove bottlenecks, such as inadequate electricity supplies and transport infrastructure, shallow financial intermediation, and poor governance. The restructuring of public enterprises will not only benefit Cameroon's fiscal position in the medium term, but also enhance the efficiency of the economy.

45. **Improvements in the macroframework and business climate are very important to enhance private investment and growth.** The regional currency union has served Cameroon well in maintaining low inflation and macroeconomic stability. At the same time, the high oil prices may adversely affect the real exchange rate and competitiveness of Cameroon's other exports. Thus the authorities will need to strengthen the competitiveness and efficiency of the economy, including through better infrastructure and structural reforms. Improvements in governance and a reduction in corruption will also be essential to strengthen public and investor confidence. As past efforts have yet to yield tangible results, the staff urges the authorities to better focus the National Governance Program on those areas that are crucial for facilitating business operations and building credibility.

46. **The staff considers that the implementation of the government's policies should enable Cameroon to reach its HIPC completion point and reduce its external debt.** The DSA simulations indicate that HIPC and additional bilateral debt relief would reduce Cameroon's debt to comfortable levels. After Cameroon reaches its completion point, the authorities should follow prudent borrowing policies that maintain debt sustainability, contain the cost of new borrowing, and ensure the efficient use of borrowed resources.

47. **The staff recommends approval of the request for a new three-year arrangement under the PRGF.** The government will need to be aware of the risks to program implementation, especially strengthen its determination to implement structural reforms. The success in the implementation of the SMP during the first half of 2005 bodes well for program implementation.

48. **The staff recommends approval of a disbursement of the fourth tranche of interim HIPC assistance** in the amount of SDR 5.702 million, which will be sufficient to cover 47.5 percent of principal repayment obligations to the Fund falling due between November 1 and December 31, 2005 and 25.6 percent of obligations falling due through end-September 2006.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2002-2008

	2002	2003	2004 Est.	2005 SMP	2005 SMP 1/	Projections			
						2005	2006	2007	2008
(Annual percentage changes, unless otherwise indicated)									
National income and prices									
GDP at constant prices	4.0	4.1	3.5	3.9	3.9	2.8	4.2	3.7	4.6
<i>Of which</i> : oil GDP	-4.4	-4.5	-9.4	...	...	-9.0	6.0	-10.1	-3.3
<i>Of which</i> : non-oil GDP	4.9	4.9	4.7	4.3	4.3	3.7	4.1	4.7	5.1
GDP deflator	3.2	0.3	2.2	-0.8	-0.8	1.7	2.9	0.9	1.6
Consumer prices (12-month average)	2.8	0.6	0.3	2.0	2.0	1.3	1.8	2.0	2.0
Consumer prices (end of period)	2.4	-0.1	1.0	2.0	2.0	1.0	0.9	3.5	0.7
Nominal GDP (in billions of CFA francs)	7,583	7,917	8,377	7,858	8,758	8,757	9,395	9,826	10,447
<i>Of which</i> : oil GDP	535	486	542	666	445	618	752	600	560
<i>Of which</i> : non-oil GDP	7,048	7,431	7,835	7,192	8,313	8,139	8,642	9,226	9,887
Oil output (in thousands of barrels a day)	102	98	89	82	82	82	88	78	74
External trade									
Export volume	-7.0	6.9	1.5	1.9	1.9	-5.3	6.2	1.3	3.2
<i>Of which</i> : non-oil sector	-6.6	12.3	5.9	4.3	4.3	-3.7	4.8	5.0	5.4
Import volume	1.9	-0.6	9.4	4.9	4.9	1.0	2.8	3.0	3.2
Average oil export price (U.S. dollars per barrel)	23.6	27.3	34.9	35.5	35.5	45.3	48.0	43.3	42.0
Nominal effective exchange rate	6.6	5.4	1.9	...	...	...	...	...	...
Real effective exchange rate	5.9	2.9	0.4	...	...	...	...	...	...
Average exchange rate (CFA francs per SDR)	902	814	782	...	...	...	...	...	...
Terms of trade	0.0	-0.8	-1.3	-1.4	-1.4	9.0	4.9	-11.1	-7.2
Non-oil export price index (in CFA francs)	2.8	-5.5	-6.1	-5.2	-5.2	7.8	5.4	0.8	0.0
Money and credit (end of period)									
Net domestic assets ²	4.1	1.8	0.3	5.6	5.6	1.1	2.7	5.7	5.3
Net credit to the public sector ²	1.0	-0.6	0.1	2.5	2.5	-0.7	-0.9	2.0	1.5
Credit to the private sector	11.6	8.9	1.4	6.1	6.1	6.0	7.0	7.5	8.0
Broad money (M2)	18.3	-0.9	7.3	7.6	7.6	4.7	9.0	10.9	9.0
Velocity (GDP/average M2)	6.0	5.8	5.8	5.1	5.1	5.9	6.2	5.8	5.7
Discount rate (end of period; in percent)	6.5	6.0	6.0	...	...	...	...	...	...
Central government operations									
Total revenue	2.6	1.6	-0.4	7.4	7.4	16.7	12.8	0.5	3.2
<i>Of which</i> : non-oil revenue	0.1	7.2	-0.7	15.4	15.4	15.1	6.4	7.5	8.1
Total expenditure	0.2	2.4	9.5	0.8	0.8	0.2	19.4	3.6	8.1
(In percent of GDP, unless otherwise indicated)									
Gross national savings	13.7	15.4	16.2	15.1	...	17.4	19.6	17.9	16.7
Gross domestic investment	19.8	17.5	19.2	17.0	...	19.8	20.7	21.2	21.6
Central government operations									
Total revenue (excl. grants)	16.5	16.1	15.1	17.0	15.2	16.9	17.8	17.1	16.6
Oil revenue	4.9	4.1	3.9	3.5	3.2	4.5	5.5	4.4	3.7
Non-oil revenue	11.7	12.0	11.2	13.5	12.1	12.4	12.3	12.6	12.8
Non-oil revenue (in percent of non-oil GDP)	12.5	12.8	12.0	14.7	12.7	13.3	13.3	13.4	13.6
Total expenditure	15.7	15.4	15.9	16.8	15.0	15.3	17.0	16.8	17.1
Noninterest expenditure ³	12.4	12.4	13.2	13.4	12.0	12.5	13.4	14.4	14.6
Capital expenditure ⁴	2.0	1.9	1.8	2.9	2.6	2.4	3.7	3.8	4.3
Overall fiscal balance (excl. net changes in arrears)									
Excluding grants	0.8	0.7	-0.8	0.2	0.2	1.6	0.7	0.2	-0.6
Including grants	1.1	1.2	-0.7	0.4	0.3	2.0	1.2	0.3	-0.5
Primary balance ⁵	3.8	3.4	1.9	2.9	2.6	3.9	3.4	2.3	1.7
Non-oil primary balance (in percent of non-oil GDP) ⁵	-1.1	-0.7	-2.2	-0.6	-0.5	-0.7	-2.3	-2.2	-2.1
Non-oil primary balance (in percent of non-oil GDP) ⁶	-0.8	-0.3	-1.5	-0.6	-0.5	0.8	0.6	-0.1	-0.3
External sector									
Current account balance (including grants)	-6.1	-2.1	-3.0	-1.9	-1.7	-2.4	-1.2	-3.4	-4.8
NPV of external debt after past debt relief	49.6	39.0	35.8	35.9	32.2	31.1	27.5	24.6	22.1
NPV of external debt after past and anticipated debt relief	...	...	...	...	...	...	12.9	12.6	12.3
(In percent of exports of goods and services, unless otherwise indicated)									
NPV of external public debt after past debt relief	170.5	166.5	153.3	146.8	...	127.8	106.7	104.5	98.1
External debt service (before anticipated debt relief)									
Scheduled	27.7	26.0	23.0	22.0	...	20.2	17.1	15.2	13.6
Scheduled (in percent of government revenue)	41.9	38.2	35.5	32.2	...	29.1	24.7	20.8	18.0
External debt service ⁷	10.0	8.7	7.0	10.0	...	6.7	3.6	4.0	4.2

Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ Based on revised GDP series.

2/ In percent of broad money at the beginning of the period.

3/ Excluding foreign-financed investment, restructuring expenditure and separation grants.

4/ Excluding restructuring expenditure.

5/ Excluding external grants and foreign-financed investment.

6/ Excluding external grants, foreign-financed investment, other spending financed from debt relief, and restructuring spending.

7/ Actual payments through 2004 and amounts due after past and anticipated debt relief from 2005 on, assuming the completion point is reached in April 2006.

Table 2a. Cameroon: Central Government Operations; 2002-08 1/
(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	SMP	Proj.	Projections		
			Est.	2005		2006	2007	2008
Total revenue and grants	1,277	1,312	1,279	1,348	1,511	1,706	1,689	1,739
Total revenue	1,253	1,273	1,267	1,333	1,478	1,668	1,676	1,729
Oil sector revenue	369	324	325	276	394	515	437	388
Non-oil sector revenue	884	948	942	1,057	1,084	1,153	1,239	1,340
Direct taxes	260	232	228	240	265	279	286	319
Special tax on petroleum products	68	67	72	76	72	76	81	87
Other taxes on goods and services	319	384	370	446	438	471	507	549
Of which : value-added tax, net	310	341	342	371	368	374	403	436
VAT refund	-53	-49	-51	-55	-51	-58	-63	-68
centimes additionnels	...	...	...	19	19	11	0	0
Taxes on international trade	165	176	179	190	187	204	220	237
Other tax revenue						2		
Nontax revenue	72	68	96	100	120	121	145	148
Of which : pipeline	0	0	13	16	16	17	17	17
Total grants (current)	24	40	12	14	33	39	13	10
Of which : projects	0	0	9	...	15	17	12	10
programs	24	32	3	2	18	22	0	0
Total expenditure	1,191	1,219	1,335	1,317	1,338	1,597	1,651	1,780
Current expenditure	1,028	1,049	1,169	1,032	1,068	1,159	1,246	1,315
Wages and salaries	403	421	450	463	419	446	474	488
Goods and services	299	321	414	297	336	392	451	511
Of which : HIPC	1	6	33	8	13	12	20	9
C2D	...	...	...	...	...	17	21	24
Subsidies and transfers	127	126	141	131	175	184	197	200
Scholarships and subsidies	64	61	77	60	95	99	104	104
Of which : fuel subsidies	...	...	...	...	17	20	0	0
Pensions	63	66	64	70	79	84	93	96
Separation grants (POEs)	0	0	0	1	0	0	0	0
Interest due	199	181	164	141	138	137	124	115
External	177	154	138	116	116	111	96	85
Domestic	22	27	26	25	22	26	28	30
Capital expenditure	178	166	160	285	260	438	404	465
Foreign-financed investment	26	38	60	67	60	110	81	115
Domestically financed investment	128	112	90	163	151	238	293	330
Of which : HIPC	1	7	10	65	63	90	80	69
C2D	...	...	...	...	...	39	49	56
Restructuring of public companies	24	16	10	55	49	90	30	20
Of which : large companies	0	0	0	45	40	82	20	0
Unclassified expenditure	-16	4	7	0	10	0	0	0
Overall balance, excl. net change in arrears								
Excluding grants	62	53	-68	16	139	70	25	-51
Including grants	87	93	-56	30	173	109	38	-41
Net change in arrears	-337	-36	9	-17	-73	-100	-60	-35
External	-357	0	13	-13	-12	0	0	0
Domestic	-26	-16	-4	-4	-61	-100	-60	-35
Overall balance, cash basis								
Excluding grants	-274	18	-59	-1	66	-30	-35	-86
Including grants	-250	58	-47	14	99	9	-22	-76
Financing	280	-58	47	-230	-326	-314	-210	-126
External financing, net	401	26	84	-225	-243	-175	-135	-76
Amortization	-347	-325	-296	-292	-293	-272	-221	-196
Drawings	972	350	379	67	50	96	86	120
Project financing	0	0	0	55	46	93	69	105
Program financing (loans)	32	0	43	12	4	3	17	15
Debt rescheduling	914	313	285	0	0	0	0	0
Domestic financing, net	-121	-83	-36	-5	-83	-139	-76	-50
Banking system	10	-20	13	35	-20	-14	34	29
Banking system, excl. HIPC and C2D	-11	-41	-7	-20	-14	-35	4	-11
Net HIPC flows	20	20	20	55	-6	38	34	29
Net C2D flows	...	...	...	...	...	-16	-4	11
Amortization	-114	-54	-33	-40	-64	-115	-110	-79
Nonbank financing	-18	-9	-16	0	2	0	0	0
Reserves	0	0	0	0	0	-10	0	0
Remaining financing needs	0	0	0	216	226	305	232	202
Of which : possible debt relief	0	0	0	216	224	302	232	205
Memorandum items:								
Non-oil primary balance 2/	-54	-24	-117	4	69	49	-6	-31
Net bank credit to the government	-121	-83	-36	-5	-83	-139	-76	-50

Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ Based on the hypothesis that HIPC initiative completion point will be reached in April 2006.

2/ The program non-oil primary balance excludes restructuring and debt-relief expenditure, in addition to grants, interest and foreign-financed capital expenditure.

Table 2b. Cameroon: Central Government Operations, 2005-06
(In billions of CFA francs, unless otherwise indicated)

	2005					2006				
	Jan-Jun		Jul-Sep	Oct-Dec	Year	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Year
	SMP	Prel.	Rev. Proj.	Rev. Proj.	Rev. Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	667	755	359	397	1,511	429	433	412	431	1,706
Total revenue	660	750	354	373	1,478	427	416	411	413	1,668
Oil sector revenue	129	179	102	113	394	112	134	134	134	515
Non-oil sector revenue	531	571	252	260	1,084	316	282	276	279	1,153
Direct taxes	130	166	46	54	265	103	65	56	56	279
Special tax on petroleum products	37	34	19	19	72	18	20	20	18	76
Other taxes on goods and services	221	219	108	112	438	115	116	117	123	471
Of which: value-added tax, net	182	185	90	93	368	90	92	91	101	374
VAT refund	-26	-21	-13	-16	-51	-16	-13	-13	-16	-58
centimes additionnels	10	0	5	5	19	3	3	3	3	11
Taxes on international trade	93	91	48	48	187	48	49	51	55	204
Other tax revenue	0	...	...	...	...	1	1	1	1	2
Non-tax revenue	46	66	30	25	120	31	31	33	27	121
Of which: pipeline	8	7	4	4	16	4	4	4	4	17
Total grants (current)	7	5	4	24	33	2	17	2	18	39
Of which: projects	4	5	4	6	15	2	8	2	5	17
programs	0	0	0	18	18	0	9	0	13	22
Total expenditure	624	606	345	387	1,338	346	407	413	431	1,597
Current expenditure	504	524	257	286	1,068	271	289	298	302	1,159
Wages and salaries	229	205	105	110	419	107	111	113	116	446
Goods and services	141	178	78	80	336	85	102	103	103	392
Of which: HIPC	4	9	2	2	13	3	2	2	5	12
C2D	...	...	...	...	...	...	...	8	8	17
Subsidies and transfers	64	75	41	59	175	47	45	46	47	184
Scholarships and subsidies	30	39	20	37	95	27	24	24	24	99
Of which: SONARA	...	...	...	...	17	8	4	4	4	20
Pensions	33	37	21	22	79	19	21	22	23	84
Separation grants (POEs)	1	0	0	0	0	0	0	0	0	0
Interest due	70	67	33	38	138	33	32	36	36	137
External	58	58	27	32	116	25	27	29	29	111
Domestic	13	10	6	6	22	8	5	7	7	26
Capital expenditure	121	72	88	100	260	76	118	115	130	438
Foreign-financed investment	34	23	18	19	60	24	30	24	31	110
Domestically financed investment	78	48	50	53	151	42	48	61	88	238
Of which: HIPC	30	18	20	25	63	16	18	23	33	90
C2D	...	...	...	...	...	...	...	19	19	39
Restructuring of public companies	9	1	20	28	49	10	40	30	10	90
of which: large companies	5	0	16	24	40	8	38	28	8	82
Unclassified expenditure	0	10	0	0	10	0	0	0	0	0
Overall balance, excl. net change in arrears										
Excluding grants	36	144	9	-13	139	81	9	-2	-18	70
Including grants	43	149	14	10	173	83	27	-1	0	109
Net change in arrears	-15	-15	-30	-29	-73	-35	-32	-17	-17	-100
External	-13	-12	0	0	-12	0	0	0	0	0
Domestic	-2	-2	-30	-29	-61	-35	-32	-17	-17	-100
Overall balance, cash basis										
Excluding grants	21	129	-21	-42	66	46	-22	-19	-35	-30
Including grants	28	134	-16	-19	99	48	-5	-17	-16	9
Financing	-140	-253	-19	-53	-326	-81	-111	-21	-101	-314
External financing, net	-109	-117	-30	-97	-243	-7	-73	-15	-81	-175
Amortization	-135	-135	-43	-114	-293	-29	-95	-37	-110	-272
Drawings	27	19	14	18	50	22	22	22	29	96
Project financing	27	19	14	14	46	22	22	22	26	93
Program financing (loans)	0	0	0	4	4	0	0	0	3	3
Debt rescheduling	0	0	0	0	0	0	0	0	0	0
Domestic financing, net	-31	-137	11	43	-83	-74	-38	-7	-20	-139
Banking system	-17	-119	43	56	-20	-43	-7	25	11	-14
Banking system, excl. HIPC and C2D	-43	-111	44	53	-14	-41	24	-14	-4	-35
Net HIPC flows	25	-8	-1	3	-6	-2	5	12	23	38
Net C2D flows	...	...	...	...	...	0	-35	28	-8	-16
Amortization	-14	-19	-32	-13	-64	-29	-29	-29	-29	-115
Non-bank financing	0	2	0	0	2	0	0	0	0	0
Reserves	0	0	0	0	0	-3	-3	-3	-3	-10
Remaining financing needs	112	119	35	72	226	33	116	39	118	305
Of which: possible debt relief	112	119	35	70	224	33	114	39	117	302
Memorandum items:										
Non-oil primary balance 1/	20	83	0	-14	69	55	-3	6	-9	49
Non-oil primary balance, cumulated	20	83	83	69	...	0	52	58	49	...
Net credit to the government, cumulated	-43	-111	-68	-14	...	-41	-17	-31	-35	...

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Excluding interest, HIPC, C2D and restructuring expenditure, and foreign-financed capital expenditure.

Table 3. Cameroon: Selected Fiscal Indicators; 2002-08
(In percent of GDP, unless otherwise indicated)

	2002	2003	2004 Est.	Projections			
				2005	2006	2007	2008
Total revenue and grants	16.8	16.6	15.3	17.3	18.2	17.2	16.6
Total revenue	16.5	16.1	15.1	16.9	17.8	17.1	16.5
Oil sector revenue	4.9	4.1	3.9	4.5	5.5	4.4	3.7
Non-oil sector revenue	11.7	12.0	11.2	12.4	12.3	12.6	12.8
Direct taxes	3.4	2.9	2.7	3.0	3.0	2.9	3.1
Special tax on petroleum products	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Other taxes on goods and services	4.2	4.9	4.4	5.0	5.0	5.2	5.3
<i>Of which</i> : value-added tax, net centimes additionnels	4.1	4.3	4.1	4.2	4.0	4.1	4.2
...	...	...	...	0.2	0.1	0.0	0.0
Taxes on international trade	2.2	2.2	2.1	2.1	2.2	2.2	2.3
Non-tax revenue	0.9	0.9	1.1	1.4	1.3	1.5	1.4
<i>Of which</i> : pipeline	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Total grants (current)	0.3	0.5	0.1	0.4	0.4	0.1	0.1
<i>Of which</i> : projects programs	0.0	0.0	0.1	0.2	0.2	0.1	0.1
...	0.3	0.4	0.0	0.2	0.2	0.0	0.0
Total expenditure	15.7	15.4	15.9	15.3	17.0	16.8	17.0
Current expenditure	13.6	13.3	14.0	12.2	12.3	12.7	12.6
Wages and salaries	5.3	5.3	5.4	4.8	4.8	4.8	4.7
Goods and services	3.9	4.1	4.9	3.8	4.2	4.6	4.9
<i>Of which</i> : Debt relief	0.0	0.1	0.4	0.1	0.3	0.4	0.3
Subsidies and transfers	1.7	1.6	1.7	2.0	2.0	2.0	1.9
Scholarships and subsidies	0.8	0.8	0.9	1.1	1.1	1.1	1.0
<i>Of which</i> : fuel subsidies	...	...	...	0.2	0.2	0.0	0.0
Pensions	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Interest due	2.6	2.3	2.0	1.6	1.5	1.3	1.1
External	2.3	1.9	1.6	1.3	1.2	1.0	0.8
Domestic	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditure	2.4	2.1	1.9	3.0	4.7	4.1	4.5
Foreign-financed investment	0.3	0.5	0.7	0.7	1.2	0.8	1.1
Domestically financed investment	1.7	1.4	1.1	1.7	2.5	3.0	3.2
<i>Of which</i> : debt relief	0.0	0.1	0.1	0.7	1.4	1.3	1.2
Restructuring of public companies	0.3	0.2	0.1	0.6	1.0	0.3	0.2
<i>Of which</i> : large companies	0.0	0.0	0.0	0.5	0.9	0.2	0.0
Unclassified expenditure	-0.2	0.1	0.1	0.1	0.0	0.0	0.0
Overall balance, excl. net change in arrears							
Excluding grants	0.8	0.7	-0.8	1.6	0.7	0.3	-0.5
Including grants	1.1	1.2	-0.7	2.0	1.2	0.4	-0.4
Net change in arrears	-4.4	-0.4	0.1	-0.8	-1.1	-0.6	-0.3
External	-4.7	0.0	0.2	-0.1	0.0	0.0	0.0
Domestic	-0.3	-0.2	0.0	-0.7	-1.1	-0.6	-0.3
Overall balance, cash basis							
Excluding grants	-3.6	0.2	-0.7	0.8	-0.3	-0.4	-0.8
Including grants	-3.3	0.7	-0.6	1.1	0.1	-0.2	-0.7
Financing	3.7	-0.7	0.6	-3.7	-3.3	-2.1	-1.2
External financing, net	5.3	0.3	1.0	-2.8	-1.9	-1.4	-0.7
Amortization	-4.6	-4.1	-3.5	-3.3	-2.9	-2.2	-1.9
Drawings	12.8	4.4	4.5	0.6	1.0	0.9	1.1
Debt rescheduling	12.0	4.0	3.4	0.0	0.0	0.0	0.0
Domestic financing, net	-1.6	-1.1	-0.4	-0.9	-1.5	-0.8	-0.5
Banking system	0.1	-0.3	0.2	-0.2	-0.1	0.3	0.3
Banking system, excl. debt relief	-0.1	-0.5	-0.1	-0.2	-0.4	0.0	-0.1
Debt relief	0.3	0.3	0.2	-0.1	0.2	0.3	0.4
Amortization	-1.5	-0.7	-0.4	-0.7	-1.2	-1.1	-0.8
Nonbank financing	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.0
Reserves	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Remaining financing needs	0.0	0.0	0.0	2.6	3.2	2.4	1.9
of which: possible debt relief	0.0	0.0	0.0	2.6	3.2	2.4	2.0
Memorandum items:							
Non-oil revenue (in percent of non-oil GDP)	13.8	12.8	12.0	13.0	13.2	13.4	13.6
Non-oil revenue measures (in percent of non-oil GDP)	...	...	...	0.9	0.3	0.2	0.1
Non-oil primary balance 1/	-0.7	-0.3	-1.4	0.8	0.5	-0.1	-0.3
Non-oil primary balance (in percent of non-oil GDP) 1/	-0.8	-0.3	-1.5	0.8	0.6	-0.1	-0.3

Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ The program non-oil primary balance excludes restructuring and debt relief expenditure, in addition to grants, interest and foreign-financed capital expenditure.

Table 4. Cameroon: Oil Sector Contribution to the Government Budget, 2002-08
(In billion of CFA francs, unless otherwise indicated)

	2002	2003	2004 Est.	Projections			
				2005	2006	2007	2008
1. Production, sales, and exports							
1.a. Production and sales (in millions of barrels)							
Production	37.4	35.6	32.7	30.1	32.0	28.6	27.2
Percentage change	-5.0	-4.7	-8.3	-7.8	6.2	-10.5	-5.0
Sales	36.8	34.8	33.1	28.8	32.0	28.6	27.2
Exports	36.8	34.8	31.1	27.9	31.1	27.7	26.3
By SNH 1/	24.1	22.2	19.2	17.3	20.1	17.9	16.9
By petroleum companies	12.7	12.6	11.9	10.6	11.0	9.8	9.4
Sales by SNH to SONARA 2/	...	...	2.0	0.9	0.9	0.9	0.9
1.b. Value of sales	607.0	551.1	609.7	686.2	828.9	668.2	614.4
Exports	607.0	551.1	574.5	665.2	805.6	647.2	594.0
By SNH	393.9	350.6	349.1	411.1	520.4	417.3	382.7
By petroleum companies	213.0	200.5	225.4	254.1	285.1	229.9	211.3
Sales by SNH to SONARA	...	...	35.3	21.0	23.3	21.0	20.3
2. SNH and oil companies' accounts 3/							
2.a. SNH accounts							
Revenue	393.9	350.6	384.3	432.1	543.8	438.3	403.0
Expenditure	-97.1	-90.6	-110.7	-106.6	-97.7	-86.5	-76.9
Cost sharing with oil companies	-61.4	-59.5	-63.0	-65.0	-72.5	-64.8	-56.7
Projects	-46.4	-43.4	-44.7	-46.6	-51.1	-45.9	-38.1
Investment	-1.9	-6.6	-9.3	-9.8	-10.8	-8.6	-8.6
Financial costs	-1.6	-0.9	-0.9	-1.0	-0.9	-0.5	-0.3
Debt amortization	-11.5	-8.6	-8.2	-7.6	-9.7	-9.7	-9.6
Other costs 3/	-22.4	-21.6	-24.9	-21.1	-8.4	-8.7	-8.6
Payments to oil companies by SNH to ensure minimum 13 percent profit margin	-13.2	-9.5	-22.8	-20.5	-16.8	-13.1	-11.6
Disposable income	296.8	260.0	273.6	325.4	446.1	351.9	326.2
2.b. Oil companies' accounts							
Export receipts	213.0	200.5	225.4	254.1	285.1	229.9	211.3
Expenditure	-124.0	-112.7	-128.7	-133.8	-156.5	-125.7	-114.6
Cost sharing with government	-61.4	-59.5	-63.0	-65.0	-71.4	-63.4	-55.3
Projects	-46.4	-43.4	-44.7	-46.6	-49.9	-44.6	-36.8
Investment	-1.9	-6.6	-9.3	-9.8	-10.8	-8.6	-8.6
Financial costs	-1.6	-0.9	-0.9	-1.0	-0.9	-0.5	-0.3
Debt amortization	-11.5	-8.6	-8.2	-7.6	-9.7	-9.7	-9.6
Effective tax obligations	-62.5	-53.2	-65.7	-68.8	-85.1	-62.3	-59.3
Disposable income	89.1	87.8	96.7	120.3	128.7	104.1	96.7
3. Contribution to government budget							
3.a. Calculated on the basis of sections 1 and 2 above 4/							
SNH	296.8	260.0	273.6	325.4	446.1	351.9	326.2
Oil companies' profit tax	56.0	62.5	53.2	65.7	68.8	85.1	62.3
3.b. Actual payments (cash basis) 5/							
SNH's contribution	295.1	272.0	275.4	...	...	...	...
Oil companies' profit tax	73.6	52.2	49.8	...	...	...	...
Memorandum items:							
Oil price (U.S. dollars per barrel)							
International oil price 6/	25.0	28.9	37.8	49.1	51.0	46.3	45.0
Discount for lower quality of Cameroon's crude	1.4	1.5	3.1	3.7	3.0	3.0	3.0
Price for Cameroon's crude	23.6	27.4	34.6	45.3	48.0	43.3	42.0
Exchange rate (CFA francs per U.S. dollar, average)	696.7	580.8	528.0	...	...	...	...

Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ SNH: National oil company (Société Nationale des Hydrocarbures).

2/ SONARA: National oil refinery.

3/ Other costs in 2005 amount to CFAF 32 billion in paragraph 14 of the MEFP of March 30, 2005 (IMF Country Report No. 05/164) because a different exchange rate was used (SNH's budget is prepared in US\$).

4/ Based on data provided by SNH.

5/ As reported in the government's fiscal reporting system.

6/ Historical WEO prices through 2005, projected program prices thereafter.

Table 5. Cameroon: Monetary Survey, December 2003-December 2008

	2003		2004				2005				2006				2007		2008	
	Dec.	Dec.	SMP	Act.	SMP	Est.	SMP	Sept.	SMP	Dec.	Proj.	SMP	Sept.	SMP	Dec.	Proj.	Dec.	Proj.
Net foreign assets	259.8	357.1	360.7	384.4	364.4	388.1	368.2	397.2	387.1	411.4	436.4	461.4	486.4	511.4	601.4	671.4		
Bank of Central African States (BEAC)	154.5	241.7	241.7	258.9	241.7	256.5	241.7	261.5	256.7	271.5	294.0	316.5	339.0	361.5	441.5	511.5		
Commercial banks	105.3	115.4	119.0	125.5	122.7	131.6	126.5	135.7	130.4	139.9	142.4	144.9	147.4	149.9	159.9	159.9		
Net domestic assets	1,143.9	1,148.4	1,150.5	1,047.9	1,152.6	1,052.4	1,172.6	1,099.7	1,233.1	1,164.7	1,241.2	1,216.2	1,206.3	1,206.7	1,304.7	1,406.4		
Domestic credit	1,216.1	1,231.0	1,233.1	1,159.9	1,235.2	1,149.0	1,255.2	1,196.4	1,315.6	1,261.4	1,337.9	1,312.9	1,303.0	1,303.4	1,401.4	1,503.2		
Net claims on the public sector	467.8	469.3	426.8	350.7	448.8	360.3	456.7	403.2	501.4	459.3	416.8	409.7	434.4	445.6	479.6	508.6		
Net credit to the central government	359.5	374.1	330.0	253.7	352.0	254.0	359.9	296.9	404.6	353.0	310.5	303.4	328.1	339.3	373.3	402.3		
Claims	618.3	572.5	558.9	483.7	556.8	502.0	553.9	526.3	540.3	540.9	530.2	539.8	522.5	519.3	507.3	498.1		
Deposits	-258.9	-198.4	-228.9	-230.0	-204.8	-248.0	-194.0	-229.3	-135.7	-187.8	-219.6	-236.3	-194.4	-180.0	-134.0	-95.8		
Of which: HIPC	-106.7	-86.4	-73.0	-66.0	-61.2	-94.4	-47.8	-95.1	-31.1	-92.4	-94.0	-89.4	-77.9	-54.9	-27.9	-22.9		
C2D	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Credit to autonomous agencies	11.2	14.5	14.5	15.6	14.5	18.2	14.5	18.2	14.5	18.2	18.2	18.2	18.2	18.2	18.2	18.2		
Credit to public enterprises	97.1	80.7	82.3	81.4	82.3	88.1	82.3	88.1	82.3	88.1	88.1	88.1	88.1	88.1	88.1	88.1		
Credit to financial institutions	8.1	11.5	13.3	16.1	13.3	7.0	13.3	7.0	13.3	7.0	7.0	7.0	7.0	7.0	7.0	7.0		
Credit to the private sector	740.2	750.2	792.9	793.2	773.0	781.7	785.1	786.2	800.9	795.1	914.1	896.2	861.6	850.9	914.9	987.6		
Other items (net)	-72.2	-82.6	-82.6	-112.1	-82.6	-96.7	-82.6	-96.7	-82.6	-96.7	-96.7	-96.7	-96.7	-96.7	-96.7	-96.7		
Money and quasi money	1,403.6	1,505.5	1,511.1	1,432.2	1,517.0	1,440.5	1,540.8	1,496.9	1,620.2	1,576.1	1,677.6	1,677.6	1,692.7	1,718.1	1,906.1	2,077.8		
Currency outside banks	296.8	324.2	282.5	255.7	261.5	249.1	275.0	275.0	330.7	330.7	265.9	259.0	286.0	343.9	358.9	374.4		
Deposits	1,106.8	1,181.3	1,228.7	1,176.5	1,255.5	1,191.4	1,265.8	1,221.9	1,289.5	1,245.4	1,411.7	1,418.6	1,406.7	1,374.2	1,547.2	1,703.5		
Memorandum items:																		
Contribution to the growth of broad money																		
Net foreign assets	-2.7	7.8	3.3	4.9	7.0	8.7	4.3	6.3	2.0	3.6	3.6	5.1	6.0	6.3	5.2	3.7		
Net domestic assets	1.8	2.5	1.7	-5.4	-0.3	-7.4	2.7	-2.4	5.6	1.1	13.5	11.4	7.1	2.7	5.7	5.3		
Of which: credit to the central government	-1.5	1.6	0.0	-5.3	-1.6	-8.5	-0.7	-5.1	2.3	-1.4	4.0	3.4	2.1	-0.9	2.0	1.5		
Private sector credit (annual percentage change)	8.9	1.4	3.4	3.4	4.0	5.2	5.2	5.4	6.1	6.0	15.2	14.6	9.6	7.0	7.5	8.0		
Broad money (annual percentage change)	-0.9	7.3	5.0	-0.5	6.7	1.3	7.0	3.9	7.6	4.7	17.1	16.5	13.1	9.0	10.9	9.0		
Currency	-10.6	9.2	2.0	-7.7	2.0	-2.9	2.0	2.0	2.0	2.0	4.0	4.0	4.0	4.0	4.4	4.3		
Deposits	2.0	6.7	5.7	1.2	7.8	2.3	8.1	4.3	9.2	5.4	20.0	19.1	15.1	10.3	12.6	10.1		
Claims on government/domestic credit ratio 1/	29.6	30.4	26.8	21.9	28.5	22.1	28.7	24.8	30.8	28.0	23.2	23.1	25.2	26.0	26.6	26.8		
Currency outside banks/deposit ratio 1/	26.8	27.4	23.0	21.7	20.8	20.9	21.7	22.5	25.6	26.5	18.8	18.3	20.3	25.0	23.2	22.0		
Velocity (non-oil GDP/average M2)	5.4	5.4	4.9	5.6	4.9	5.6	4.8	5.6	4.7	5.5	5.7	5.7	5.7	5.7	5.5	5.4		
Velocity (GDP/average M2)	5.8	5.8	5.4	6.0	5.3	6.0	5.2	6.0	5.1	5.9	6.2	6.2	6.2	6.2	5.8	5.7		
Net claims on the public sector 2/	349.8	340.9	298.4	205.6	320.4	232.7	328.3	275.6	373.0	331.7	289.2	282.1	306.8	317.9	373.3	402.3		

Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ In percent.

2/ In billions of CFA francs, using the BEAC's definition, which includes deposits of public enterprises and autonomous agencies.

Table 6. Cameroon: Balance of Payments, 2002-08 1/

	2002	2003	2004 Est.	Projections			
				2005	2006	2007	2008
(In billions of CFA francs)							
Current account balance	-465	-164	-255	-212	-110	-330	-506
Trade balance	55	137	24	58	196	-24	-151
Exports, f.o.b.	1,380	1,370	1,388	1,511	1,739	1,634	1,635
Oil and oil products	604	551	574	665	806	647	594
Non-oil sector	776	819	814	845	933	987	1,041
Imports, f.o.b.	-1,326	-1,233	-1,364	-1,452	-1,542	-1,658	-1,786
Services (net)	-616	-416	-349	-363	-406	-395	-448
Interest due on public debt	-178	-155	-139	-117	-112	-97	-86
Other	-438	-262	-210	-246	-294	-298	-362
Transfers (net)	97	115	69	93	100	89	92
<i>Of which</i> : official	24	40	3	18	22	0	0
HIPC assistance	24	36	37	33	27	21	15
Inflows	107	124	80	105	113	100	102
Outflows	-9	-9	-11	-12	-13	-11	-9
Capital account balance	267	-199	33	27	-107	174	367
Official capital (net)	-265	-247	-198	-225	-128	-108	-48
Program loans	56	40	47	22	26	17	15
Project loans (to central government and public enterprises)	26	38	51	46	118	95	133
Amortization	-347	-325	-296	-292	-272	-221	-196
Private capital (net)	532	48	231	252	22	282	415
Oil sector	387	-12	-76	-4	-12	30	-13
Non-oil sector	144	60	307	255	34	252	428
Direct investment	123	125	128	131	133	146	161
Privatization receipts	2	0	0	0	0	0	0
Other, including short term	19	-65	179	125	-99	106	267
Overall balance	-198	-363	-222	-184	-216	-157	-140
Financing	198	363	222	184	216	157	140
Bank of Central African States (BEAC)	-136	51	-87	-30	-90	-80	-70
Use of IMF credit (net)	29	6	-15	-19	-24	-28	-25
Other reserves (net)	-164	44	-72	-11	-66	-52	-45
Debt rescheduling 2/	914	313	297	0	0	0	0
<i>Of which</i> : HIPC assistance	44	25	6	...	...	...	...
Net change in arrears 3/	-580	0	13	-12	0	0	0
Financing gap 4/	0	0	0	226	306	237	210
<i>Of which</i> : possible debt relief	0	0	0	224	302	232	205
possible IMF disbursement	0	0	0	2	4	4	4
(In percent of GDP)							
Trade balance	0.7	1.7	0.3	0.7	2.1	-0.2	-1.4
Current account balance	-6.4	-2.6	-3.1	-2.6	-1.4	-3.4	-4.8
Excluding grants	-6.4	-2.6	-3.1	-2.6	-1.4	-3.4	-4.8
Including grants	-6.1	-2.1	-3.0	-2.4	-1.2	-3.4	-4.8
Overall balance	-2.6	-4.6	-2.7	-2.1	-2.3	-1.6	-1.3
(Percentage change, unless otherwise indicated)							
Export volume	-7.0	6.9	1.5	-5.3	6.2	1.3	3.2
Oil sector	-6.6	-5.6	-10.4	-10.4	11.3	-10.8	-5.2
Non-oil sector	-6.6	12.3	5.9	-3.7	4.8	5.0	5.4
Import volume	1.9	-0.6	9.4	1.0	2.8	3.0	3.2
Terms of trade	0.0	-0.8	-1.3	9.0	4.9	-11.1	-7.2
Non-oil export price index (CFA francs)	2.8	-5.5	-6.1	7.8	5.4	0.8	0.0
Import price index (CFA francs)	-0.4	-6.4	1.1	5.4	3.3	4.3	4.3
Exchange rate (CFA francs per U.S. dollar)	696.4	580.8	528.0	...	...	...	...

Sources: Cameroonian authorities; and IMF staff estimates and projections.

1/ Including the financing of the Chad-Cameroon oil pipeline in 2001-03.

2/ From Paris Club and other non-Paris Club creditors.

3/ Including the London Club operation, estimated at CFAF 580 billion in 2002.

4/ From 2005 onward, the financing gap could be covered through debt relief.

Table 7. Cameroon: Millenium Development Goals

	1990	1995	2001	2002	2003	Target 2015
<u>Goal 1. Eradicate extreme poverty and hunger</u>						
Population below \$1 a day (%)	...	...	17.1	...	...
Poverty gap at \$1 a day	...	...	4.1	...	...
Percentage share of income or consumption held by poorest 20%	...	...	5.6	...	...
Prevalence of child malnutrition (% of children under 5)	15.1	...	...	...	...	[7.6]
<u>Goal 2. Achieve universal primary education</u>						
Net primary enrollment ratio (% of relevant age group)	...	...	...	...	...
Percentage of cohort reaching grade 5 (%)	...	...	61.9	...	...
Youth literacy rate (% ages 15-24)	81.1	86.2	90.0	...	...
<u>Goal 3. Promote gender equality</u>						
Ratio of girls to boys in primary and secondary education (%)	82.5	84.4	85.0	...	84.9	[100]
Ratio of young literate females to males (% ages 15-24)	87.9	92.5	95.7	...	...
Proportion of seats held by women in national parliament (%)	...	12.0	...	...	9.0	
<u>Goal 4. Reduce child mortality</u>						
Under 5 mortality rate (per 1,000)	139.0	156.0	166.0	166.0	166.0	[46.3]
Infant mortality rate (per 1,000 live births)	85.0	92.0	95.0	95.0	95.0	[28.3]
Immunization, measles (% of children under 12 months)	56.0	46.0	62.0	62.0	61.0	[18.6]
<u>Goal 5. Improve maternal health</u>						
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	730.0	...	...
Births attended by skilled health staff (% of total)	58.4	...	60.0	...	...	[14.6]
<u>Goal 6. Combat HIV/AIDS, malaria, and other diseases</u>						
Prevalence of HIV, female (% ages 15-24)	...	...	12.7	...	...
Incidence of tuberculosis (per 100,000 people)	...	...	145.0	187.7	180.5	
Tuberculosis cases detected under DOTS (%)	...	2.0	16.0	59.6	86.4	
<u>Goal 7. Ensure environmental sustainability</u>						
Forest area (% of total land area)	56.0	...	51.3	...	...
Nationally protected areas (% of total land area)	...	4.5	4.5	4.5	4.5	
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.9	3.7	4.7	...	4.7	
CO2 emissions (metric tons per capita)	0.1	0.3	0.4	...	...
Access to an improved water source (% of population)	51.0	...	58.0	...	43.0	
Access to improved sanitation (% of population)	77.0	...	79.0	...	63.0	
<u>Goal 8. Develop Global Partnership for Development</u>						
Fixed line and mobile telephones (per 1,000 people)	3.5	5.1	27.1	49.7	49.7	
Personal computers (per 1,000 people)	...	1.5	3.9	5.7	5.7	
General indicators						
Population (in millions)	11.7	13.4	15.1	15.8	16.1	
Adult literacy rate (% of people ages 15 and over)	57.9	64.9	71.3	...	...
Total fertility rate (births per woman)	6.0	5.2	4.8	4.6	4.6	
Life expectancy at birth (years)	54.2	53.6	50.1	43.4	48.0	

Source: <http://www.developmentgoals.org/>

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education, preferably by 2005 and at all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of the least developed countries. Address the special needs of landlocked countries and small island developing states. Deal comprehensively with debt sustainable in the longterm. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Table 8: Cameroon: Fund Disbursements and Timing of Reviews Under the Prospective Three-Year PRGF Arrangement, 2005-08

Date of Availability (on or after)	Conditions	Amount (in millions of SDRs)
October 31, 2005	Board approval of the PRGF arrangement	2.65
April 15, 2006	Completion of first review (end-December 2005 quantitative and structural performance criteria)	2.65
October 15, 2006	Completion of second review (end-June 2006 quantitative and structural performance criteria)	2.65
April 15, 2007	Completion of third review (end-December 2006 quantitative and structural performance criteria)	2.65
October 15, 2007	Completion of fourth review (end-June 2007 quantitative and structural performance criteria)	2.65
April 15, 2008	Completion of fifth review (end-December 2007 quantitative and structural performance criteria)	2.65
October 15, 2008	Completion of sixth review (end-June 2008 quantitative and structural performance criteria)	2.67

Sources: IMF staff estimates.

Table 9. Cameroon: Indicators of IMF Credit, 2003-08 1/

	2003	2004	Projections			
			2005	2006	2007	2008
IMF credit outstanding						
In millions of SDRs	233.6	214.7	190.3	160.0	124.9	93.2
In millions of U.S. dollars	332.3	318.0	276.7	233.0	182.1	135.9
In billions of CFA francs	190.1	167.1	146.6	126.0	98.2	73.1
In percent of quota	125.8	115.6	102.5	86.2	67.3	50.2
Debt service to the IMF						
In millions of SDRs	9.2	20.0	28.6	37.1	41.7	38.2
In millions of U.S. dollars	12.9	29.7	41.5	54.0	60.8	55.8
In billions of CFA francs	7.5	15.7	21.8	29.2	32.8	30.0
In percent of						
Export of goods and nonfactor services	0.4	0.8	1.0	1.2	1.4	1.3
Total debt service due	1.6	3.6	5.3	7.6	10.4	10.7
Government revenue	0.6	1.2	1.5	1.8	2.0	1.7
GDP	0.1	0.2	0.2	0.3	0.3	0.3
Quota	5.0	10.8	15.4	20.0	22.5	20.6
Debt service to the IMF (in millions of SDRs)						
Interest and charges	1.1	1.1	1.5	1.5	1.4	1.2
Repurchases/repayments	8.1	18.9	27.0	35.6	40.4	37.1

Sources: IMF, Finance Department; and staff estimates and projections.

1/ Includes the prospective disbursements under the requested PRGF arrangement.

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington D.C. 20431
USA

October 13, 2005

Dear Mr. de Rato:

1. Despite slower economic growth Cameroon's fiscal situation has improved through mid-2005 with the implementation of our economic program. Cameroon's government is determined to continue its efforts and to consolidate the macroeconomic gains achieved in recent years. Moreover, the Government is also committed to undertake decisive structural reforms to achieve sustained economic growth and reduce poverty.
2. The attached Memorandum of Economic and Financial Policies (MEFP) summarizes the key elements of our program for 2005-2008. It seeks to consolidate Cameroon's fiscal position to preserve macroeconomic stability, to strengthen investment and to improve social conditions. In particular, fiscal policy will continue to mobilize non-oil revenue to offset the secular decline in oil output, as well as to strictly monitor budgetary expenditure, while allowing for an acceleration of public investment and other spending related in priority areas, in particular basic infrastructure. We will continue to expedite the further restructuring and privatization of public enterprises in order to reduce the burden they impose on public finances and improve service delivery. Budgetary and expenditure management will be fostered, building on our efforts so far to improve fiscal transparency and accountability. The government has set up a Committee to monitor the implementation of the principles of the Extractive Industries Transparency Initiative (EITI) in Cameroon and we will make every effort to enhance transparency in Cameroon's oil sector. The program set out in the MEFP also includes measures to improve governance and fight corruption to enhance private sector activity and business climate. Our efforts to strengthen health conditions and access to education have yielded tangible improvements, and we will continue our efforts in line with the priorities of Cameroon's Poverty Reduction Strategy Paper.
3. In support of its medium-term program, the government of Cameroon hereby requests a new three-year arrangement under the PRGF in a total amount equivalent to SDR 18.57 million (equivalent to 10 percent of Cameroon's quota). We are hopeful a successful implementation of a PRGF-supported program would allow Cameroon to reach the completion point under the enhanced HIPC Initiative in 2006. The government also requests that the first disbursement under the arrangement, in an amount equivalent to SDR 2.65 million, be made available following the approval of the new PRGF arrangement by the Executive Board of the Fund. Furthermore, the government requests additional interim assistance in an amount equivalent to SDR 5.70 million under the enhanced HIPC Initiative.

4. The Government of Cameroon believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Cameroon will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation.

5. The Government will communicate to the IMF the information needed to monitor progress in implementing the program. Reviews with the IMF will be conducted throughout the period of the arrangement to evaluate the macroeconomic and structural reform policies and implementation of the Government's program and to reach new understandings, as necessary. The first review will cover the progress made during the first six months of the program and discussions will take place in late January/early February 2006.

6. The Government of Cameroon authorizes the IMF to make this letter and the attached MEFP available to the public.

Sincerely yours,

/s/

Inoni Ephraim
Prime Minister
Cameroon

Yaoundé, October 13, 2005

**Memorandum of Economic and Financial Policies of the Government of Cameroon
(July 2005–June 2008)**

I. INTRODUCTION

1. The Government of Cameroon adopted a strong economic program for 2005 aimed at strengthening the fiscal position and continuing structural reforms. It asked IMF staff to monitor the program (SMP). To consolidate the broadly satisfactory results achieved under the SMP during January-June 2005, the Government reached understandings with IMF staff on a three-year program that could be supported by the IMF through a new arrangement under the Poverty Reduction and Growth Facility (PRGF). This memorandum describes the objectives of the PRGF-supported program covering the period July 2005-June 2008 and the policies to be implemented in order to reach them. These objectives and policies are consistent with Cameroon's Poverty Reduction Strategy (PRSP) adopted by the Government in 2003, two annual implementation reports thereunder and an updated macroeconomic framework.

II. RECENT ECONOMIC DEVELOPMENTS AND SMP IMPLEMENTATION

2. **Cameroon's economic growth is projected to slow from 3.5 percent in 2004 to 2.8 percent in 2005 on account of weaker non-oil activity.** Growth in the non-oil economy is expected to slow from 4.7 to 3.7 percent reflecting slower manufacturing activity, weaker consumption due in part to fiscal consolidation, and continued low investment. Inflation has remained subdued reflecting the impact of favorable climatic conditions on agricultural output and sluggish demand; the annual average inflation is projected at 1.3 percent. Consistent with slowing activity levels, the growth of credit to the private sector has remained low at 5.2 percent during July 2004-June 2005.

3. **Cameroon's external position is expected to strengthen somewhat with the external current account deficit (after grants) estimated to improve from 3.0 percent of GDP in 2004 to 2.4 percent of GDP in 2005.** While both oil and non-oil export volumes are expected to decline, higher export prices should help maintain the growth of export value. The increase in import volume is projected to remain below real GDP growth. Following two years of moderate declines, the terms of trade are projected to improve by 9 percent in 2005. The overall balance of payments deficit is projected at 2.1 percent of GDP and is expected to be financed mainly with debt relief requested from Cameroon's bilateral creditors.

4. **The Government's fiscal position improved in the first half of 2005 as efforts to enhance revenue collection and expenditure controls continued.** The non-oil primary balance improved from a deficit of 2.3 percent of non-oil GDP in 2004 to a surplus of 0.5 percent of annual non-oil GDP in the first half of 2005, in line with the SMP targets (Table 1).

- Non-oil revenue performed better than expected by 0.5 percent of annual non-oil GDP in the first half of 2005, reflecting higher corporate income tax collections and increased dividend payments.
- Total expenditure was as expected, but the composition of expenditure did not fully meet the program objectives. Capital outlays and HIPC-financed expenditure remained lower than planned reflecting procedural difficulties and a delayed start of preparations of investment projects. In contrast, spending on goods and services was above-target.

5. **The Government made progress in regularizing its domestic debt and accelerated payment of arrears.** In the first half of 2005 the Government used the oil windfall (0.6 percent of annual GDP compared to the SMP oil revenue targets) to reduce arrears to the HIPC account at the BEAC and to repay more domestic debt. Preliminary results of the audit of domestic debt became available at end-June.

6. **Government efforts to advance structural reforms continued, although some delays were incurred, particularly in public enterprises** (Table 2).

Progress has been made to enhance the transparency of fiscal operations and strengthen public financial management.

- The preparation of monthly budget execution information (TABORD) has been accelerated greatly in 2005 and such information is now prepared within 3 weeks of the end of the reporting month. The presentation has been refined and improved, the TABORD is now provided on a consistent cash and commitment basis as well as on a functional basis.
- The majority of Government accounts in commercial banks were closed and balances transferred to the Treasury account at the BEAC.
- The Government started publishing budget execution data in August for January-May 2005, and intends to continue such publication including in local print media on a monthly basis, seeking to improve the content and format.
- Some efforts were made to limit spending without prior payments orders (*dépenses non ordonnancées*) to *interventions directes* and payment of legal fees, but further discipline is needed in this area to comply with the Government's commitment in the SMP to commit all spending before making cash payments.

Efforts were made to privatize public enterprises and to reduce the losses of these entities to alleviate the burden they impose on the budget and improve the services they provide.

- The preparation and adoption of a detailed time-bound action plan for the privatization/liquidation of the state airline (CAMAIR) slipped to late 2005 due to

delays in the recruiting of specialist consultants. To reduce the burden CAMAIR imposes on the budget, the Government started implementation of a cost reduction plan, including retrenchment of about one third of staff.

- Progress has been made toward the restructuring of the postal operator (CAMPOST) including through an audit of the savings accounts, the inventory of physical assets of SONAPOST and CEPC (the two entities that were merged to set up CAMPOST in April 2004), the preparation in August 2005 of the draft opening balance sheet for CAMPOST as of the date of its creation, the establishment of a dedicated account at the regional central bank (BEAC) to safeguard new deposits, and the adoption of a retrenchment plan that started to be implemented in July 2005.
- The Government took steps to limit the losses of the refinery (SONARA). This included fuel price increases of a cumulative 8-14 percent in the first 8 months of 2005 and a number of cost-cutting measures.
- The Government is working with the help of the World Bank on the privatization of the fixed-line telephone company (CAMTEL). This privatization has been delayed by some 6 months, notably because the telecom sector strategy needed to be updated in light of recent market developments. In the interim, the Government is taking the required steps to sign an agreement with COTCO to use the fiber-optics cable that has been laid along the Chad-Cameroon oil pipeline, including clarifying the implications for the future operations of CAMTEL.
- The actions envisaged in the program with respect to other public enterprises (SNEC, CDC, SODECOTON) have been delayed by three to six months, including owing to delays in the hiring and/or work of consultants.

Efforts to enhance transparency, improve governance and the business climate have continued.

- In the context of the Extractive Industries Transparency Initiative (EITI), the transparency of oil sector operations has improved with the publication of data on oil production and the main elements of audits of SNH (www.snh.cm and www.spm.gov.cm); the Government has also sought agreement from private oil companies to the publication of the main elements of production sharing agreements.
- The licensing of microfinance institutions in cooperation between the COBAC and the Ministry of Economy and Finance has been progressing more slowly than planned; it is nevertheless expected to be completed in October 2005.
- The action plan for the reform of the judicial system is being implemented. Parliament adopted a new penal procedure code that harmonized the Cameroonian legal system. The code was promulgated in July 2005. Hiring and training of the staff of the *Chambre des Comptes* is under way. The Prime Minister in May signed a

decree setting up the anti-money laundering agency (ANIF) and nominated its head in August with a view to making this agency operational by end-2005.

- The update of the national action plan to improve governance (PNG) was delayed from June to October/November 2005. This will be part of the implementation of a governance project agreement signed with the UNDP in June.

III. POVERTY REDUCTION FRAMEWORK AND MEDIUM-TERM STRATEGY

A. Medium-term Macroeconomic Framework

7. **The Government's medium-term economic policies are consistent with Cameroon's 2003 PRSP**, which remains valid. Thus the Government aims to:

- achieve longer-term debt sustainability and maintain macroeconomic stability with the support of prudent fiscal policy;
- improve the allocation of Government resources and increase investment in physical and human capital; and
- reduce impediments to growth and poverty reduction by strengthening the business climate.

8. **Cameroon's medium-term prospects are good.** With higher public investment, spending in the social sectors and stronger exports spurred by productivity gains and diversification of production, non-oil activity is projected to grow by an average of 4.4 percent per year during 2005-08. In the oil sector, prospects are less favorable on a volume basis (a projected cumulative decline by 16 percent during 2005-08), but oil-generated resources will remain important reflecting the high projected world oil prices. Private investment is expected to pick up gradually as improvements become perceptible in public services and the business climate and as confidence in the Government strengthens.

9. **Prudent fiscal and monetary policies will aim to contain inflation to 2 percent and maintain a sustainable balance of payments and external debt position.** The external current account deficit is projected to widen to about 5 percent of GDP in the medium term, reflecting higher import needs and declining oil exports. Debt indicators are projected to fall to sustainable levels in 2005-06 and would be strengthened further through debt forgiveness at the HIPC completion point.

10. **The Government's fiscal strategy aims at expanding poverty-reducing and growth-enhancing expenditure to pave the way to reaching the Millennium Development Goals (MDGs)** while maintaining safeguards to ensure continued debt sustainability. Fiscal policy will be based on conservative oil price assumptions to isolate it from the high volatility of international oil prices, with any oil revenue windfall to be used for purposes pre-determined in the program. The Government plans to increase gradually non-oil revenue to cover recurrent expenditure and offset projected declines in oil revenue, as

well as possible losses in trade taxes over the medium to long term due to continued liberalization efforts. Reflecting mainly the impact of debt relief expected to become available at the completion point, non-interest expenditure is projected to increase by about 2 percentage points of GDP during 2006-08 relative to 2005, two thirds of which will be allocated to public investment. The non-oil primary deficit (overall balance, excluding grants, interest and foreign-financed capital expenditure) is projected to widen from 0.7 percent of non-oil GDP in 2005 to 2.1 percent in 2008, and the overall balance (excluding grants) to shift from a surplus of 1.6 percent of GDP to a deficit of 0.6 percent.

11. **The main challenges for fiscal policy in the period ahead will be to further improve public financial management, public expenditure management, in particular for investment spending, and to accelerate enterprise restructuring.** Given the planned increase in non-interest expenditure, the Government will focus on improving the quality and efficiency of spending and enhancing the link between the PRSP, the medium-term expenditure frameworks (MTEF), and the budget. It will also further pursue its efforts to strengthen transparency in budgetary execution and to improve fiscal reporting. The Government is determined to repay timely its domestic debt to rebuild business confidence. Public enterprise restructuring, which aims at privatization in many cases, will adapt these enterprises to a competitive environment, improve the services they provide reduce the burden they impose on the state.

B. Macroeconomic Framework for the First Year of the Program

12. **Within the Government's medium-term objectives, the first year (July 2005–June 2006) of a new 3-year program will build on the achievements of the 2005 SMP.** It will consolidate the ambitious fiscal objectives of the 2005 budget that reversed the deterioration in public finances in 2003-04. The projections for 2005 under the SMP have been revised to reflect new developments, particularly higher oil prices and slower growth, as well as budget execution through July 2005. The non-oil primary deficit (before grants) is projected at 0.7 percent of non-oil GDP in 2005, implying an improvement of 1.5 percentage points of non-oil GDP since 2004. The 2006 budget will aim to increase non-oil revenue and improve the structure of the tax system and the quality of spending, and continue paying domestic debt (quantitative and structural performance targets are detailed in Tables 3 and 4).

13. **The Government intends to strengthen the fiscal position through mobilizing additional non-oil revenue in 2005-06.** In 2005, the bulk of fiscal adjustment will be achieved through an improvement in non-oil revenue, which is targeted to reach 13.3 percent of non-oil GDP, including 0.3 percent in one-time factors (e.g. dividend payments by public enterprises, and the retention by the central Government of about half a VAT surcharge dedicated to local governments). The 2006 budget will seek to raise non-oil revenue by 0.3 percentage points of non-oil GDP (excluding one-time factors) to generate domestic resources for priority spending, and strengthen the revenue base.

14. **The revenue measures proposed in the 2006 budget include:**

- Extending the excise tax, at a rate of 12.5 percent to passenger vehicles with engine capacity of 2000 cm³ or more, and at a rate of 25 percent (top rate under the CEMAC directive) to mineral waters, and non-alcoholic carbonated beverages and fruit juices (to yield 0.1 percent of non-oil GDP).
- Increasing the minimum tax from 1 to 1.5 percent on the turnover of enterprises outside the real regime “*régime du réel*” (yield of 0.02 percent of non-oil GDP).
- Eliminating the zero-rate tariff category to conform the national tariff structure to the CEMAC’s (0.01 percent of non-oil GDP).
- Introducing a new property tax (based on value rather than surface area; yield of 0.03 percent of non-oil GDP).
- In support of a more comprehensive initiative against illegal logging, (the National Forest and Wildlife Control Strategy), the Government will introduce a tax on timber of 2.5 percent calculated on the fob value of sawn timber. This tax will be applied to sawn timber on which the tax “*entrée usine*” has not been collected (yield of 0.05 percent of non-oil GDP).
- Transfer back to local governments one half of the *centimes additionnels* that were temporarily retained at the central Government in 2005 (cost of 0.1 percent of non-oil GDP).

15. **A number of tax administration measures will be taken building on the technical assistance received**, including the recent IMF expert visits on tax administration and tax policy. The Government is working with the regional IMF tax administration advisor stationed in Yaoundé since September 2005 to strengthen domestic tax administration with a particular focus on improving compliance and enforcement in the informal sector. With his assistance, the Government will build a representative sample of individual taxpayers in the private sector by end-2005. The purpose of the sample will be to study the revenue and distributional effects of policy changes to the personal income tax (IRPP). In particular, the Government will undertake to use the sample in order to study the impact of the 2004 reform to the IRPP and to consider policy options to improve its revenue performance. In the area of customs, improvements will include measures to speed up shipment delivery and enhance operational efficiency by implementing the information system ASYCUDA nationwide by end-2006. Furthermore, a joint tax-customs administration unit will be set up by October 2005; its main role will be to facilitate information exchange between the two directorates and undertake joint audits to exploit the specialized knowledge of their staffs.

16. **Oil revenue in 2006 is projected to increase to 5.5 percent of GDP.** This reflects both an increase in the volume of production by 6.2 percent and a rise in oil prices from

US\$45.3 per barrel in 2005 to US\$48.0 in 2006. Any oil revenue windfall over and above the projection will be used for domestic debt repayments.

17. **In order to strengthen the transparency of the budget and expenditure monitoring, the allocations for the 2005 budget were revised to better account for the payments made directly by SNH.** On September 13, 2005 the Prime Minister signed a decree regarding the related transfer of credits. This decree reflects the *interventions directes* by SNH in the first half of the year as well as the anticipated additional sovereign spending in the second half of the year. Consistent with this, the 2006 budget law, which will be submitted to the Parliament by end-October, will set adequate appropriations for each ministry in order to increase budget transparency as well as to facilitate budgetary execution and the monitoring of spending. Spending ministries will be informed that the use of the budgetary reserve will be strictly limited to unforeseen spending.

18. **The Government will focus its expenditure in 2006 on the PRSP priority areas and speed up public investment.** Budgetary appropriations in the 2006 budget law will be directed toward growth enhancement and poverty reduction objectives, drawing on existing MTEFs. Priority will be given to public investment, reflecting in particular the use of debt relief, while goods and services and subsidies will be contained. Non-interest expenditure will increase by 1.8 percent of GDP, out of which 1.7 percent will be directed toward capital expenditures. To ensure the quality of this public spending, the Government intends to implement actions and measures directed toward increasing its absorption and management capacity and strengthening the efficiency of expenditures, in particular by: (i) improving the investment projects planning drawing on existing MTEFs; (ii) applying criteria focusing on investment project selection; (iii) starting budget commitments from the beginning of the fiscal year (January). Furthermore, the Government will continue to strengthen its management of public finances (reporting, cash management) and seek to pay its bills within 60 days so as to avoid the accumulation of new payments arrears..

19. **The Government will enhance the implementation of the procurement reform in Cameroon.** It intends to (i) develop a national procurement capacity building strategy. An action plan for establishing this strategy will be available before end-December 2005; (ii) publish systematically anti-corruption actions such as legal proceedings and sanctions against offenders and improve the internal processing and management of complaints within the Public Regulatory Agency (ARMP); and (iii) design and install by end-December 2006 a computerized system for the planning, the procurement and the management of public contracts with access via the ARMP website. Also, the Government intends to submit to the World Bank by October/November 2005, a list of performance indicators which will be periodically used to assess and monitor the reliability and the performance of the national procurement system.

20. **The Government aims at implementing a multi-year budget framework that is consistent with its medium-term growth projections, the strategic objectives of the PRSP and sector priorities.** To this effect, the Government is elaborating sector strategies, and making operational comprehensive MTEFs covering PRSP priority sectors, namely those

of the Ministries of Education, Health, Rural Development, and Public Works. This work is supported by the World Bank PRSP Trust Fund. The sectoral MTEFs, in particular those for the Ministries of Health and Public Works, will be linked to the global MTEF of the Ministry of Finance by end-2005.

21. **The Government will continue its civil service reform.** It has launched the census of civil servants and is implementing a computerized payroll monitoring system and human resource management tools (SIGIPES) in four pilot ministries that account for about half of Government employment. The implementation of SIGIPES in pilot ministries contributed to the streamlining of their civil service rosters and the devolution of personnel management to line ministries. To harmonize the payroll and civil service roster for the entire central Government requires the extension of SIGIPES to all line ministries. To this end, the Government plans to take the necessary steps for the extension of the system to 11 other line ministries by end-December 2006. Based on the outcome of this extension, the Government will expand the system to the remaining ministries from 2007 on.

22. **The Government is determined to regularize its debt and implement the new domestic debt service schedule in full, which will enhance investor confidence.** Further work was undertaken in October to refine the assessment of cross-debts between the Government and public enterprises. Building on the results of the audit, the Government drew up in September a new debt service schedule for 2006 and beyond. It intends to strictly implement this schedule, notably by entrusting the CAA with the coordination of the payments of all debt obligations included in the audit, as well as the monitoring and consolidation of the related information.

C. HIPC Initiative, PSRP Process, Harmonization, and Alignment with Donors

23. **The Government will accelerate progress toward meeting the remaining HIPC completion point triggers.** Substantial progress has been achieved, in particular on the triggers pertaining to the social sectors (especially education and healthcare) and combating HIV/AIDS, the satisfactory conclusion of the third Structural Adjustment Credit (SAC III), establishment of autonomous regulatory agencies for key sectors, and implementation of judiciary reform. The Government intends to accelerate progress in other areas as agreed with the World Bank and the IMF, in particular related to governance, by making the Audit Chamber operational by end-2005 and pursuing the implementation of the action plan to establish the Constitutional Council, and continuing the implementation of the public procurement reform. In cooperation with the World Bank, it intends to address shortcomings in the implementation of the forestry sector reform. Also, it will prepare a least-cost investment plan consistent with international standards for the energy sector by March 2006.

24. **The Government prepared an update of the PRSP's macroeconomic framework and a second annual progress report covering January 2004–March 2005.** It is committed to accelerate progress towards the preparation and adoption of sectoral strategies and associated MTEFs in all priority sectors identified in the PRSP in order to facilitate and enhance the implementation of the poverty reduction strategy. The Government sees the

PRSP process as the main tool for donor harmonization and alignment around the priority development areas in the medium term. In line with the 2005 Paris declaration on aid effectiveness, the Government and donors intend to agree on an action plan before end-2005. This action plan will focus on a limited number of pilot areas, and aims at enhancing donor alignment with PRSP priorities, harmonization of operational policies and procedures, and managing for results. A partnership agreement between the Government and donors will be developed, spelling out mutual responsibilities and indicators to track progress on aid effectiveness.

25. **The Government will strengthen the mechanism for the appropriation and use of HIPC resources and the implementation of HIPC projects.** The existing mechanism, whereby the budgetary savings from debt relief are deposited in a dedicated HIPC account at the BEAC and used in accordance with the procedures set at the decision point, will be preserved after the completion point. In addition, the Government will take the following measures to strengthen the mechanism: (i) the arrears to the HIPC account will be replenished in full by end-March 2006; (ii) the financial and physical monitoring of the implementation of HIPC projects will be strengthened, in particular by establishing by end-2005 a special control unit under the HIPC Consultative Committee to monitor the implementation of projects; (iii) the 2004 HIPC audit was completed in September 2005 and will be made available to the general public. The Government intends to implement quickly the recommendations of the 2004 HIPC audit after approval by the HIPC Consultative Committee.

26. **Education sector policies will continue to focus on removing the remaining obstacles to meeting the MDGs.** The hiring and managing of temporary teachers (*instituteurs vacataires*), as well as their gradual inclusion in the civil service will be done in a way that assures the long-term financial sustainability of the sector. The Government will pursue the PRSP objective to improve the overall efficiency of the education system by taking the administrative and pedagogical steps that are necessary to reduce the high repetition rates. Finally, Cameroon has been invited to raise funds through the donor-supported Fast Track Initiative for education, and the Government will prepare an education strategy and action plan to be submitted to donors in the first quarter of 2006.

27. **The Government's priorities in the health sector are to improve the efficiency of spending to get better results and to ultimately increase the level of public spending and progress towards attainment of the MDGs specifically.** The Government plans to: (i) target priority investments towards poorer, less served areas of the country to improve quality of care and expand access to child, maternal and nutritional services; (ii) expand the use of contractual staff for disadvantaged areas and develop clear policies for management of contractual staff; (iii) increase contracting with NGOs to provide services to vulnerable groups and/or remote areas; and (iv) reduce the financial burden on poor households by introducing risk sharing mechanisms.

IV. STRUCTURAL REFORMS

28. **The Government is committed to further structural reforms to facilitate private sector activity, investment and growth.** This includes strengthening transparency in Government finances, as well as limiting the losses of public enterprises and improving the services they provide. To reduce impediments to growth and improve the business climate, the Government will aim at deepening financial intermediation, promoting good governance, upgrading infrastructure and improving the regulatory framework in key sectors (including energy, transport, and forestry) and encouraging regional integration and international trade.

A. Government Finances

29. **The Government will improve further the transparency of expenditure.** It will discontinue from January 2006 all cash advances (*interventions directes*) by the oil company (SNH), as they are made outside the treasury and do not follow normal budgetary spending procedures. Furthermore, SNH's indirect cost (*autres charges*) of a quasi-fiscal nature will be contained at CFAF 25 billion during July 2005-June 2006. Payments will be made only after expenditures have been committed and within available budget allocations for the relevant ministry and reflecting the nature of the expenditure. Monthly fiscal reporting will be strengthened further, including through the preparation of consistent budget execution tables on a cash and commitment basis as well as a comprehensive breakdown of spending by economic function and executing ministry.

30. **The Government will also enhance other aspects of fiscal governance.** It will complete the implementation of the single Treasury account at the BEAC by end-2005. It will also prepare comprehensive annual budget implementation reports supporting the presentation of the *Loi de règlement* to facilitate parliamentary oversight, starting with the budget execution for 2004. The *Chambre des Comptes* will become operational at end-2005 and examine the budget execution from 2004 on. The audit chamber will start assessing the management accounts of public accountants beginning in 2006.

31. **The Government is determined to implement the EITI principles in Cameroon.** The technical Secretariat of the EITI Committee was established in September 2005 after carrying out all the necessary consultations. It will prepare, in collaboration with the consultant hired with the assistance of the World Bank, an action plan to be submitted to the Committee in October 2005. This draft action plan will then be made available to the public by all information media in order to have its feedback at the latest by end-November 2005. After taking into account the various comments and suggestions, the consensual action plan will be implemented as from January 1, 2006. In addition, the Government will improve the timeliness of SNH audits. The results of the 2004 audit will be published by end-2005 and those of the 2005 audit by end-September 2006. Also, the Government will publish on a quarterly basis information on total oil production, selling prices obtained, and revenue from oil received by the Treasury, building on the information for the second quarter of 2005 that was published in the third quarter of 2005.

32. **The Government will proceed cautiously on fiscal decentralization.** Among initial steps, an audit of FEICOM, the entity managing the distribution of the fiscal revenue allocated to local governments and providing project loans to local governments, was completed in May 2005. The Government will begin to implement its recommendations before end-2005, including strengthening its management and the transparency of its operations. A study assessing the financial impact of alternative decentralization schemes within the framework of the 2004 legislation will be completed in 2006. A study of the revenue potential of local governments will be completed in the first quarter of 2006. The Government will consult with the IMF before making any major change in the current fiscal framework.

B. Public Enterprises

33. **The Government's strategy toward public enterprises aims at reducing operating losses and adapting the companies to a competitive environment.** It is also aimed at improving the services these enterprises provide to the economy and thus the Government's growth objective. The Government will redouble its efforts to adhere to the timetable of the privatization program.

34. **The Government will continue to allocate sufficient resources for the restructuring of public enterprises.** Amounts of CFAF 40 billion and 82 billion in 2005 and 2006, respectively, have been allocated. These resources will be used only to implement a privatization strategy (CAMAIR, CAMTEL, CDC), a public-private partnership (SNEC), or a restructuring plan (CAMPOST, SONARA), after consultation with the staffs of the IMF and the World Bank.

35. **With respect to CAMAIR, the Government is working with the assistance of the IFC to elaborate a strategic options report by November and adopt a specific action plan before year-end.** The invitation for bid will be launched before end-January 2006 and the sale is expected to be completed by end-May 2006. The terms of reference of the liquidator will be prepared by end-December 2005 in order to appoint a liquidator by end-March 2006. CAMAIR's interim management will pursue its efforts to contain operating costs, including by renegotiating aircraft leases.

36. **Regarding CAMTEL,** the Government will update the sectoral strategy on telecommunications by end-October 2005. The privatization strategy for CAMTEL will be prepared concomitantly and finalized by the consultant by end-November 2005 in order to be adopted by the Government by end-December 2005. The company will be offered for sale by end-June 2006.

37. **Regarding SNEC,** the Government decided to proceed with a lease management contract in the context of a public-private partnership. The modalities of the implementation of the public-private partnership will be finalized by end-December 2005 and the invitation for bids will be launched by end-July 2006. The financial model to assess the conditions to ensure viability will be completed by end-November 2005 with a view to raising water

tariffs, beginning in 2005, to gradually reach cost-recovery levels. The budgetary allocation for restructuring expenditures will be used to liquidate SNEC's non-recoverable assets.

38. To eliminate the financial losses on domestic operations of publicly owned refinery SONARA, the Government will raise fuel prices and make budgetary transfers to SONARA.

- Fuel prices will be increased by CFAF 5/liter each month in the last quarter of 2005. Based on projected international oil prices, this increase will, however, not be sufficient to cover the production costs of fuel supplied by SONARA to the domestic market. To compensate for this shortfall, the Government will provide a budgetary transfer to SONARA to cover the subsidies to the consumer, which are currently projected at CFAF 16.6 billion for 2005. The Government will also include its debt to SONARA at end-2004 in the domestic debt repayment plan.
- In 2006, the full cost of fuel consumption will be met by further fuel prices increases and possibly further budgetary subsidies. Based on a projection of international oil prices in 2006 at their level of early September 2005 (about US\$60 per barrel) and at US\$/euro exchange rate of CFAF 520/US\$, the Government intends to provide a subsidy of CFAF 20 billion, and raise a similar amount from a rise in fuel prices by CFAF 20 per liter in February 2006. The Government will ascertain the actual cost of oil inputs to SONARA and transfer to it subsidy payments on a monthly basis. If oil prices rise above US\$60/barrel, fuel prices will be increased further. If oil prices fall below this level, the Government will reduce the budgetary subsidy first and eliminate it fully before reducing fuel prices.
- An audit of SONARA's operations will be completed by end-April 2006 to assess the refinery's overall economic costs and seek ways to ensure its medium-term viability. The audit will review the option of associating private investors to the restructuring of SONARA that is envisaged by the Government in 2006.
- In order to avoid cross subsidies between fuels and domestic gas, domestic gas consumer prices will be increased on a quarterly basis according to the evolution of international prices.

39. The privatization plans for CDC and SODECOTON will be implemented. The privatization of CDC will be carried out with the assistance of the World Bank proceeding by sectors with a specific focus on completing in 2007 the privatization of the rubber and palm tree plantations. To this end, an interministerial committee will adopt before end-October an operational strategy for the rubber and palm tree plantations in line with the recommendations of the diagnostic study. The consultants for the complementary studies will be hired by end-March 2006. The merchant bank to advise the Government in implementing the rubber and palm tree plantations will be hired by end-March 2006. As to SODECOTON, a consultant will be hired by mid-2006 to review the cotton sector and determine the prerequisites for the privatization of this company.

40. **Regarding other public enterprises, the Government is setting up a mechanism to monitor their operations more effectively.** Actions will include closer surveillance by the Ministry of Finance and Economy, the reporting of semi-annual income statements, the updating of performance indicators, and the strengthening of statistical monitoring.

41. **Consistent with its program commitments in 2005, the Government will continue to pay on a timely basis for the services received from public enterprises and utilities and will make in the 2006 budget the appropriate allocations for this purpose.** It will not accumulate new arrears to SONARA, including on account of the consumption of the Ministry of Defense. To promote sound financial relations with public enterprises, the Government will not resort to offsetting agreements with public enterprises other than in exceptional circumstances and after consultation with the IMF and the World Bank.

C. Financial Sector

42. **The restructuring of CAMPOST will be pursued with a view to insuring its long term sustainability and establishing a viable subsidiary for its financial activities.** It will comprise the following steps:

- The implementation of the retrenchment plan adopted in September 2005 that will complete staff reduction initiated in July 2005.
- The hiring of a consultant to assist CAMPOST in producing by end-December 2005: (i) the 2004 financial accounts; (ii) financial accounts and balance sheets for 2004 separating postal and financial activities; and (iii) the audit of the special account opened at the BEAC in January 2005.
- Adoption of a postal sector strategy by the Government by end-2005. This strategy will describe in particular the postal universal service obligations of CAMPOST and its financing.
- The management contract team (MCT) will be selected by end-February 2006 to assist the temporary administration in the context of a 3-year management contract. The objectives of this contract will be to enhance corporate management and reduce the burden of CAMPOST on the government budget. The Government will consult with IMF and World Bank staff before adopting the terms of reference for the MCT. The assistance of the MCT to CAMPOST management will be in the context of the implementation of the updated postal sector strategy.
- The establishment of a subsidiary of CAMPOST for postal financial services, under COBAC's supervision, with the mandate, in particular, to serve the population without access to the banking sector. Preparatory work to establish the subsidiary will be completed by end-June 2006. All efforts will be made to receive licensing by COBAC by end-2006. The recapitalization of CAMPOST will be undertaken only after the financial subsidiary of CAMPOST has received sufficient assurances from

COBAC that it will be granted a license to operate. In the meantime, the Government will provide CAMPOST with a subsidy to ensure universal postal service. The Government will also avoid introducing market distortions stemming from the co-existence of the financial subsidiary of CAMPOST and microfinance institutions.

43. **The Government plans to carry out reforms needed for deepening financial intermediation**, which is still at a low level. In particular, these reforms will aim at:

- addressing the weakness of the “financial infrastructure”, i.e. of the institutions and instruments underpinning lending operations, such as accurate bookkeeping by enterprises, the provision of collateral through real estate titles, and the efficient enforcement of property rights by the judicial system. The Government will implement the action plan prepared with the BEAC, which aims notably at, in addition to the ongoing reform of the judiciary system, enhancing the bookkeeping practices in the corporate sector and making bookkeeping information more widely available, and strengthening real estate registers.
- completing microfinance licensing by end-October 2005 and ensuring ongoing supervision of microfinance institutions in cooperation with COBAC. The institutions that are not licensed will be effectively closed by end-2005. The Ministry of Economy and Finance and COBAC will put in place an appropriate accounting framework to strengthen monitoring and supervision of microfinance institutions in consultation with them. Cooperation with the National Association of Microfinance Institutions (ANEMCAM) will be strengthened. All licensed microfinance institutions will be required to put in place this accounting framework.
- restructuring the government-owned housing credit organization (*Credit Foncier*) under the plan agreed with the COBAC. In particular, renewed efforts will be launched to recover nonperforming loans. The Government will also launch in 2005 a study on (i) the financing of housing, a function that is now mostly provided by the *Credit Foncier*, and (ii) how the subsidy now allocated to the *Credit Foncier* could give priority to the financing of social housing.
- requesting an FSAP update and building on its recommendations.
- invigorating the activity on the stock exchange. To this effect, the Government will sell some of its holdings of shares of profitable companies beginning in the last quarter of 2005.

D. Other Structural Reforms to Reduce Impediments to Growth and Improve the Business Climate

44. **The Government is determined to enhance governance and tackle corruption.** In particular, it will press ahead with the implementation of the priority action plan for the reform of the judicial system in order to provide better services relevant for economic

activity. The Government will spell out in detail what its goals are in this area and commission independent annual audits of progress made. Moreover, it will publish before end-November 2005, with the support of donors and non state actors, an updated version of the National Governance Program (PNG; Phase II). This document will present an interim program focused on targeted actions with short term impact and performance indicators.

45. **In the forestry sector**, the Government plans to (i) enhance and maintain coherent data on forestry exploration and on fiscal receipts originating from the forestry sector, (ii) consult with the World Bank on the measures to be taken to improve the system for granting forestry operating licenses, and adapt the fiscal regime and data management system of the forestry sector; and (iii) instruct public prosecutors to request in the courts the application of severe sanctions for violators of the forestry law. The Government signed on September 7, 2005 formal notices for all the operators who did not submit a bank guarantee. These notices specify that the guarantee should cover all the outstanding taxes (arrears) and taxes payable up to end-2005. The Government pledged to withdraw by end-September 2005 all the operating licenses for which no bank guarantee had submitted. On this basis, the Government does not intend to grant any moratorium for tax payments to operators who had not submitted a bank guarantee.

46. **The Government is elaborating a comprehensive medium- and long-term energy sector strategy to ensure sufficient electricity supply for businesses and improve the access of households.** Based on the Power Sector Long-Term Development Plan and on the Energy Access Action Plan, this strategy will be drawn up by end-June 2006 in cooperation with development partners and users groups and will reflect a sound economic and environmental assessment of all options. The strategy will aim at: (i) increasing the number of users of electricity; (ii) associating the local and international private sector to energy production and delivery and developing a competitive market for power generation; (iii) integrating the development strategy of the aluminum sector and related industrial activities and their electricity demand on the basis of alternative scenarios for the production and pricing of electricity; (iv) integrate the electricity system of Cameroon within a regional framework; and (v) reinforcing energy sector regulatory and water basin management capability.

47. **The main objective in the port sector over the next 3 years will be to complete the reform started in 1998.** This will include strengthening the management of the current concessions, and ensuring the dredging of access channels in line with prospective traffic. The Port of Douala and the other main ports need to comply with current safety and security requirements. The port stakeholders, including customs and the “single trade window” (GUCE), will need to continue to progress in reducing delays and costs incurred in moving goods through the port. More specifically, the current upward trend of dwell time in the port needs to be reversed. The Government will continue clearing its arrears vis-à-vis the PAD on past dredging contracts.

48. **The main objectives in the road sector** will be (i) to secure appropriate maintenance of the current priority network, (ii) mobilize the necessary financing to rehabilitate the core

paved network, and (iii) ensure appropriate use of resources to increase access to the poorest rural areas. The Government is making significant progress on the implementation of the revised Memorandum of Understanding with the European Union, including related to road charge revenue collection and Road Fund management.

E. Regional Integration and Trade Policies

49. **Cameroon will seek to further discussions with its CEMAC partners on further trade liberalization consistent with multilateral principles.** The Government will work with other CEMAC members toward full implementation of their transportation facilitation and trade liberalization commitments in the region; specifically, it intends to strictly adhere to the Common External Tariff and not to introduce additional import taxes and levies. Further, it intends to apply common rules of origin, improve integration of labor markets, and promote mutual investment and trade in services. Additional steps will be taken to achieve the Government's economic harmonization goals, in particular in internal taxation to avoid distortions.

50. **The Government intends, together with the other CEMAC members, to continue negotiations with the European Union on an Enhanced Partnership Agreement (EPA) to ensure longer-term duty-free access to the EU market.** It intends to finalize by end-2005 the ongoing studies of economic impact of trade liberalization, which will specify measures to improve international competitiveness of Cameroonian products. The net expected revenue loss from the reciprocal trade liberalization as a result of the EPA, which is expected to enter into force in 2008, will be offset by a gradual increase in domestic tax revenue.

F. Statistical Data and Technical Assistance

51. **The Government intends to create, with the support of development partners, the conditions necessary for the good functioning of the national statistics system, in order to better monitor and assess PRSP and MDGs implementation.** In this regard, it will implement the priority action plan adopted by the National Statistics Council, to guarantee the quality and availability of data; help assess the impact of development and poverty reduction policies and strategies on the living standards of the population. In addition, it intends to (i) set up the institutional framework of the National Statistics Institute, (ii) enhance data collection in some key sectors so as to improve feedback information from administrative sources, and (iii) re-launch agropastoral surveys. Moreover, it intends to (i) publish the new series of national accounts developed according to the SCN93, (ii) successfully carry out the first national survey on employment and the informal sector, (iii) publish the preliminary results of the third general census of population and housing (3rd RGPH) by June 2006, and (iv) ensure data dissemination on its Web site according to the standards set by the General Data Dissemination System (SGDD). The Government will request technical assistance to compile its balance of payments for early 2006.

V. PROGRAM MONITORING

52. In order to monitor program implementation, the Government has established financial targets and reform measures as quantitative performance criteria and benchmarks (Table 3), and as structural performance criteria and benchmarks (Table 4). The Government will review the implementation of the program together with the staff of the IMF on a quarterly basis. In view of a number of uncertainties the program has built-in contingency mechanisms defined in the attached Technical Memorandum of Understanding (TMU).

53. Program implementation will be reviewed regularly in the context of interministerial cabinet meetings (*Conseils de Cabinet*), chaired by the Prime Minister, Head of Government. The Minister of Economy and Finance will supervise the implementation of the program, with the assistance of the Technical Committee for the Monitoring of Economic Programs (CTS). The CTS will provide the staff of the IMF, within the time limits indicated in the TMU, with all the data necessary to monitor the PRGF-supported program effectively and on a timely basis.

Table 1. Cameroon: Quantitative Benchmarks During the Staff Monitored Program, End-June Performance
(In billions of CFA francs; cumulative from January 1, 2005, unless otherwise indicated)

	Situation as at end-June 2005							Observed (O) or Not Observed (N)
	End-June Program Target	Oil windfall not allocated 12/	Other 14/	Exchange rate variation for IMF liabilities	Adjusted Program Target	cumulative estimated outcome	Excess or shortfall over estimated outcome	
Ceiling on the increase in net claims of the banking system on the central government 1/	-43	-22	-13	...	-77	-111	-34	O
Floor on the non-oil primary budget balance 2/	20				20	82	61	O
Ceiling on the accumulation of external payments arrears of the central government 3/ 4/ 5/	0				0	0	0	O
Ceiling on new medium- and long-term non-concessional external debt contracted or guaranteed by the central government 3/ 5/ 6/	0				0	0	0	O
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year 3/ 5/ 7/	0				0	0	0	O
Floor on non-oil revenue of the central government 8/	531				531	570	38	O
Floor on reduction of domestic debts								
Structured debt 9/	34	16			50	39	-10	N
Non-structured debt 9/	2	16			18	2	-15	N
Floor on the replenishment of the HIPC account 10/	9	19			28	32	4	O
Floor on payments to utility companies 11/								
SNEC	4				4	4	0	O
AES SONEL	3				3	3	0	O
CAMTEL	6				6	6	0	O
CAMRAIL	2				2	2	0	O
Memorandum items:								
Oil revenue	129				...	179	...	...
Oil windfall profit 12/					...	50	...	...
Assumed external debt relief	112				...	119	...	...
External program financing	0				...	0	...	...
of which : IMF	0				...	0	...	...
Privatization proceeds	0				...	0	...	...
Restructuring expenditures	9				...	0	...	...
Stock of net credit to the central government	413				...	343	...	...

Sources: Cameroonian authorities; Bank of Central African States (BEAC); and staff estimates.

1/ This target is defined in paragraph 12 of the TMU and is adjusted as specified in section C of the TMU.

2/ The non-oil primary budget balance is defined in paragraph 11 of the TMU.

3/ Structural benchmark applied on a continuous basis.

4/ Excluding reschedulable external payments arrears.

5/ In millions of U.S. dollars.

6/ Terms defined in paras 2 and 3 of the TMU.

7/ Excluding normal, import-related credit.

8/ Non-oil revenue is defined in paragraph 9 of the TMU.

9/ Domestic debt is defined in the TMU (paras.5 and 6) .

10/ This target is defined in paras 13 and 18 of the amended TMU.

11/ Defined in paragraph 14 of the TMU.

12/ Defined in para. 17 of the TMU

13/ Excluding HIPC account.

14/ CFAF 9 billion for lower-than-programmed restructuring expenditures and 4 billion for higher-than-programmed debt relief.

Table 2. Cameroon: Structural Benchmarks During the Staff-Monitored Program, end-June 2005 Performance	
Target	Status
<p>March 2005</p> <p>1. Based on SIGEFI data for end-February 2005, preparation of the TABORD on a cash basis consistent with the <i>Balance des Comptes du Trésor</i>, and of a preliminary TABORD on a commitment basis.</p> <p>2. Suspension of opening of government accounts in commercial banks (except for accounts listed in TMU para 23).</p>	<p>Met in September for end-July data after further improvements regarding commitment data.</p> <p>Done.</p>
<p>April 2005</p> <p>Using SIGEFI and the final Treasury balances, beginning of monthly fiscal reporting on commitment and cash basis (TABORD format).</p>	<p>Met in September for July data.</p>
<p>June 2005</p> <p>1. Preparation and adoption of a detailed time-bound action plan for the privatization (<i>scission/liquidation/privatisation</i>) of CAMAIR.</p> <p>2. Closure of government accounts in commercial banks.</p> <p>3. Based on the audit of domestic debt as of end-2004, preparation of a settlement plan.</p> <p>4. Preparation of a plan to replenish arrears to the HIPC account at the BEAC.</p> <p>5. Suspension of all budgetary spending advances by SNH (<i>interventions directes</i>), except for sovereign spending.</p> <p>6. Enhancing of transparency in the oil sector by publishing the main elements of SNH audit reports through 2003, and, subject to agreement by the oil companies concerned, the main elements of production-sharing and concession agreements.</p> <p>7. Update of national action plan to improve governance.</p>	<p>Partly met. Action plan could not be detailed reflecting problems in identifying funding for specialist consultants.</p> <p>A large number of accounts closed, but a significant number of accounts (including sovereign accounts) remain.</p> <p>Partly met. Further elaboration needed to improve the coverage of the audit. Details of the settlement plan to be reviewed.</p> <p>Done.</p> <p>Partly met. A small payment was made in July 2005 on behalf of a non-sovereign entity.</p> <p>Done for SNH, agreement requested from other oil companies.</p> <p>Not met, but signed project agreement with UNDP for support of National Governance Program (NGP); the project includes an update of the NGP by October/November 2005.</p>

Table 3. Cameroon: Quantitative Performance Criteria and Benchmarks during the First Year of the Proposed PRGF-Supported Program
(In billions of CFA francs; cumulative from July 1, 2005, unless otherwise indicated) 1/

	End-Sep. 05	End-Dec.05	End-Mar. 06	End-Jun. 06
	Indicative Target	Performance Criteria 7/	Quantitative Benchmark	Performance Criteria 7/
Ceiling on the increase in net claims of the banking system on the central government	44	97	56	80
Floor on the non-oil primary budget balance	0	-14	41	38
Ceiling on the accumulation of external payments arrears of the central government 2/ 3/ 4/	0	0	0	0
Ceiling on new medium- and long-term non-concessional external debt contracted or guaranteed by the central government 2/ 4/	0	0	0	0
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year 2/ 4/ 5/	0	0	0	0
Floor on non-oil revenue of the central government	252	513	829	1110
Ceiling on spending on goods and service (excl. HIPC and C2D)	76	155	237	336
Ceiling on cash spending by SNH				
Payments on account of the government (interventions directes)	20	30	30	30
Other operating costs (autres charges)	8	16	21	25
Floor on reduction of domestic debts				
Structured debt	46	65	104	133
Non-structured debt	30	47	82	113
Floor on the replenishment of the HIPC account	23	47	67	82
Floor on payments to utility companies				
SNEC	1.8	3.5	5.5	7.5
AES SONEL	1.5	3.0	4.8	6.5
CAMTEL	3.0	6.0	9.3	12.5
CAMRAIL	1.0	2.0	3.0	4.0
SONARA	1.5	3.0	4.5	6.0
Memorandum items (non-cumulative)				
Oil revenue	102	113	112	134
Oil windfall profit	...	...	...	...
Assumed external debt relief	35	70	33	114
External program financing	0	24	0	11
of which: IMF (disbursement)	0	2	0	2
Privatization proceeds	0	0	0	0
Stock of net bank credit to the central government 6/	392	445	405	428

Sources: Cameroonian authorities; Bank of Central African States (BEAC); and staff estimates.

1/ All terms are as defined in the TMU.

2/ Applied on a continuous basis.

3/ Excluding reschedulable external payments arrears.

4/ In millions of U.S. dollars.

5/ Excluding normal import-related credit.

6/ Excluding HIPC account and C2D account.

7/ The following are quantitative benchmarks for end-December 2005 and end-June 2006: floor on non-oil revenue; ceiling on spending on goods and services; ceiling on SNH spending; and floor on utility payments.

Table 4. Cameroon: Structural Performance Criteria and Benchmarks During the First Year of the Proposed PRGF-Supported Program

Structural performance criteria

Submission to Parliament of the 2006 budget law consistent with the program and adoption by end-December 2005.

Adoption of privatization strategy of CAMAIR by end-December 2005 and launching of the invitations for bids by end-January 2006.

Structural benchmarks

Preparation of monthly fiscal operations table fully consistent on a cash and commitment basis and a monthly table on a functional basis to monitor spending for priority sectors (monitored on a continuous basis).

Completion of the single treasury account by limiting sovereign accounts in commercial banks to one account per entity and closing all other accounts (with the exception of project-related and debt payment-related accounts of the CAA and accounts of court clerks needed in the context of court proceedings) by end-December 2005.

Launching of the invitation for bids for the management contract of the public-private partnership for SNEC by end-July 2006.

Recruitment of a management contract team for CAMPOST by end-February 2006, completion of preparatory work to establish a financial subsidiary by end-June 2006.

Finalization and adoption of privatization strategy of CAMTEL by end-December 2005, based on the sectoral strategy on telecommunications finalized by end-October 2005, and offering the company for sale by end-June 2006.

During the first year of the program, adjustment of retail fuel prices and subsidy payments to SONARA as agreed with Fund staff (continuous basis).

Completion of licensing process for microfinance institutions by end-October 2005 and closure of all institutions without license by end-2005.

Finalization of the update of the National Governance Program by end-November 2005.

The Enhanced HIPC Initiative Completion Point Triggers—Progress Through August 2005

This interim note takes stock of developments through end-August 2005 towards the HIPC completion point triggers. It provides a factual update without passing judgment on the attainment of specific triggers. Good progress has been made on the HIPC completion point triggers pertaining to the social sectors and combating HIV/AIDS, but improvements in governance have been less satisfactory. Enhancements in public expenditure management have been achieved through the establishment of an integrated financial management system, but to improve fiscal transparency these should be integrated into normal government operations and fiscal reporting. PRSP implementation since it was completed in April 2003 has been less than comprehensive.

The government has established a number of committees to oversee progress on the implementation of the poverty reduction strategy, the attainment of the HIPC completion point triggers, and use of HIPC relief, but the operations of these committees have suffered from inadequate coordination with normal government operations.

The progress in implementing the HIPC completion point triggers as of end-August 2005 was the following:

1. ***The full PRSP has been prepared and satisfactorily implemented for at least one year.***

The full PRSP was completed in April 2003, and in July 2003, the Executive Boards of the IMF and the World Bank concluded it provided a satisfactory framework for the implementation of the authorities' poverty reduction strategy. The first Annual Progress Report on the implementation of the PRSP, examining implementation of the strategy from April 2003 to March 2004, was submitted to the IMF and the World Bank in July 2004. Overall, the progress report provides a relatively non-critical evaluation of progress, which has been good in some areas but modest elsewhere. One area of particular concern has been capital expenditure falling consistently short of that needed to achieve the objectives of the PRSP. This seriously undermines Cameroon's medium-term growth prospects given the country's strong infrastructure needs, particularly in the areas of energy and water provision and roads.

2. ***There is continued maintenance of a stable macroeconomic environment and satisfactory implementation of a new three-year PRGF arrangement.***

In recent years, Cameroon's growth and inflation performance has been solid, but fiscal performance weakened considerably in 2004. Non-oil revenue fell from 12.8 percent of non-oil GDP in 2003 to 12 percent in 2004, and the non-oil primary deficit deteriorated by 1.7 percentage points to 2.3 percent of non-oil GDP. Payments on domestic public debt and utility bills continued to fall behind, and the financial situation of some large public

enterprises deteriorated. As a result of these developments, the PRGF arrangement went off-track.

The fiscal situation improved markedly in 2005 under the staff-monitored program (SMP). Based on available data up to end-July, the non-oil primary deficit stood at 0.1 percent of non-oil GDP and is expected to reach 0.6 percent at year's end. Non-oil revenue performed well and is projected to reach 13.3 percent of non-oil GDP at year-end. The level of expenditure was kept under control but its composition remains weak. Payments of domestic debt stood at 0.4 percent of GDP at end-July and are projected to reach 0.7 percent by year-end. Plans to restructure public companies are under way but delays are noticeable in some areas, partly due to technical factors.

3. ***The budgetary savings from the debt relief have been used in accordance with the criteria set forth at the decision point.***

The decision point document stipulates that programs and projects specifically related to poverty-reduction should be identified as such to allow a separation from other budgetary spending. While this was done, overall of poverty-related expenditure cannot be easily extracted as the breakdown of expenditure by function is not comprehensive, making a determination of the additionality of the HIPC spending difficult.

The document also calls for the establishment of a special Treasury account where the budgetary savings from HIPC relief would be deposited, and for regular auditing of the account with public dissemination of the audit results. The account has been established and the mechanisms for using it have been operating. However, the government has fallen behind in transferring realized HIPC relief to it. An audit on the use of the HIPC resources from July 2001-December 2003 was conducted and presented to the HIPC Consultative Committee in September 2004. An audit of the use of HIPC resources in 2004 will be finalized by end-September 2005.

Further, the document demands the establishment of a monitoring committee consisting of representatives of the donor community and civil society. Such a committee was established in October 2002. The committee's work focused on the selection of projects eligible for the use of HIPC resources, but their actual implementation was hampered by inadequate integration of HIPC spending in the budget execution cycle, resulting in slow disbursement of project funds. This process was, however, improved in 2004-05.

The document further requires that an inter-ministerial committee coordinate quarterly financial and technical reports on the use of HIPC relief, to be discussed with the monitoring committee and made public through the media. In addition, the reports are to be discussed in semi-annual regional seminars. Reports have been published by the interministerial committee and discussed at the monitoring committee, but they remain largely descriptive and do not offer much analysis of progress made towards the poverty reduction goals.

4. ***SAC III has been concluded and reforms have been implemented in a satisfactory manner.***

The third structural adjustment credit, which was concluded in March 2004, supported a set of politically complex and ambitious reforms in the areas of transport, financial and forestry reforms and privatization. The time it took (since 1998) to implement this broad ranging agenda has in effect led to a stronger ownership of the reforms envisioned in the program.

4.1. *Financial Sector*

All financial sector conditions linked to SACIII were satisfactorily implemented. The banking and insurance systems were successfully restructured, which led to an improvement in the quality and availability of financial services.

4.2. *Privatization*

Overall, tangible progress has been made under the privatization program under the World Bank's SACII and SACIII. Mixed progress was recorded since the decision point.

Regarding telecommunications, the government has opened the sector to competition by issuing two cellular licenses, leading to improved service and lower costs. Also, some agroindustrial units such as SOCAPALM, CAMSUCO and the tea component of CDC were privatized, which led to an increase in planted surface and production.

However, the electricity company (SONEL) was privatized, but encountered severe difficulties, largely due to lack of managerial competence and financial resources. No bids were received for the sale of the three remaining crops of the agro-industrial complex CDC. Also, negotiations with the bidders for the fixed telecoms (CAMTEL) and water (SNEC) companies fell through. Despite these setbacks, the Government has remained committed to the privatization of the telecoms, water and agroindustrial complex and with the assistance of IDA, has reviewed its approach to privatization and has relaunched the process.

4.3. *Transport Sector*

Road sector: an autonomous Road Fund was established in 1998 to secure adequate funding and timely disbursement of road maintenance activities by the private sector. The amount and quality of road maintenance financed by the Road Fund have steadily increased over the last three years of its operations, although services provided continue to lag far behind needs.

Port reform: Ambitious and far-ranging institutional reforms have been completed resulting in reduced costs and clearance times, and streamlined operations significantly.

4.4. Forestry Sector

Cameroon was a pioneer in the implementation of politically very complex and ambitious reforms in the forestry sector in order to improve governance. The reforms supported by SAC III have created a policy and regulatory environment and an incentive framework conducive to environmentally sustainable development for the sector. Recently, there have been problems in implementation of agreed reforms, but the government is taking remedial actions.

5. ***The priority strategy and action plan for improving governance and combating corruption attached to the I-PRSP have been satisfactorily implemented, in particular:***

- ***In the area of judicial reform, (i) the Chambre des Comptes (audit office) and (ii) the Conseil Constitutionnel have been created.***
- ***The public procurement system has been reformed and, in particular, audits for the preceding fiscal year have been completed and appropriate follow-up actions implemented, in accordance with the law.***
- ***In the area of budgetary execution and service delivery, the results of the budget tracking exercises and beneficiary assessments for education and health have been published and the relevant recommendations have been implemented.***

In June 2000, the Government approved the National Governance Program (PNG) that was prepared through a participatory process involving all active forces within the Cameroonian Society. To ensure effective implementation of the PNG, the Government adopted a Priority Action Plan in August 2000, to improve governance and fight corruption. The government is preparing an update of the PNG by end-October 2005.

In the area of the judicial sector reform, the government has conducted a technical diagnostic study to identify the obstacles explaining the poor performance of Cameroon Justice system and recommended institutional measures to improve the quality of the judicial system. The study serves as the basis for the operational action plan that was developed and adopted in December 2003 during a seminar involving all main stakeholders. The Government has tackled the problem of abusive attachment of bank accounts (*saisie attribution*), which was threatening the financial sector and business confidence in 2001/02. A new penal code was approved in June 2005 and promulgated in July 2005.

The law specifying the responsibilities, organization, and functioning of the *audit office* for State Finances (*Chambre des Comptes*) of Cameroon's Supreme Court was adopted in 2003. The president and 22 members of the audit office were nominated.

The laws specifying the responsibilities, organization, and functioning of the *Constitutional Council* were adopted by the National Assembly in March 2004. A revised action plan is to be prepared specifying the next steps for making the council operational while taking into

account financial constraints. The government adopted a draft decree on the organization of the Secretariat of the Constitutional Council.

The public procurement system has been satisfactorily reformed, with a new public procurement code, fully operational oversight agency and special oversight committees, and regular ex-post audits for public contracts. The focus should now be on taking sanctions against identified cases of misconduct.

The government carried out a *budget tracking and beneficiary assessment* in the health and education sectors in 2004 in order to evaluate the quality of public expenditure and identify bottlenecks that hamper its effectiveness. Both reports have been produced and action plans adopted.

6. *Regulatory agencies for key sectors (including water, electricity, and telecommunications) are autonomous and are operating in an efficient and professional manner.*

Regulatory agencies have been set up in the telecoms and electricity sector. In the telecoms sector, an independent regulatory authority has been established which is separate, in a legal and functional sense, from the postal ministry and has its own sources of finance; this regulator is functioning effectively.

7. *Education sector. The sector strategy has been satisfactorily implemented in a timely manner, and in particular: (i) 2,500 new classrooms have been built; and (ii) teacher management has been effectively decentralized and new teacher statutes have been adopted and implemented.*

The government has continued to implement the Education Sector Strategy of 2,000. School enrollment rates have increased significantly as school fees in public primary schools were abolished, and instruction materials were allocated to schools. However, repetition and dropout rates remain very high and only 60 percent of children complete primary education. The government prepared a regulation on the reorganization of the primary cycle, which will lead to a drop in repetition rates. A law aiming at promoting private education institutions was approved by Parliament. The government rehabilitated and constructed classrooms in public primary and secondary schools with focus on priority education zones; as of August 2005, over 3,500 classrooms had been built and resources for further construction have been budgeted.

In an attempt to reduce the excessive centralization, the government has started to take measures decentralize resource management, and this process is continuing according to a timetable agreed with IDA. School councils, including beneficiaries, local communities, parents, students and teachers, have responsibility for budget supervision, and general control and evaluation of school operations. The education sector governance watchdog (*Observatoire de la Gouvernance*) has been created and has reported on several cases involving corruption, which led to sanctions.

8. ***Health sector. The sector strategy has been satisfactorily implemented in a timely manner, and in particular: (i) child immunization rates for DPT have been increased to 70 percent; and (ii) knowledge about protection and prevention measures against malaria will have substantially increased, i.e., 50 percent of pregnant women are using impregnated bed-nets.***

Implementation of the Government's Health Sector Strategy since October 2001 yielded a number of results. All health district teams have been put in place and provided with operating budgets; the decentralization of health services to the provincial and peripheral levels is very advanced. The Government has started sub-contracting NGOs, which often work in remote areas not served by the public sector.

A number of major public health programs (e.g., immunization, malaria, HIV/AIDS) have been revamped during the past few years with good initial results. The vigorous implementation of the Expanded Program on Immunization (EPI) increased immunization rates (for example, for DPCT3 from 43 percent in 2001 to slightly over 70 percent in 2004). Similar efforts have been made to restructure and reinforce the malaria program. HIPC resources were instrumental in the distribution of free impregnated bed nets to pregnant women, and the government has taken a number of measures to improve their availability and use.

9. ***Concrete progress has been made to prioritize the fight against HIV/AIDS in the government's overall development agenda and to curb infection rates among the population, with particular emphasis on education to promote the use of condoms by truck drivers, port workers, and soldiers to 50 percent, and by commercial sex workers to 70 percent.***

The government adopted a strategic plan for the 2000-05 period to combat HIV/AIDS, which has mobilized and funded over 3,000 communities through public-private-religious partnerships. Key accomplishments include: (i) expanded voluntary counseling and testing; (ii) reduced mother to child HIV transmission; (iii) promotion of ARV therapy through 18 designated centers nationwide and cost reduction of ARV treatment by 70 percent. Some 7,500 patients have been placed under ARV treatment, including 700 low-income patients. Communication activities to induce behavior changes have focused on a massive communication campaign through public and private media and the distribution of condoms. The HIV/AIDS infection rate estimate was revised downward to 5.5 percent of the adult population in 2004.

**Technical Memorandum of Understanding
on the Definitions of the Performance Criteria and Benchmarks of the PRGF-
supported Program and the Modalities of Their Adjustment**

A. Introduction

1. This memorandum sets out the understandings between the Cameroonian authorities and the International Monetary Fund (IMF) regarding the definitions of the performance criteria and benchmarks of the program and the contingency mechanisms related thereto. It also specifies the program's exchange rates and the data-reporting requirements.

B. Definitions

Government

2. Government is defined as central Government unless otherwise noted.

External debt

3. External debt shall have the meaning set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (IMF Executive Board Decision No. 12274-00/85, dated August 24, 2000).

Concessional of external debt

4. External debt is considered to be concessional if it includes a grant element equivalent to 35 percent or more, calculated on the basis of the commercial interest reference rate (CIRR) and following the methodology set out in staff paper on "Limits on External Debt or Borrowing in Fund Arrangements – Proposed Change in Implementation of the Revised Guidelines" (www.imf.org) approved by the IMF Executive Board on April 15, 1996.

Debt relief

5. For the purpose of the program, the only form of debt relief that will be subject to the contingency mechanism described below is the debt relief that leads to an effective reduction in programmed debt service. This excludes any relief given on debt that has been in drawn-out rescheduling/restructuring negotiations with non-Paris Club creditors and for which no debt service has been paid in the past year—for example, debts to be considered under the debt and debt-service reduction operations with commercial creditors, and for which no provision for debt service has been made in the fiscal program (except for up-front costs).

Domestic debt

Structured debt

6. Structured debt is defined as debt that has been subject to a formal agreement (*convention*) or securitization (*titrisation*). For the purposes of the PRGF program, structured debt is limited to the stock of structured debt at end-December 2004 that was included in the audit completed in October 2005 and that is specified in the multiyear settlement plan for public domestic debt as recorded by the *Caisse Autonome d'Amortissement (CAA)*. The stock of this debt (excluding BEAC's advances) at end-December 2004 amounted to CFAF 956 billion.

Nonstructured debt

7. Nonstructured debt is defined as debt not yet subject to a formal agreement (*convention*) or securitization (*titrisation*). For the purposes of the PRGF program, non-structured debt is limited to the stock of non-structured debt at end-December 2004 that was included in the audit completed in October 2005 and that is specified in the multiyear settlement plan for public domestic debt as recorded by the *Caisse Autonome d'Amortissement (CAA)*. The stock of this debt at end-December 2004 (not including credit from the BEAC) amounted to CFAF 496 billion.

Domestic debt repayments

8. For assessing the observance of the quantitative performance criteria on the reduction of domestic debt, only those repayments of domestic debt are counted that are made to repay the structured and non structured domestic debt defined above. These repayments are recorded "below the line" in the Fund's "Central Government Operations" table. In the case of structured debt, they are (i) the payments on account of the securitized debt to the BEAC and commercial banks, which are entered in the line "Domestic financing, net – Banking System - Banking system excl. HIPC and C2D"; and (ii) other repayments of principal, which are recorded in the line "Domestic financing, net – Amortization". In the case of non-structured debt, they are the repayments of principal, which are recorded in the line "Net change in arrears – Domestic".

Government financial operations table (TOFE)

9. The Treasury balance (*Balance des comptes du Trésor*) shows Government revenue and expenditure posted in Class 6 accounts (current expenditure), Class 7 accounts (current revenue), and Class 2 accounts (investment operations). Debt-related operations are recorded in Class 1 accounts (debt operations) and partly in Class 5 (financial operations). The financial operations data must be consistent with the data in the treasury account at the BEAC. Data on provisional revenue and expenditure operations and deposits of the correspondents of the treasury are recorded in Class 4 accounts of the Government's chart of accounts (*plan comptable*). Government operations that are not carried out through the

treasury need to be added to the data on operations that are carried out through the treasury. Revenue and expenditure operations are recorded on a cash basis.

Non-oil revenue

10. Non-oil revenue comprises all government (tax and non-tax) revenue, excluding revenue from oil companies (i.e. companies engaged in crude oil extraction in Cameroon) and the *redevance pétrolière*. VAT is recorded net of VAT refunds. The pipeline fee paid by the Cameroon Oil Transportation Company (CTOCO) is recorded as part of non-tax revenue.

Privatization proceeds

11. For the purpose of the program, privatization proceeds will be understood to mean all funds received by the Government from the sale or concessioning of the operation of a public company or organization or publicly owned facility to one or more private company(ies) (including companies that are fully controlled by foreign government(s), private organization(s), or individual(s)). Privatization proceeds also include all funds received from the sale of shares owned by the government in private companies or public enterprises. All privatization proceeds should be recorded on a gross basis; if any costs are incurred in connection with the sale or concessioning, these must be recorded separately as expenditure.

Goods and services

12. All budgetary expenditures on account of the purchase of goods and services are recorded in the accounts 4000060, 4000090, 4011, 4010060, 48131, 4810 and 40001205 of the Treasury balance account and shown accordingly in the TABORD. HIPC spending is excluded.

Non-oil primary budget balance

13. The non-oil primary budget balance (on a cash basis) is calculated as Government non-oil revenue, excluding external grants, less all expenditure other than interest payments, foreign-financed investment expenditure, HIPC-financed expenditure, expenditure financed by the Contrat Développement Desendettement (C2D) and restructuring expenditure.

Net bank credit to the government

14. Net claims on the Government by the banking system comprise the stock of all outstanding claims on the Government by the banking system (loans, advances, and any government debt instruments, such as long-term Government securities), less all deposits held by the Treasury with the banking system, excluding the HIPC account and the account for the C2D, and the two accounts held by the CAA in a commercial bank to pay the Government's domestic and external debt obligations.

Replenishment of the HIPC account

15. The floor relating to “replenishment of the HIPC account” will be considered observed if the HIPC account at the Bank of Central African States (BEAC) receives the quarterly transfers indicated in Table 3 of the MEFP, and transfers from this account are made solely for the purposes of paying for HIPC projects.

Payments to utility companies

16. The floor relating to “payment to utility companies” will be considered observed if payments to the utility companies (water, electricity, fixed-line telephones, railway and refinery companies) are made in quarterly amounts, as indicated in Table 3 of the MEFP. These payments are to exclude fiscal compensation, and they are assessed on the basis of cash disbursements. They are to be registered as current expenditures in the TOFE.

Spending advances by SNH (*interventions directes*)

17. Spending advances (*interventions directes*) by SNH (*Société Nationale des Hydrocarbures*) are defined as advance payments by SNH on behalf of the Government. They are deducted from the monthly cash revenue that are transferred by the SNH to the Government. Such advance payments will be strictly limited to sovereign expenditure during July-December 2005. *Interventions directes* will continue to be imputed in the TOFE on a monthly basis on the revenue and expenditure side. There will be no *interventions directes* in 2006 or later.

Quasi-fiscal spending by SNH (*autres charges*)

18. SNH’s spending to cover costs that are not shared with the other oil companies as part of the production-sharing agreements are called *autres charges* (other spending). Some of this is related to SNH’s Government mandate in oil operations (*mandat*), e.g., decommissioning costs. Other elements of this spending are not related to SNH’s oil sector activities and are quasi-fiscal in nature (e.g., the cost of operating the Chad-Cameroon oil pipeline).

Subsidy to fuel consumers

19. The budgetary transfer to SONARA to cover the fuel subsidy to consumers will amount to the difference between the retail price applied and the price that would be needed to keep SONARA’s net result on domestic operations at zero for the previous month, times the volumes sold by SONARA in the domestic market. It will be calculated jointly by SONARA and CSPH and will be paid during the month (t+1) subsequent to the reference month (t) for which it has been calculated. It will not exceed CFAF 16.6 billion in the fourth quarter of 2005, CFAF 7.5 billion in the first quarter of 2006 and CFAF 4.3 in the second quarter of 2006. The transfer to be made in October 2005 is CFAF 8.2 billion, and includes an amount covering fuel price subsidies (SONARA’s losses) during January-August and a

preliminary estimate for September 2005. If, based on this mechanism, the quarterly budget transfer does not suffice to cover in full the fuel price subsidy/SONARA's shortfall, the Government will revise upward the monthly retail prices further so as to prevent losses on domestic operations at SONARA.

C. Modalities of the Contingency Mechanism for the Adjustment of Targets

20. The floor on the non-oil primary balance will be adjusted:
- upward by the amount of lower-than-programmed receipt of budget support grants (excluding in the fourth quarter of 2005 the EU-funded grants earmarked to domestic debt payments for an amount of CFAF 12.9 billion);
 - upward by the amount of lower-than-programmed transfers made to SONARA;
 - downward by the amount of restructuring expenditure effectively spent up to a limit of CFAF 50 billion during July-December 2005, CFAF 10 billion during January-March 2006, and CFAF 40 billion during April-June 2006, with the exception of the funds that will be saved in a specific account at the BEAC on account of restructuring expenditures that were not spent within the budgetary allocation of 2005. The modalities of the saving of these resources will be arranged in consultation with the Fund.
21. The ceiling on net bank credit to the Government will be adjusted:
- downward up to the amount of higher-than-programmed oil revenue and privatization proceeds that are not used to reduce domestic debt;
 - upward/downward by the amount of lower/higher-than-programmed external budget support (grants and loans) and by half of the amount of lower/higher debt than programmed relief; the revision upward will be capped to a cumulative amount of CFAF 15 billion;
 - downward by the amount of lower-than-programmed restructuring expenditure;
 - downward by the amount of lower-than-programmed payments of domestic debt (as defined above);
22. Higher-than-programmed oil revenue and all privatization proceeds will be allocated to repayments of domestic debt (as defined above). The repayments will be made within one month following the end of the respective quarter.
23. In case the shortfall/excess in oil revenue, external budget support (including debt relief), privatization revenue, and/or adjustments in the ceiling on net bank credit to the Government exceed a cumulative 0.2 percent of 2005 GDP, the Government will consult with the staff of the IMF to formulate corrective policies.

D. Program Exchange Rates

24. Exchange rates to be applied for the conversion of amounts in SDR or U.S. dollars are US\$1.4525 per SDR and CFAF 542.79 per U.S. dollar for the third quarter of 2005, US\$1.4540 per SDR and CFAF 541.55 per U.S. dollar for the fourth quarter of 2005, US\$1.4544 per SDR and CFAF 541.44 per U.S. dollar for the first quarter of 2006, and US\$1.4554 per SDR and CFAF 541.13 per U.S. dollar for the second quarter of 2006. Liabilities to the IMF, which are included in the definition of net claims on the government by the banking system, will be valued at the same exchange rates. Any deviation from the exchange rate will lead to a full upward or downward adjustment, as appropriate, of the value of the stock of IMF liabilities at the BEAC, and to a similar adjustment of the ceiling on net bank claims on the Government by the banking system.

E. Structural Performance Criteria

25. The performance criterion on the 2006 budget law will be considered observed if the budget law is (i) adopted by end-December 2005; (ii) consistent with the fiscal program for 2006; and (iii) reflects the priorities defined in the PRSP.

26. The performance criterion on CAMAIR will be considered observed if by end-January 2006 the tender is issued inviting companies to bid for a new privately-owned airline company equipped with all the landing rights currently held by CAMAIR. The tender will be formulated after consulting with the IFC.

F. Structural Benchmarks

27. The benchmark on the closure of Government accounts will be considered observed if at end-December 2005 all the Government accounts in commercial banks are closed and their balances are transferred to the Treasury. Government accounts are defined as accounts held by any entities/agencies/ministries in the Government, with the exception of accounts held by (i) sovereign entities and agencies (one account for each entity or agency); (ii) the Caisse Autonome d'Amortissement for its own activities (one account), the settlement of external and domestic debt (one account each) and foreign financed project-related operations (one account per project); and (iii) court clerks if needed in the context of court proceedings (comptes de greffe).

28. The benchmark on the fiscal operations table will be considered observed if by the 25th of the month following the reporting month a TABORD is sent to the IMF that exhibits consistency between: (i) the treasury balance (*Balance du Trésor*) and the TABORD on a cash basis; (ii) the TABORD on a cash basis and on a commitment basis (presented by nature of spending and excluding the budget offices outside headquarters); (iii) the TABORD on a commitment basis and on a functional basis (which will include a presentation both with and without the wage bill).

29. The benchmark on the public-private partnership for SNEC will be considered observed if by end-July 2006 the tender is launched, consistent with international standards,

inviting companies to bid for the management of SNEC. The tender will be formulated after consulting with the privatization advisor, and the World Bank will be consulted prior to the publication of the tender.

30. The benchmark on the restructuring of CAMPOST will be considered observed if by end-February 2006 the management team is recruited, based on terms of reference agreed with the World Bank and the Fund, and by end-June 2006 preparatory work to establish a financial services subsidiary is completed. This preparatory work includes submitting to the COBAC the full documentation requested by the COBAC and the statutes of the subsidiary.

31. The benchmark on the privatization of CAMTEL will be considered observed if (i) the telecommunication sector strategy is adopted by the relevant interministerial committee by end-October 2005; (ii) the privatization strategy is adopted by the relevant interministerial committee by end-December 2005; and (iii) the tender is published by end-June 2006, consistent with international standards, inviting companies to bid for the sale of at least 51 percent to a majority private investor. The privatization strategy and the tender will be formulated in consultation with the privatization advisor. The World Bank will be consulted prior to the adoption of the privatization strategy and the publication of the tender.

32. The benchmark on the adjustment of retail fuel prices and subsidy payments to SONARA will be considered observed if the Government raises fuel prices for each of the three fuel products *super*, *petrole*, *gasoil* and makes transfer payments to SONARA as described in MEFP paragraph 38 and paragraph 18 above. Fuel price increases will be implemented on the first day of the month.

33. The benchmark on the completion of the licensing process for microfinance institutions and the closure of all institutions without license will be considered observed if (i) decisions on the granting of a license have been transmitted to all microfinance institutions by end-October 2005; (ii) all institutions that have been refused a license have been closed by end-December 2005; and (iii) a list showing all existing microfinance institutions and their licensing status at end-October 2005 and a list of all institutions closed by end-December have been received by the IMF.

34. The benchmark on the finalization of the National Governance Plan (NPG) will be considered observed if by end-November 2005 an updated NPG, including a priority action plan, has been officially adopted by the authorities and transmitted to the IMF.

G. Reporting Requirements

35. The Cameroonian authorities will send data, as per the attached Table 1, to the IMF within the time limits set out in that table. The authorities will supply the IMF, on a timely basis, with any additional information that the IMF requests for the purpose of monitoring the implementation of the program.

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey	Monthly	10 th of the month for the previous month's data for the preliminary series 25 th of the month for the previous month's data for the final series
	Net credit by the banking system to the central Government	Monthly	10 th of the month for the previous month's data for the preliminary series 25 th of the month for the previous month's data for the final series
	Interest rates	Irregular	One week after new rates announced
	Transactions through the HIPC Initiative and C2D accounts opened at the BEAC, including credit and debit	Monthly	10 th of the month for the previous month's data
	Status report on all Government deposits at the BEAC	Monthly	10 th of the month for the previous month's data
	Changes to domestic and custom taxes (<i>loi de finance and others</i>)	Irregular	Two weeks after the change has been made
	Government financial operations table (TOFE) on a cash basis, including revenue, expenditure, financing, and domestic debt payments (including settlement of domestic arrears)	Monthly	Three weeks after the end of the month concerned for the preliminary series. Eight weeks after the end of the month for the final series
	Government financial operations table on a commitment basis (<i>services centraux</i>) consistent with the TOFE on a cash basis	Monthly	Three weeks after the end of the month concerned for the preliminary series Eight weeks after the end of the month

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	Treasury balances of a given month, including table on expenditure paid but not yet committed (<i>dépenses payées mais non ordonnancées</i>) and the table reconciling the Treasury account at the BEAC and the Treasury balance.	Monthly	Three weeks after the end of the month Eight weeks after the end of the month
	Report on the implementation of the domestic debt settlement plan	Monthly	25 th of the month for the previous month's data
	Table on budgetary execution on a functional basis consistent with the table on Government financial operations on a commitment basis	Monthly	Eight weeks after the end of the month for the final series
	VAT refunds' balances (both refunds requested and refunds paid)	Monthly	25 th of the month for the previous month's data
	Investment budget execution report	Quarterly	Two months after the end of month concerned
	HIPC and C2D spending (<i>engagements, ordonnancements, paiements</i>)	Monthly	25 th of the month for the previous month's data
	SNH operations, including export volumes, exchange rates, prices, values, operating costs (including a detailed list of <i>autres charges</i>), <i>autres engagements</i> , transferable balance, <i>interventions directes</i> , and balance transferred (cash basis), dividends received, and dividends transferred.	Monthly	25 th of the month for the previous month's data
Public companies data	Payments of bills to public enterprises (SNEC, CAMTEL, AES SONEL, CAMRAIL, and SONARA)	Monthly	20 th of the month for the previous month's data
	Payments made to or on account of CAMAIR (for bills, subsidies, loans, arrears ...)	Monthly	20 th of the month for the previous month's data
Fuel products pricing data	International oil prices, domestic fuel prices and their components, budgetary transfers to SONARA, and SONARA net financial result, using the format of Table 2 below.	Monthly	20 th of the month for the previous month's data
Real sector data	Consumer price index, Yaoundé and Douala	Monthly	20 th of the month for previous month's data

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	National consumer price index	Quarterly	Six weeks after the end of the quarter concerned
	Index of industrial production	Quarterly	Two months after the end of the preceding quarter
	National accounts		
	• Flash series	Annual	Twelve months after the end of the year
	• Provisional series	Annual	Eighteen months after the end of the year
	• Final series	Annual	Twenty four months after the end of the year
Balance of payments data	Imports by use and major export products, trade balance	Monthly	25th of the month for the previous month
	Preliminary price and volume indices of imports and of exports	Quarterly	One month after the end of the quarter concerned
	Final price and volume indices of imports and exports	Quarterly	Three months after the end of the quarter concerned
	Balance of payments	Annual	Six months after the end of the year for the preliminary series Twelve months after the end of the year for the final series
External debt data	Stock of outstanding debt and arrears	At least annual	At the beginning of the year; updates as needed
	Debt service due before debt relief	Monthly	25 th of the month for the previous month's data
	Debt service due after debt relief	Monthly	25 th of the month for the previous quarter's data
	Debt service paid	Monthly	25 th of the month for the previous quarter's data

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
New grants and loans received, specified by creditor including their terms and conditions and project		Monthly	25 th of the month for the previous quarter's data
Grants and loans projected for the next eight quarters		Quarterly	25 th of the month for the previous quarter's data
Regular and additional bilateral HIPC assistance received and projected for the next eight quarters		Quarterly	25 th of the month for the previous quarter's data

Table 2. Cameroon: Petroleum Products Pricing (in CFAF per liter, unless otherwise indicated)						
	Jul-05			Jun-08		
	Super	Petrol	Gasoil	Super	Petrol	Gasoil
1. Price structure that would be necessary for SONARA to break even on domestic operations in a given month (net result of 0)						
1a. Parite import/prix de produit (in USD per liter)						
1b. Taux de change (CFAF/USD)						
1c. Parite import/prix de produit						
1d. Droit de douane incl. TVA						
1e. Ajustement economique						
1f. Cabotage incl. TVA						
1g. TSPP						
1h. Prix sortie SONARA (= 1c+1d+1e+1f+1g)						
1i. Redvances port., passage depot, ream. SCDP NSAM, coloration, lutte contre la fraude incl. TVA						
1j. Perequation transport						
1k. Prix sortie depot (=1h+1i+1j)						
1l. Frais generaux, financiers, benefice, coulage, amortissement et entretien, livraison ville, marge revendeur incl. TVA						
1m. Prix de detail (= 1k+1l)						
2. Prices that are actually applied						
3. Volume sold (in million liters)						
4. SONARA net result achieved before budgetary transfer (in CFAF billion)						
5. Budgetary transfer made to SONARA (in CFAF billion)						
6. SONARA net result achieved after budgetary transfer (in CFAF billion)						

Source: Cameroonian authorities

Cameroon: Debt Sustainability Analysis

A. Methodology

1. **The debt sustainability analysis (DSA) was prepared jointly by Fund and Bank staff in accordance with the standardized methodology for low-income countries.** It is based on the framework approved by the Executive Boards of the Fund and the World Bank in April 2005.¹ The DSA uses non-reconciled debt data, a single discount rate, WEO exchange rate projections, current values for denominators in all debt ratios, and policy-dependent indicative thresholds.²
2. **Consistent with the medium-term fiscal program, this DSA uses the scenario of debt relief associated with the HIPC completion point as the baseline.** This is different from the last DSA prepared by Fund staff for the Article IV consultation, which used as the baseline scenario total debt service due before debt relief associated with the completion point.³
3. **The conclusions of this DSA are presented in relation to policy-dependent debt-burden thresholds.** Cameroon is classified as a medium performer in terms of the quality of its policies and institutions as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index.⁴
4. **The DSA is based on the data provided by Cameroon's main multilateral creditors and on data from the authorities on the remaining creditors.** Because the overall quality of data on Cameroon's external debt is uneven and the structure of debt is complex (Figure 1), with each debt category requiring a different treatment, the analysis of the aggregate debt data can indicate only general trends. Further reconciliation of debt numbers will be needed by the time Cameroon reaches its HIPC completion point.

¹ www.imf.org.

² By the time Cameroon reaches the HIPC completion point, the staffs of the Fund and the Bank will have prepared a full-fledged HIPC DSA. The HIPC DSA will be based on a different methodology, i.e., a loan-by-loan reconciliation, currency-specific discount rates, exchange rates prevailing at the completion point, and three-year backward-looking export averages for debt ratios.

³ Country report No. 05/164.

⁴ For a medium performer the indicative thresholds for external debt sustainability are NPV of debt-to-exports ratio of 150 percent, NPV of debt-to-GDP ratio of 40 percent, NPV of debt-to-revenue ratio of 250 percent, debt service-to-exports ratio of 20 percent, and debt service-to-revenue ratio of 30 percent.

5. **This DSA consists of two parts—external and fiscal.** Because of data deficiencies, the analysis in the external debt DSA is limited to the external debt of the central government. The fiscal DSA aims at assessing the sustainability of total debt—external and domestic—incurred by the public sector. This includes state enterprise debt.

6. **Key assumptions underlying the DSA are consistent with the proposed PRGF-supported program and the conventions of handling debt relief under the Enhanced HIPC Initiative.**

- *Macroeconomic assumptions:* Real GDP growth of 2.8 percent in 2005, gradually accelerating to 4-5 percent in the medium term; subdued inflation as measured by a GDP deflator of below 2 percent; an average export growth rate of 5 percent in 2005-10; a primary fiscal surplus of 3 percent of GDP in 2005, gradually declining to a deficit of 1 percent by 2010; an external current account deficit of 3 percent of GDP, on average, in the medium term; new borrowing on the order of 2 percent of GDP during the forecast period; NPV of domestic debt equal to its face value; a continued restraint on non-concessional external borrowing (grant element below 35 percent) in 2005-2010; and thereafter a shift away from concessional new borrowing consistent with Cameroon's graduation from financing on highly concessional IDA terms.
- *Assumptions on the delivery of HIPC debt relief*
 - i. *Before the completion point:* After the approval of a new PRGF arrangement, Cameroon would request the Paris Club to extend the provision of interim relief. In 2005:Q4 Cameroon would be granted a Paris Club flow rescheduling on Cologne terms.
 - ii. *At the completion point:* The completion point is assumed to be reached in the second quarter of 2006; Paris Club creditors would provide their full share of HIPC assistance in the form of a stock operation on Cologne terms and non-Paris Club and commercial creditors would provide comparable treatment;
- *Assumptions on the delivery of bilateral debt relief beyond the HIPC Initiative.* Paris Club creditors are assumed to deliver additional bilateral debt relief according to their standard practices.
- *Assumptions related to the graduation from IDA financing.* According to the operational guidelines of IDA as of July 1, 2005, a country's eligibility for financing on IDA terms depends on three factors: (i) a GNI per capita at or below US\$965, (ii) no access to external financing on market terms and (iii) a demonstrated track record of good policy performance. Under the baseline, Cameroon is projected to graduate from IDA in 2010. It is assumed that starting from that year new lending on concessional IDA terms will be gradually phased out. It is also assumed that similar action will be taken by other providers of concessional financing.

7. **Substantial revisions of the national accounts data have had an impact on the debt ratios since the last DSA.** After the DSA of March 2005, the following revisions were made: the authorities revised upward the nominal GDP series for 1993-2003 by almost 10 percent; non-oil exports for 2003 were revised downward by some 4 percent; and Cameroon's oil export price increased by almost 30 percent, reflecting world oil price developments. Since end-December 2004, the authorities have updated the debt database to reflect disbursements and repayments in the first half of 2005, as well as additional bilateral debt relief received.

B. Recent Developments

8. **At end-2004, the face value of external debt is estimated at US\$7 billion (44 percent of GDP).** Over 29 percent of this debt was multilateral (including 27 percent owed to the World Bank, IMF, and African Development Bank (AfDB), 67 percent bilateral (mainly to Paris Club creditors), and the rest commercial (London Club).

9. **Cameroon has regularly serviced its debt to multilateral creditors.** Most multilateral creditors have provided HIPC interim assistance, including the World Bank, the IMF, the AfDB, and the OPEC Fund. IDA and AfDB interim relief ended in March 2003 and October 2003, respectively, as Cameroon reached the cumulative limits set by these institutions. The IMF provided interim assistance through 2004; no interim assistance has been provided so far in 2005 in the absence of a PRGF arrangement.

	Public External Debt		
	2004 est.		
	US\$ million	Percent of total	Percent of GDP
Total	6,984	100	44
Multilateral	2,056	29	13
IMF	318	5	2
World Bank	1,194	17	8
AfDB	331	5	2
Other	213	3	1
Bilateral	4,695	67	30
Paris Club	4,560	65	29
Non Paris Club	136	2	1
Commercial	233	3	1

10. **Cameroon received financing assurances of HIPC relief from bilateral creditors.** After Cameroon reached the decision point under the HIPC Initiative in October 2000, the government received financing assurances of HIPC debt relief from official creditors holding more than 98 percent of its bilateral debt. The Paris Club has extended interim relief to Cameroon and will provide the remainder of total assistance committed at the completion point. In 2005, Germany, Italy, and the United Kingdom provided debt relief beyond the HIPC Initiative, canceling a total of US\$15.8 million. Outside the Paris Club, Cameroon also signed a partial debt cancellation agreement with China and a stock of debt rescheduling agreement on ODA terms with Kuwait.

11. **Cameroon's debt to commercial creditors, of which some has been subject to litigation, remains in arrears.** In August 2003, Cameroon settled part of its commercial debts through an IDA-supported buy-back operation at 14.5 percent of face value, which resulted in a debt cancellation of US\$870 million. However, 22 commercial creditors, which held about 20 percent (US\$240 million in claims, including US\$78 million principal) of the total debt to commercial creditors at the time, did not accept the buy-back deal, and some

sold claims on Cameroon at a large discount. Recently, four commercial creditors—the Winslow Bank, Del Favero SPA, Sconset Ltd., and Grace Church Capital—have pursued legal recourse through litigation and seizure of Cameroonian assets abroad. In early 2005, Winslow sued, and under a court ruling recovered US\$50 million from Cameroon’s state oil company (SNH) deposits in France, and Del Favero froze the account of the Cameroonian embassy in London. Five other commercial creditors have formally requested repayment from Cameroon.

12. **Information on domestic debt has improved significantly.** In July 2005, the authorities made available preliminary results of an audit of domestic debt as of end-2004.

As a result, the level of recognized domestic debt increased to CFAF 1.4 billion (17 percent of GDP), i.e. by 5 percent of GDP compared with the earlier estimate. The debt audit, however, covered only suppliers’ bills already validated by the Treasury, while other government liabilities to suppliers recorded only by line ministries were not covered. Based on the new data, the authorities prepared a medium-term repayment plan, placing special attention on payments that can help reduce poverty (arrears on salaries and pensions) and improve business confidence (arrears to suppliers).

Public Domestic Debt, 2004			
	CFAF billion	Percent of total	Percent of GDP
Total	1,424	100	17
Structured debt	933	66	11
Bank	322	23	4
Nonbank	611	43	7
Securitized	544	38	6
Nonsecuritized	67	5	1
Nonstructured debt	491	34	6

C. External Debt Sustainability

13. **Under a baseline scenario that assumes the full delivery of HIPC assistance after an estimated completion point in the second quarter of 2006, Cameroon’s external debt burden indicators do not signal a significant risk of debt distress.** After HIPC assistance and additional bilateral debt relief from Paris Club creditors,⁵ all debt burden indicators are substantially below the relevant policy-dependent threshold (Figure 2). The NPV of the debt-to-GDP ratio is forecast to decline from 36 percent (after past debt relief) in 2004 to 12 percent (with new anticipated debt relief) in 2010, the NPV of debt to exports from 153 to 53 percent, and cash debt service to exports from 7 to 4 percent (Table 1).

⁵ Cameroon will benefit from a substantial multiyear bilateral debt relief from France under the *Contrats de désendettement et de développement* (C2D), a bilateral program of debt reduction supplemental to the HIPC Initiative, as well as other additional bilateral debt relief from other Paris Club creditors.

Summary External Debt Sustainability Assessment (In percent of GDP)							
	2004	2005	2006	2007	2008	2009	2010
NPV of PPG external debt							
In percent of GDP (threshold=40)							
After past debt relief	35.8	31.1	27.5	24.6	22.1	19.7	18.0
With new anticipated debt relief	14.6	13.0	12.9	12.6	12.3	12.0	11.8
In percent of exports (threshold=150)							
After past debt relief	153.3	127.8	106.7	104.5	98.1	87.9	80.0
With new anticipated debt relief	62.3	53.5	49.8	53.5	54.6	53.8	52.9
Debt service							
In percent of exports (threshold=20)							
After past debt relief	23.0	20.2	17.1	15.2	13.6	12.3	9.5
With new anticipated debt relief	8.6	7.1	3.6	4.0	4.2	4.0	3.6
Effectively paid 1/	7.0	6.7	...	...	...	...	...
1/ Projected cash payments for 2005.							

14. **The sensitivity scenarios reveal that Cameroon's debt situation of fairly resilient to shocks, except for one: a worsening of the terms of new borrowing.** If new borrowing (in 2007-20) is assumed to be contracted in less concessional terms than under the baseline, all debt ratios will start deteriorating rapidly although they will still be below the indicative thresholds (Figure 2). A hypothetical one time 30 percent nominal depreciation relative to the baseline in 2006 of the CFAF vis-à-vis the US dollar and a shock on exports also lead to a deterioration of debt burden indicators.

D. Fiscal Debt Sustainability

15. **Even though the external public debt indicators indicate a low risk of debt distress for the time after the Completion Point, the NPV of debt to GDP ratio doubles with the inclusion of domestic debt.** However, as a result of substantial repayments on domestic debt in 2005 and projected for the medium term, the NPV of debt-to-GDP ratio will decline from 32 to 18 percent from 2004 to 2010, the NPV of debt-to-revenue ratio will decrease from 207 to 110 percent, and the debt service-to-revenue ratio will decline from 15 to 6 percent (Table 3).

16. **Alternative scenarios and stress tests yield a significant deterioration of the public debt outlook.** One scenario, assuming an increase of borrowing to 10 percent of GDP after the completion point in 2007-08, points to a significant deterioration of the ratios. The debt-to-GDP ratio rises to over 35 percent and only slowly comes to down by 2020. The NPV of debt-to-revenue ratio remains above 190 percent for the rest of the projection period (Figure 3). Permanently lower GDP growth assumed at a one standard deviation below the baseline is another adverse scenario. A 30 percent real depreciation is an important short-term negative shock (Table 4). However, the impact of the shock does not seem to be protracted, and no exploding debt path is expected to emerge under any of the scenarios.

E. Conclusions

17. **After the full delivery of HIPC debt relief and bilateral debt relief beyond HIPC at the completion point, Cameroon faces a low risk of debt distress, despite an upward trend of the debt dynamics under less favorable scenarios.** All external debt indicators remain below the relevant country-specific debt burden thresholds. Stress testing reveals an upward trend for the debt indicators but does not result in a breach of the thresholds during the projection period.

18. **The sustainability of Cameroon's long-term debt hinges on continued strong macroeconomic policies.** These include an average real GDP growth of at least 4-5 percent annually, low inflation, strong tax efforts, and primary fiscal surpluses. Further advancement on governance, a strong commitment to reforms, and prudent policies will be key for Cameroon to maintain its debt burden within reasonable bounds.

19. **The stress tests indicate that a prudent borrowing strategy will be essential for maintaining both external and fiscal debt sustainability.** Such a strategy may be based on the following principles: (i) new borrowing should not exceed the average nominal GDP growth rate in dollar terms to help maintain the debt-to-GDP ratios at sustainable levels; (ii) continued restraint on nonconcessional borrowing after the completion point until Cameroon graduates from concessional windows of financing; continued concessional borrowing will help secure the needed time for intensive domestic investment in priority areas using the resources released by reduced debt service payments; (iii) gradual repayment of domestic debt while securitizing and regularly servicing the remaining part; (iv) ensuring the effective use of borrowed resources on commercially viable projects and of poverty-reducing expenditure. Going forward periodic updates as part of the budgetary cycle of the forward-looking DSA can help inform decisions on new loans and their implications for debt sustainability.

Figure 1. Cameroon: Simplified Debt Structure

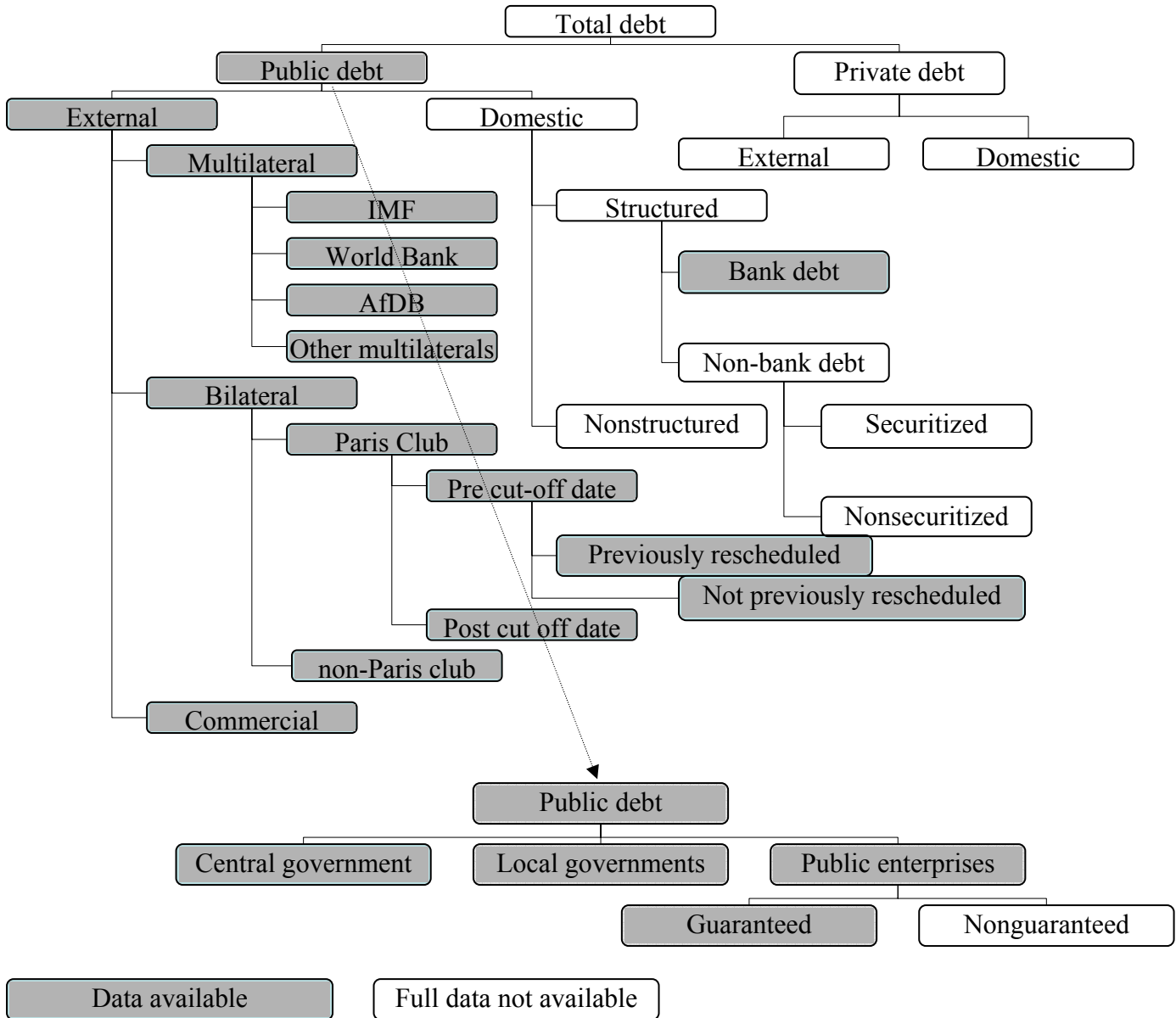
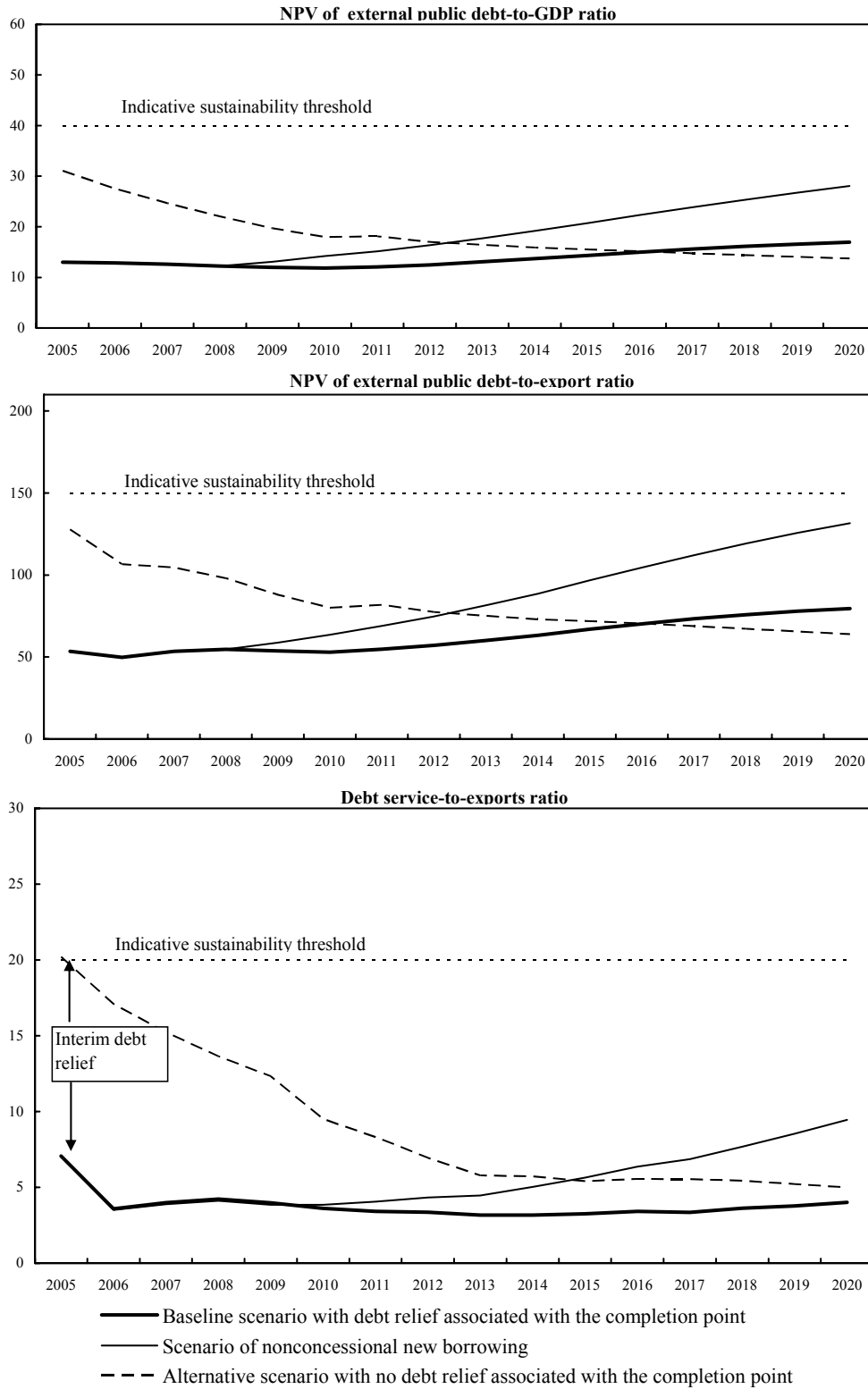
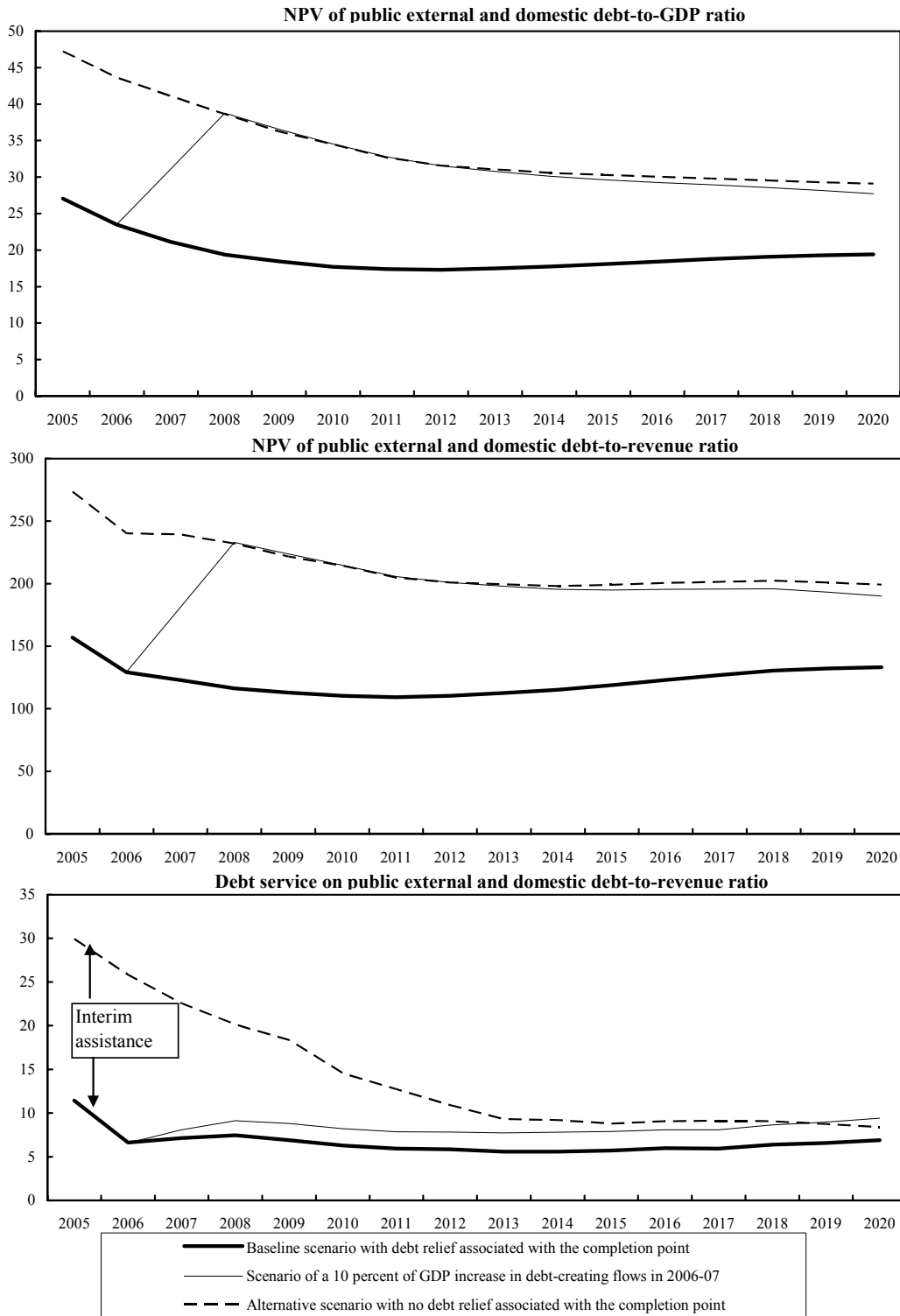


Figure 2. Cameroon: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2005-20 (In percent)



Source: staff projections and simulations.

Figure 3. Cameroon: Indicators of Public External and Domestic Debt, 2005-20
(In percent)



Source: Staff projections and simulations.

Table 1. Cameroon: External Debt Sustainability, Baseline Scenario, 2004-20 1/
(In percent of GDP, unless otherwise indicated)

	Actual		Projections										2011-20 Average
	2004	Historical Average 5/	2005	2006	2007	2008	2009	2010	2010-10 Average	2015	2020		
External debt (nominal) 1/ of which: public and publicly guaranteed (PPG)	44.0		41.2	40.4	39.5	38.1	36.9	35.7	35.7	31.9	29.8	29.8	
Change in external debt	44.0		41.2	40.4	39.5	38.1	36.9	35.7	35.7	31.9	29.8	29.8	
Identified net debt-creating flows	-3.3		-2.7	-0.8	-0.9	-1.4	-1.2	-1.2	-1.2	-0.4	-0.5	-0.5	
Non-interest current account deficit	-3.8		1.0	-0.7	1.8	3.0	3.0	2.7	2.7	4.2	5.6	5.6	
Deficit in balance of goods and services	2.5	0.6	2.0	0.7	2.7	4.3	4.4	4.2	4.2	5.2	6.6	6.6	
Exports	3.9		3.5	2.2	4.3	5.8	5.9	5.6	5.6	6.4	7.7	7.7	
Imports	23.4		24.3	25.8	23.6	22.4	22.3	22.4	22.4	21.4	21.3	21.3	
Net current transfers (negative = inflow)	27.2		27.8	28.1	27.9	28.2	28.1	28.0	28.0	27.8	29.0	29.0	
Other current account flows (negative = net inflow)	-0.8	-0.9	-1.1	-1.1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.7	-0.7	-0.7	
Net FDI (negative = inflow)	-0.6		-0.5	-0.5	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	
Endogenous debt dynamics 2/ Contribution from nominal interest rate	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	
Contribution from real GDP growth	-6.1		-0.7	-1.2	-0.7	-1.1	-1.2	-1.3	-1.3	-0.9	-0.9	-0.9	
Residual 3/ o/w exceptional financing	0.6		0.5	0.5	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	
	-1.4		-1.2	-1.7	-1.4	-1.8	-1.9	-1.9	-1.9	-1.4	-1.4	-1.4	
	0.5		-3.8	-0.1	-2.7	-4.4	-4.2	-3.9	-3.9	-4.6	-6.2	-6.2	
	-3.7		-2.4	-3.3	-2.4	-2.0	-1.8	-1.3	-1.3	-0.6	-0.5	-0.5	
NPV of PPG external debt	14.6		13.0	12.9	12.6	12.3	12.0	11.8	11.8	14.3	17.0	17.0	
In percent of exports	62.3		53.5	49.8	53.5	54.6	53.8	52.9	52.9	66.9	79.5	79.5	
PPG ratio debt service to exports ratio (in percent)	8.6		7.1	3.6	4.0	4.2	4.0	3.6	3.6	3.3	4.0	4.0	
Key macroeconomic assumptions													
Real GDP growth in US dollars terms (in percent)	3.5	4.2	2.8	4.2	3.7	4.9	5.2	5.6	5.6	4.6	4.8	5.0	
GDP deflator in US dollar terms (change in percent)	12.4	3.2	2.1	0.1	1.1	2.2	1.5	1.9	1.9	2.0	1.7	1.8	
Effective interest rate (percent) 4/	1.4	5.4	1.1	1.3	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	
Growth of exports of G&S (US dollar terms, in percent)	13.6	6.4	9.2	10.8	-4.3	1.7	6.1	8.0	8.0	5.6	6.8	6.4	
Growth of imports of G&S (US dollar terms, in percent)	15.4	7.1	7.1	5.3	4.1	8.3	6.4	7.0	7.0	6.4	7.3	7.3	
Grant element of new public sector borrowing (in percent)	...	...	40.8	40.9	40.9	41.0	41.4	41.4	41.4	34.7	34.7	34.7
<i>Memorandum item:</i>													
Nominal GDP (billions of U.S. dollars)	15.9		16.6	17.4	18.2	19.5	20.8	22.4	22.4	32.0	43.8	43.8	

Source: Staff simulations.

1/ Includes only public and publicly guaranteed external debt.

2/ Derived as $[\tau - g - \rho(1+g)] / (1+g+p+g\rho)$ times previous-period debt ratio; with τ = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments. For projections also includes contribution from price and exchange rate cha

4/ Current-year interest payments divided by previous period debt stock.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Cameroon: Sensitivity Analyses of Public and Publicly Guaranteed External Debt, 2005-20
(In percent)

	Projections							2020
	2005	2006	2007	2008	2009	2010	2015	
NPV of debt-to-GDP ratio (threshold=40)								
Baseline	13	13	13	12	12	12	14	17
A. Alternative scenarios								
A1. Key variables at their historical averages in 2006-20 1/	13	13	13	11	9	8	3	1
A2. New public sector loans on less favorable terms in 2006-20 2/	13	13	13	12	13	14	21	28
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	13	13	13	12	12	12	15	17
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	13	15	16	16	16	15	17	18
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	13	14	14	14	14	14	16	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	13	13	13	13	13	13	15	17
B5. Combination of B1-B4 using one-half standard deviation shocks	13	15	15	15	15	14	17	19
B6. One time 30 percent nominal depreciation relative to the baseline in 2006 5/	13	18	18	18	17	17	20	24
NPV of debt-to-exports ratio (threshold=150)								
Baseline	53	50	53	55	54	53	67	80
A. Alternative scenarios								
A1. Key variables at their historical averages in 2006-20 1/	53	52	53	48	41	35	15	1
A2. New public sector loans on less favorable terms in 2006-20 2/	53	50	54	55	59	64	97	132
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	53	50	53	55	54	53	67	80
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	53	66	78	80	79	78	90	98
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	53	50	53	55	54	53	67	80
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	53	52	57	58	58	57	70	81
B5. Combination of B1-B4 using one-half standard deviation shocks	53	61	64	66	65	63	76	86
B6. One time 30 percent nominal depreciation relative to the baseline in 2006 5/	53	50	53	55	54	53	67	80
Debt-service ratio (threshold=20)								
Baseline	7	4	4	4	4	4	3	4
A. Alternative scenarios								
A1. Key variables at their historical averages in 2006-20 1/	7	3	4	4	4	3	2	0
A2. New public sector loans on less favorable terms in 2006-20 2/	7	4	4	4	4	4	6	9
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	7	4	4	4	4	4	3	4
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	7	4	5	5	5	4	5	5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	7	4	4	4	4	4	3	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	7	4	4	4	4	4	3	4
B5. Combination of B1-B4 using one-half standard deviation shocks	7	4	4	4	4	4	4	5
B6. One time 30 percent nominal depreciation relative to the baseline in 2006 5/	7	4	4	4	4	4	3	4
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	36	36

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that new borrowing is not concessional with the interest rate of 8 percent, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Cameroon: Public External and Domestic Debt Sustainability, Baseline Scenario, 2004-20
(In percent of GDP, unless otherwise indicated)

	Actual		Estimate										2011-2020 average
	2004	Historical Average 5/	Standard Deviation 5/	2005	2006	2007	2008	2009	2010	2010 Average	2015	2020	
Public sector debt 1/	61.0			55.3	51.0	48.0	45.3	43.3	41.6		35.6	32.3	
o/w foreign-currency denominated	44.0			41.2	40.4	39.5	38.2	36.9	35.7		31.9	29.8	
Change in public sector debt	0.7			-5.7	-4.2	-3.0	-2.7	-2.0	-1.8		-0.7	-0.8	
Identified debt-creating flows	-10.4			-7.2	-7.1	-5.1	-4.5	-3.7	-2.8		-0.2	0.6	
Primary deficit		-3.1	1.9	-2.7	-1.9	-1.3	-0.5	0.3	0.8		2.0	2.5	
Revenue and grants	15.3			17.3	18.2	17.2	16.6	16.3	16.1		15.2	14.6	
of which : grants	0.1			0.4	0.4	0.1	0.1	0.1	0.1		0.0	0.0	
Primary (noninterest) expenditure	15.1			14.6	16.2	15.9	16.2	16.6	16.9		17.2	17.1	
Automatic debt dynamics	-6.5			-2.1	-1.9	-1.3	-2.0	-2.2	-2.3		-1.6	-1.4	
Contribution from interest rate/growth differential	-2.4			-2.2	-2.6	-1.7	-2.0	-2.2	-2.3		-1.6	-1.5	
of which : contribution from average real interest rate	-0.3			-0.5	-0.4	0.1	0.1	0.0	0.0		0.0	0.0	
of which : contribution from real GDP growth	-2.1			-1.7	-2.2	-1.8	-2.1	-2.2	-2.3		-1.6	-1.5	
Contribution from real exchange rate depreciation	-4.2			0.1	0.8	0.4	0.0	0.1	0.0		...	...
Other identified debt-creating flows	-3.7			-2.4	-3.3	-2.4	-2.0	-1.8	-1.3		-0.6	-0.5	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-3.7			-2.4	-3.3	-2.4	-2.0	-1.8	-1.3		-0.6	-0.5	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	11.1			1.5	2.8	2.1	1.8	1.7	1.0		-0.5	-1.3	
NPV of public sector debt	31.6			27.1	23.5	21.1	19.4	18.5	17.7		18.1	19.4	
o/w foreign-currency denominated	14.6			13.0	12.9	12.6	12.3	12.0	11.8		14.3	17.0	
o/w external	14.6			13.0	12.9	12.6	12.3	12.0	11.8		14.3	17.0	
NPV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...
Gross financing need 2/	2.3			-0.3	-0.3	0.0	0.9	1.5	1.9		2.8	3.5	
NPV of public sector debt-to-revenue ratio (in percent) 3/	206.7			156.9	129.3	122.9	116.4	113.0	110.3		118.9	133.1	
o/w external	95.3			75.3	70.8	73.3	73.8	73.3	73.5		94.3	116.1	
Debt service-to-revenue ratio (in percent) 3/ 4/	15.2			11.4	6.6	7.1	7.4	6.9	6.3		5.7	6.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.9			3.0	2.3	1.7	2.3	2.2	2.6		2.7	3.3	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.5	4.2	0.9	2.8	4.2	3.7	4.6	5.2	5.6	4.4	4.6	4.8	
Average nominal interest rate on forex debt (in percent)	1.3	5.3	2.1	1.1	1.3	1.8	1.8	1.7	1.7	1.6	1.6	1.5	
Average real interest rate on domestic currency debt (in percent)	0.3	-1.1	2.4	-0.1	-0.8	1.9	1.9	1.9	1.5	1.0	2.5	4.3	
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.2	-0.1	9.6	0.2	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.2	3.0	2.2	2.2	2.9	0.9	1.6	1.7	1.8	1.8	2.0	1.7	
Growth of real primary spending (deflated by GDP deflator, in percent)	19.0	9.1	11.7	-0.5	16.0	1.3	6.7	7.9	7.6	6.5	5.0	4.1	
Grant element of new external borrowing (in percent)	...	...	...	...	40.9	40.9	41.0	41.4	41.4	41.1	34.7	34.7

Sources: Country authorities; and Fund staff estimates and projections.

1/ Central government

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues including grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Cameroon: Sensitivity Analysis for Key Indicators of Public Debt 2004-20

	Est.	Projections							
	2004	2005	2006	2007	2008	2009	2010	2015	2020
NPV of debt-to-GDP ratio									
Baseline	32	27	23	21	19	18	18	18	19
A. Alternative scenarios									
A1. Primary balance is unchanged from 2004	32	29	27	26	24	23	21	13	3
A2. Permanently lower GDP growth 1/	32	27	24	21	20	19	18	20	23
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	32	27	24	22	20	19	19	20	22
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	32	27	24	22	20	19	18	18	20
B3. Combination of B1-B2 using one half standard deviation shocks	32	27	23	20	19	18	17	17	18
B4. One-time 30 percent real depreciation in 2006	32	27	29	27	24	23	22	22	23
B5. 10 percent of GDP increase in other debt-creating flows in 2006	32	27	24	31	39	37	35	30	28
NPV of debt-to-revenue ratio									
Baseline	207	157	129	123	116	113	110	119	133
A. Alternative scenarios									
A1. Primary balance is unchanged from 2004	207	170	151	151	146	140	131	13	3
A2. Permanently lower GDP growth 1/	207	157	130	124	118	116	114	129	156
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	207	157	132	127	121	119	117	131	150
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	207	157	133	127	121	117	114	121	135
B3. Combination of B1-B2 using one half standard deviation shocks	207	157	129	118	111	108	105	113	126
B4. One-time 30 percent real depreciation in 2006	207	157	160	154	146	141	136	142	158
B5. 10 percent of GDP increase in other debt-creating flows in 2006	207	157	129	181	233	224	215	195	190
Debt service-to-revenue ratio									
Baseline	15	11	7	7	7	7	6	6	7
A. Alternative scenarios									
A1. Primary balance is unchanged from 2004	15	11	10	11	11	9	7	1	1
A2. Permanently lower GDP growth 1/	15	11	6	6	7	7	6	6	9
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	15	11	6	6	7	7	7	7	8
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	15	11	6	7	7	7	6	5	7
B3. Combination of B1-B2 using one half standard deviation shocks	15	11	6	6	5	6	5	5	5
B4. One-time 30 percent real depreciation in 2006	15	11	7	8	9	9	8	8	9
B5. 10 percent of GDP increase in other debt-creating flows in 2006	15	11	6	6	7	6	6	5	6

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

Cameroon: Relations with the Fund

(As of August 31, 2005)

I. **Membership Status:** Joined 07/10/1963; Article VIII

II.	General Resources Account:	<u>SDR million</u>	<u>%Quota</u>
	Quota	185.70	100.00
	Fund holdings of currency	185.01	99.63
	Reserve position in Fund	0.69	0.37
III.	SDR Department:	<u>SDR million</u>	<u>%Allocation</u>
	Net cumulative allocation	24.46	100.00
	Holdings	0.08	0.34
IV.	Outstanding Purchases and Loans:	<u>SDR million</u>	<u>%Quota</u>
	PRGF arrangements	199.38	107.37

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
Poverty Reduction and Growth Facility (PRGF)	12/21/2000	12/20/2004	111.42	79.59
Enhanced Structural Adjustment Facility	08/20/1997	12/20/2000	162.12	162.12
(ESAF)/PRGF Stand-By Arrangement	09/27/1995	09/26/1996	67.60	28.20

VI. Projected Payments to Fund (SDR million; based on existing use of resources and present holding of SDRs, with Board-approved HIPC assistance)

	<u>Forthcoming</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	11.71	35.61	40.38	37.05	29.43
Charges/interest	0.66	1.52	1.32	1.13	0.96
Total	12.37	37.12	41.71	38.18	30.39

VII. Implementation of HIPC Initiative:

	<u>Enhanced framework</u>
Commitment of HIPC assistance	
Decision point date	10/11/2000
Assistance committed (NPV terms)	
Total assistance (US\$ million)	1,260
<i>Of which:</i> Fund assistance (US\$ million)	36.90
(SDR equivalent in millions)	28.51
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	5.55
Interim assistance	5.55
Completion point	...

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Cameroon is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by BEAC internal audit department of the process of program data

reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states should establish a mechanism to prevent arrears to the IMF through advance acquisitions of SDRs and an authorization to debit an SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm their Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

The authorities agreed in September 2005 to fully implement the Cameroon-specific recommendations of the 2004 Safeguards Assessments.

IX. Exchange Arrangements:

Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro.

Local currency equivalent: CFAF 789.56 = SDR 1, as of September 30, 2005.

Cameroon maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision 144-152/51.

X. Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on April 22, 2005.

XI. FSAP Participation and ROSCs:

The Financial System Stability Assessment (FSSA) report of May 24, 2000 is based on the findings of the joint IMF-World Bank mission that visited Cameroon during February 29–March 14, 2000. The findings of the Financial Sector Assessment Program (FSAP) mission were presented to the authorities on March 13-14, 2000 in the context of the 2000 Article IV consultation.

The Report on the Observance of Standards and Codes (ROSC) on fiscal transparency and transparency of monetary and financial policies was issued on June 16, 2000.

The data module of the ROSC was issued on August 24, 2001 (CR/01/150).

XII. Technical Assistance:

September 2005: Placement of an FAD regional tax advisor

July 2005: FAD mission on tax policy.

May 2005: FAD mission on tax and customs administration.

December 2004: STA mission on the compilation of national accounts and follow-up by FAD expert on public expenditure management.

October 2003: STA mission on the compilation of national accounts.

September 2003: FAD mission on non-oil revenue mobilization and follow-up by FAD expert on public expenditure management.

June 2003: FAD mission on public expenditure management.

March 2003: FAD mission on public expenditure management.

November 2002: FAD mission on public expenditure management.

May 2002: FAD mission on public expenditure management.

April 2002: FAD mission follow-up on the personal income tax system.

March 2002: FAD mission on the implementation of the action plan for government revenue and expenditure.

October–November 2001: FAD mission on tax and customs administration.

September 2001: FAD missions on the audit of the treasury and poverty tracking.

June 2000: FAD mission on the modernization of customs.

April 2000: STA mission on General Data Dissemination System (GDDS/ROSC).

November 1999: FAD mission on modernization of the tax department.

June–July 1999: FAD technical assistance mission on customs.

May–June 1999: FAD follow-up mission on value-added tax (VAT) and tax administration.
January–March 1999: Placement of an FAD advisor for the introduction of the VAT.

November 1998: Placement of an FAD resident advisor on public expenditure management.

October–November 1998: STA mission on metadata project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on preparation of a VAT.

February 1998: FAD technical assistance mission on review of public expenditure management.

November 1997: FAD technical assistance mission on preparation for the introduction of the VAT.

January–February 1997: AFR/PDR mission, in collaboration with experts from the World Bank and the French government, on external debt statistics.

May 1996: AFR mission, in collaboration with a team from the French Treasury and the Banque de France, on the system of fiscal reporting and monitoring.

February 1996: FAD mission on direct taxation and agricultural sector taxation.

May–June 1995: STA mission on balance of payments statistics.

XIII. Resident Representatives:

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. Mr. Keller's assignment as Resident Representative ended on October 1, 2004. The new Resident Representative, Ms. Kabedi-Mbuyi, took up her post in July 2005.

Cameroon: Relations with the World Bank (As of September 2005)

Government's strategy supported by the World Bank

1. The government's strategy for economic growth and poverty reduction, as described in the poverty reduction strategy paper (PRSP) communicated to the World Bank and the IMF in April 2003, is articulated along seven pillars, as detailed in IDA/SecM2003-0434. A PRSP progress report was completed in 2004 and showed mixed progress towards development outcomes: in particular budget allocation and execution needs to be better aligned with PRSP priorities.

World Bank lending and strategy

2. The joint IDA-IFC Country Assistance Strategy (CAS) was presented to the Board on September 11, 2003. The strategy, which covers the period fiscal year (FY) 04-06, has two main axes: (i) strengthen the institutional framework for improved pro-poor economic management and service delivery; and (ii) support private sector development, leading to the diversification of the economy and growth. The proposed strategy will follow a "results-based" framework. In this context, the following outcomes are expected to be achieved during the next CAS period: (i) improvement in the transparency and accountability in the mobilization and use of public resources; (ii) improvement in the use of public resources in education, health, and forestry; (iii) improvement in service delivery in key sectors; (iv) enhancement of the response of vulnerable groups in over 300 communities to the threat of HIV/AIDS through preventative, curative, or mitigating measures, while the national capacity to respond to the epidemic is strengthened; and (v) reduced burden (cost, time, etc.) on private sector companies arising from regulatory, administrative, and infrastructure constraints. Specific indicators (such as an increase in the percentage of rural communities in targeted provinces with access to basic socioeconomic services, or a decrease in the percentage of private firms rating the specific constraints as major or severe) are being identified to measure progress toward achieving these outcomes.

3. SACIII, which supported a set of politically complex and ambitious reforms in the areas of transport, financial and forestry reforms and privatization, was closed by end-March 2004. Following Board approval on a no objection basis on March 16, 2004, the two remaining privatization and transport tranches were released. Outcome of SACIII was rated satisfactory as part of an ex-post assessment, which was confirmed by an independent evaluation of the Operations Evaluation Department of the World Bank (OED).

4. The World Bank is planning to further support the government with analytical work and policy dialogue in several areas, focusing, inter alia, on (i) monitoring socioeconomic developments, including through the HIPC Initiative process and the PRSP implementation, reviews of trade prospects (especially with the Central African Economic and Monetary Community (CEMAC) countries and Nigeria), and action plans developed for the Millennium Development Goals (MDGs) in health and education; (ii) conducting an investment climate assessment to support the PRSP pillar aimed at diversifying the

economy; (iii) strengthening dialogue and action on the governance agenda by taking an active role in the creation of a multidonor platform on public finance management, undertaking a Public Expenditure Management and Financial Accountability Review (PEMFAR) and supporting key reforms in public procurement through a Country Procurement Assessment Review. Finally, a Poverty Assessment serves to measure progress.

5. As of September 2005, the World Bank portfolio comprises seven active projects for a total commitment of US\$192.6 million of which US\$110.3 million are undisbursed. It includes projects in the areas of education, transport, environment, HIV/AIDS, local development, and public-private partnerships. Implementation of all projects but one was rated satisfactory. The World Bank Country Office organizes regular meetings with the authorities to review progress made on portfolio implementation, in order to improve the execution rate of current projects.

Bank Group Portfolio (As of September 13, 2005)	
IDA Total (US\$ m)	192.6
Sectoral Composition (%):	
Transport	40
Community Dev	11
Public Private Partnership	12
Environment Capacity Building	2
HIV/AIDS Multi-Sector	26
Education	9
Undisbursed IDA amount (US\$ mil)	110.3
IFC Total (US\$ mil)	150.9
Energy	86.8
Information	6.4
Textiles	2.7
Wholesale & Retail	2.4
Other	1.7
MIGA: No investment guarantees issued.	

IMF-World Bank collaboration in specific areas

6. The IMF and World Bank staffs collaborate with respect to (i) the monitoring of HIPC Initiative completion point triggers and the PRSP process; (ii) analyses and reforms in public financial management; and (iii) other governance reforms, including the customs, legal, and judicial systems. Table 2 includes a short description of each of the areas and specific support provided by the two institutions with respect to policy advice.

Table 2. Cameroon: Bank/Fund Collaboration

Area	Description	Specialized Advice/ Reforms Supported by Fund	Specialized Advice/ Reforms Supported by Bank
HIPC completion point reforms	Regular Bank and Fund supervision missions Joint preparation of HIPC “Tracking Poverty-Related Spending” assessment and action plan	Reforms linked to budgetary accounting and controls	Reforms in education, health, transport, rural infrastructure sector, and forestry Judicial sector reform Public procurement reform Budget tracking in social sectors
Public financial management	Bank and Fund missions analyzing various aspects of fiscal management	Tax analysis and reform, strengthening of control organs; expenditure management	Expenditure monitoring and analysis, especially in sectors important for poverty reduction
Other governance reforms	Coordination of Bank/Fund staff work with UNDP on development of implementation plans	Customs reform	Anticorruption agenda and decentralization

7. Areas where the Fund takes the lead role relate to policy advice and reforms with respect to (i) overall macroeconomic policy and short- and medium-term financial programming; (ii) tax policy and administration; (iii) information and financial management systems for government revenue and expenditure; (iv) budgetary accounting; and (v) treasury procedures. Bank staff participate in some meeting of Fund missions with the authorities in these areas.

8. Areas in which the World Bank takes the lead are related to (i) institutional and human capacity building for economic management, including the formulation of sectoral strategies and medium-term expenditure frameworks, the analysis of poverty and the sources of growth to support the PRSP process, and the development of a macroeconomic model for the preparation of the short- and medium-term macroeconomic framework; (ii) specific sector advice in the areas in which the Bank has active lending operations (especially in the social sectors, infrastructure, agriculture, and forestry); and (iii) support and monitoring of the implementation of the privatization program. The Bank has jointly produced with the GOC and the AFD an Education Status Report. The World Bank has produced an Urban Sector Review and a Development Policy Review in June 2004. Furthermore, in FY05, the Bank has produced a Poverty Assessment and a Country Procurement Assessment Report and has initiated, in the context of the multi-donor platform on Public Finance Management, the preparation of a Public Expenditure

Management and Financial Accountability Review (PEMFAR). Finally, an investment climate assessment, combined with a ROSC on Auditing and Accounting is expected to be conducted in FY06.

9. Both Bank and Fund have responsibility for policy advice on (i) budgetary procedures, government expenditure management systems, and expenditure execution, including tracking of poverty-reducing expenditures; (ii) the functioning of internal and external budget control institutions; (iii) reform of the customs; (iv) trade policy; (v) financial system reform; and (vi) governance issues. The two institutions also jointly support and monitor the HIPC Initiative and PRSP process. Finally the two institutions plan to conduct jointly in the course of FY05 a regional FSAP for the CEMAC region, to which Cameroon belongs.

Questions may be addressed to Florence Charlier (458-8437) or Luc Lecuit (473-4409).

Cameroon: Statistical Issues

In recent years, the authorities have commenced a number of initiatives to improve economic and financial data, particularly the national accounts. Data provision to the Fund remains adequate for surveillance purposes, but there is significant scope for improvement of data quality, particularly coverage and timeliness.

Cameroon participates in the General Data Dissemination System (GDDS). Its metadata, including a description of current statistical practices and an action plan to improve statistical systems, are available on the Internet at the Fund's Dissemination Standards Bulletin Board (DSBB), but have not been updated since November 2001.

The National Institute of Statistics (INS), an autonomous institution under the aegis of the Ministry of Economic Affairs, Programming, and Regional Development, is the most important data provider. A lack of clarity concerning the role and coordinating function of the INS, however, has hampered the implementation of statistical standards and classifications across governmental departments and agencies. Also, in recent years the production of standard economic statistics may have suffered from a focus on social statistics.

National accounts

The INS has been compiling and publishing the national accounts using the concepts and definitions of the *1968 System of National Accounts (1968 SNA)*. In recent years, the INS has also compiled a revised and updated set of national accounts based on the *1993 System of National Accounts (1993 SNA)*. STA missions visited Cameroon in October 2003 and December 2004 to assess the *1993 SNA* estimates, finding the methodology and the analytical tools used to be generally appropriate. After shortcomings concerning oil GDP were resolved, the authorities decided to adopt the new accounts, and started publishing them in July 2005.

Some weaknesses however remain in the areas of coverage and timeliness. In particular, the framework for the collection of enterprise data creates difficulties for gauging the industrial structure of the economy. Furthermore, the production index needs to be thoroughly overhauled, updated, and integrated with the corresponding components of the annual national accounts. The absence of labor market indicators and deflators implies that technical assistance will likely be needed in the coming years.

Consumer prices

The authorities intend to revise the monthly consumer price index (CPI) by extending the underlying survey to rural areas. Currently the CPI is compiled on the basis of surveys carried out in the five main cities of the country (Yaoundé, Douala, Bafoussam, Bamenda and Garoua). In addition, the authorities intend to contribute to the production of a regional

CPI in the CEMAC area. The basket used in this context will be larger than the one currently used for the compilation of the national CPI, but will be geographically limited to the two larger cities, Yaoundé and Douala.

Sociodemographic indicators

Recently some progress has been made in the production of sociodemographic statistics. The 2001 household survey (ECAM II) provides comprehensive data that have been used to update Cameroon's poverty profile. In the education and health sectors, the authorities have begun updating the education map (*carte scolaire*) and the healthcare map (*carte sanitaire*), previously produced in 2000 and 2001, respectively. Further, the authorities recently published an update for 2004 of their "Health and Demographic Survey" (*Enquête Démographique et de Santé*). Preparatory work for a new household survey has been initiated; and the survey will be administered 2005.

Government finance statistics

Government finance statistics have improved substantially in recent months. Budget execution data on a cash basis consistent with Treasury data are now available monthly within three weeks, helping among other things avoid the accumulation of new domestic payment arrears and strengthening debt management. Expenditure data on a commitment basis consistent with cash spending data have been prepared and progress has been made in the development of a functional classification of spending. Better utilization of the integrated financial management system (SIGEFI) has played a key role in these improvements. Finally, the national oil company for the first time published audited financial statements.

However, several deficiencies persist, notably: (i) a lack of sufficient information on local governments' budgets; (ii) a lack of comprehensive data on cross-liabilities in the public sector and on debts of state-owned enterprises (some steps were taken recently as part of the audit of public debt, but the monitoring of these liabilities on a continuous basis is still weak); (iii) more generally, a lack of financial data on most state-owned enterprises.

The authorities will continue to address weaknesses. They plan to strengthen the functional presentation of expenditure data on a commitment basis, and to implement the EITI initiative in order to enhance oil revenue transparency. Moreover, the recent audit of government domestic debt will help strengthen debt data. Finally, efforts are underway to collect data on the financial situation of the largest 20 public enterprises.

Monetary and financial statistics

Monetary statistics for Cameroon are reported to the Fund by the Banque des Etats de l'Afrique Centrale (BEAC) on a monthly basis, with a delay varying up to two months. Although the coverage is comprehensive, the quality of the data may be affected by large cross-border movements of currency among member countries in the CEMAC. About three

quarters of the currency circulating in Cameroon is issued nationally, the remaining being mainly from Chad (8 percent) and Gabon (5 percent). Almost 90 percent of the currency issued in Cameroon remains within the national territory, while most of the remaining currency issued circulate in Chad (6 percent).

External sector statistics

The balance of payments statistics have traditionally been so weak as to be of limited use to Fund staff. However, the staff responsible for the production of these statistics (a unit in the Ministry of the Economy and of Finance) have recently started to improve the quality of their output. An STA technical assistance mission on balance of payments statistics is planned for early 2006.

CAMEROON: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(as of September 30, 2005)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷
Exchange Rates (based on reporting by the regional central bank BEAC; however, thanks to peg of the CFA franc to the euro, the exchange rate can be observed continuously and independently from BEAC reporting)	Aug 31, 2005	Sep 2, 2005	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jun 30, 2005	July 31, 2005	M	M	M
Reserve/Base Money	Jun 30, 2005	July 31, 2005	M	M	M
Broad Money	Jun 30, 2005	July 31, 2005	M	M	M
Central Bank Balance Sheet	Jun 30, 2005	July 31, 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Jun 30, 2005	July 31, 2005	M	M	M
Interest Rates ²	Jun 30, 2005	July 31, 2005	M	M	M
Consumer Price Index	Jun 30, 2005	July 31, 2005	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Jul 31, 2005	Aug 30, 2005	M	M	Partial data published monthly.
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Jun 30, 2005	Aug 30, 2005	M	M	M
External Current Account Balance	Dec 31, 2003	Aug 30, 2005	A	A	NA
Exports and Imports of Goods and Services ⁶	Jun 30, 2005	July 31, 2005	M	M	NA
GDP/GNP	Dec 31, 2003	Jul 31, 2005	A	A	NA
Gross External Debt	NA	NA	NA	NA	NA

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Goods only, data on trade in services are not available.

⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).



Press Release No. 05/236
FOR IMMEDIATE RELEASE
October 24, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US\$26.8 Million Three-Year Arrangement for Cameroon Under the Poverty Reduction and Growth Facility

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement for Cameroon under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent of SDR 18.57 million (about US\$26.8 million) to support the government's program of economic reform and poverty reduction. The first disbursement under the arrangement will amount to SDR 2.65 million (about US\$3.8 million).

The Executive Board also approved an additional amount equivalent to SDR 5.70 million (about US\$8.2 million) in interim assistance from the IMF under the Heavily Indebted Poor Countries (HIPC) Initiative to be applied in the remainder of 2005 and through most of 2006.¹

The last PRGF arrangement with Cameroon was approved in December 2000 (See [Press Release No. 00/86](#)) and expired in December 2004 after an extension of one year. The authorities subsequently requested a [staff-monitored program](#) (SMP) covering the first half of 2005 to build a performance track record. Performance under the SMP to date has been broadly satisfactory.

Following the Executive Board's discussion of the request by Cameroon, Ms. Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

“The Cameroonian authorities made progress in improving economic policies in the first half of 2005 under their 2005 staff-monitored program (SMP). Implementation of the program resulted in a substantial fiscal adjustment, especially in non-oil revenue, and improved public financial management and reporting. Prudent policies have contributed to solid economic growth, low inflation, and a narrowing external current account deficit.

“At the same time, the reform agenda remains unfinished. Progress in structural reforms will need to be strengthened, particularly with respect to improving governance and the business climate, enterprise restructuring, privatization, and fuel price adjustments. There is also

¹ The staff report on Cameroon is expected to be made available.

considerable room for further improvements in the structure of spending, transparency of government operations, budgeting, and budget execution procedures.

“The government’s new medium-term program seeks to consolidate fiscal performance and invigorate structural reforms in order to build a sound basis for enhancing growth and reducing poverty. The reform priorities include strengthening non-oil revenue, increasing public investment in infrastructure, enhancing the transparency of financial management, restructuring public enterprises, and removing obstacles to private sector activity. Follow-up and monitoring of the quality of public spending—including spending of debt-relief resources—full implementation of the domestic debt repayment plan, and decisive improvements in governance will be important in rebuilding confidence and strengthening private investment. Also, the role of the Poverty Reduction Strategy Paper is to be enhanced through more explicit links in the budget and better coordination of priorities with donors.

“Successful implementation of the PRGF-supported program should enable Cameroon to meet the completion point trigger on the continued maintenance of macroeconomic stability. Cameroon has made progress toward implementing other completion point triggers. The government is committed to ensuring that the resources released by debt relief, both before and after the completion point, are used for poverty-reducing and growth-enhancing expenditure. The mechanisms for appropriation, use, and monitoring of debt relief would need to be improved in coordination with creditors and donors. The authorities will need to continue on a sustained reform path and follow prudent borrowing policies, including beyond the completion point,” Ms. Krueger said.

Recent Economic Development

Cameroon's macroeconomic performance through 2004 was solid with real growth registering about 4 percent and inflation remaining low. However, public finances deteriorated, poverty remained widespread and sustained economic growth was hindered by, among other obstacles, inadequate infrastructure, poor governance, low investment, and limited financial intermediation. In recent years, the business climate has also been adversely affected by the Treasury's accumulation of domestic payment arrears and the slow progress in restructuring loss-making public enterprises.

The authorities adopted an ambitious economic program for 2005 to address the obstacles to growth and to improve fiscal management, in line with the main recommendations of the ex post assessment. They asked the staff to monitor the program. Building on the broadly satisfactory implementation of the staff monitored program during the first half of 2005, the authorities have adopted a medium-term economic program to be supported by an arrangement under the Poverty Reduction and Growth Facility, which is Cameroon's third successive PRGF arrangement.

Program Summary

The authorities medium-term program aims to enhance growth and reduce poverty consistent with Cameroon's Poverty Reduction Strategy Paper so as to make progress toward the Millennium Development Goals (MDGs). It seeks to (i) remove impediments to private sector activity, including by accelerating the restructuring and privatization of loss-making public enterprises; (ii) strengthen the fiscal position and increase investment in physical and human capital; and (iii) safeguard longer-term fiscal sustainability.

The program's key macroeconomic objectives are (i) real GDP growth in the non-oil economy averaging at least 4.4 percent a year during 2005-08; (ii) inflation below 3 percent; and (iii) an external current account deficit (excluding official transfers) below 5 percent of GDP by 2008. Although oil production is expected to decline over the medium term, the authorities expect growth in the non-oil economy to strengthen as the business climate improves.

The medium-term fiscal strategy seeks to ensure the availability of resources to cover core expenditure independent of the level of oil revenue (or debt relief). The fiscal strategy also aims to strengthen priority spending while ensuring long-term debt and fiscal sustainability.

The authorities will continue to improve public financial management and the effectiveness of spending. They will focus on improving expenditure quality, efficiency, and control, as well as absorptive capacity.

Through their program, the authorities are seeking to meet the conditions for the HIPC Completion Point so as to achieve debt sustainability through debt relief. Overall the net present value of public external debt is projected to decline to 153 percent of exports (before completion point relief) at end-2005, and further to 54 percent at end-2006 after Cameroon receives completion point relief. Cameroon would be eligible for debt relief under the multilateral debt cancellation initiative when it reaches its HIPC completion point.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2003-08

	2003	2004	Projections			
	Est.	Est.	2005	2006	2007	2008
(Annual percentage changes; unless otherwise indicated)						
National income and prices						
GDP at constant prices	4.1	3.5	2.8	4.2	3.7	4.6
<i>Of which:</i> non-oil GDP	4.9	4.7	3.7	4.1	4.7	5.1
GDP deflator	0.3	2.2	1.7	2.9	0.9	1.6
Consumer prices	0.6	0.3	1.3	1.8	2.0	2.0
Nominal GDP (in billions of CFA francs)	7,917	8,377	8,757	9,395	9,826	10,447
Oil output (in thousands of barrels a day)	98	89	82	88	78	74
External trade						
Export volume	6.9	1.5	-5.3	6.2	1.3	3.2
<i>Of which:</i> non-oil sector	12.3	5.9	-3.7	4.8	5.0	5.4
Import volume	-0.6	9.4	1.0	2.8	3.0	3.2
Average oil export price (U.S. dollars per barrel)	27.3	34.9	45.3	48.0	43.3	42.0
Real effective exchange rate	2.9	0.4	...	...	...	...
Terms of trade	-0.8	-1.3	9.0	4.9	-11.1	-7.2
Money and credit (end of period)						
Broad money (M2)	-0.9	7.3	4.7	9.0	10.9	9.0
Velocity (GDP/average M2)	5.8	5.8	5.9	6.2	5.8	5.7
Discount rate (end of period; in percent)	6.0	6.0	...	...	...	...
(In percent of GDP, unless otherwise indicated)						
Gross national savings	15.4	16.2	17.4	19.6	17.9	16.7
Gross domestic investment	17.5	19.2	19.8	20.7	21.2	21.6
Central government operations						
Total revenue (excl. grants)	16.1	15.1	16.9	17.8	17.1	16.6
Oil revenue	4.1	3.9	4.5	5.5	4.4	3.7
Non-oil revenue	12.0	11.2	12.4	12.3	12.6	12.8
Non-oil revenue (in percent of non-oil GDP)	12.8	12.0	13.3	13.3	13.4	13.6
Total expenditure	15.4	15.9	15.3	17.0	16.8	17.1
Noninterest total expenditure ²	12.4	13.2	12.5	13.4	14.4	14.6
Capital expenditure ³	1.9	1.8	2.4	3.7	3.8	4.3
Overall fiscal balance (excl. net changes in arrears)						
Excluding grants	0.7	-0.8	1.6	0.7	0.2	-0.6
Including grants	1.2	-0.7	2.0	1.2	0.3	-0.5
Primary balance ^{2,4}	3.4	1.9	3.9	3.4	2.3	1.7
Non-oil primary balance (in percent of non-oil GDP)	-0.3	-1.5	0.8	0.6	-0.1	-0.3
External sector						
Current account balance (including grants)	-2.1	-3.0	-2.4	-1.2	-3.4	-4.8
NPV of external debt	39.0	35.8	31.1	27.5	24.6	22.1
(In percent of exports of goods and services)						
External debt service (before debt relief)	26.0	23.0	20.2	17.1	15.2	13.6
External debt service (after debt relief)	8.7	7.0	6.7	3.6	4.0	4.2

Sources: Cameroonian authorities; and staff estimates and projections

1/ In percent of broad money at the beginning of the period.

2/ Excluding foreign-financed investment, restructuring expenditure and separation grants

3/ Excluding restructuring expenditure.

4/ Excluding external grants and privatization proceeds.

**Statement by Damian Ondo Mañe, Executive Director for Cameroon
October 24, 2005**

I. Introduction

On behalf of my Cameroonian authorities, I would like to thank the Board, Management and Staff for the continuous involvement and support to Cameroon. In particular, my authorities are appreciative of the productive and cooperative approach developed during policy discussions with Fund staff as reflected by the candid report on the review of the SMP, and welcome the constructive policy recommendations and advice on the design of the three-year program.

Since end-2004, my authorities' main objective was to reverse the deterioration of the fiscal situation. Consequently, they adopted an SMP with in mind the goal to restore fiscal sustainability, lay the ground for strong growth, and deepen poverty reduction. The demonstration of this commitment is reflected in the strong performance under the SMP with all quantitative benchmarks observed and most structural measures completed, albeit with some delays. Strong actions were taken by the government to enhance governance and transparency: Cameroon is an active participant in the Extractive Industries Transparency Initiative (EITI) since March 2005; the national oil company (SNH) started to publish information on oil sector operations on a quarterly basis on public websites (www.snh.cm and www.spm.gov.cm); an anti-money laundering agency was created (ANIF); a new public procurement code was enacted; the *Chambre des Comptes* (the audit chamber) was established and the judges are being trained; and the new penal procedure code promulgated; civil servants involved in unauthorized salary transfers were suspended and are being prosecuted. Moreover, on October 17- 18, 2005 the Cameroon bureau of Transparency International has conducted a seminar on "Measuring and improving Governance" attended by cabinet ministers, the civil society and the international partners, and an improvement of transparency in Cameroon has been recognized. On this occasion, the Minister of Finances welcomed the opportunity which was offered to "intensify our reflexions on the ways and means to improving governance in the management of the public affairs". Notwithstanding the progress made, my authorities are aware of the challenges they continue to face, including the implementation of strong policies and making progress on the needed reforms conducive to private sector development in order to boost growth and reduce poverty.

II. Recent Economic Developments and Performance under the SMP

Cameroon's economy has suffered over the last two years of poor hydroelectricity supply due to the drought and to managerial and financial difficulties of the newly privatized entity. Therefore, manufacturing output decreased substantially. Although the macroeconomic framework strengthened significantly under the SMP during the first half of 2005, real GDP growth is projected at 3 percent at end-2005 from 3.5 percent in 2004, due to sluggish manufacturing output and weak domestic demand. Inflation remained low and is projected at about 1 percent in 2005. My authorities concur that tight fiscal policies were necessary to

restore fiscal balance surplus and contain inflation. In fact, growth and household consumption have suffered in the short run; this has created favorable condition for growth in the medium-term.

Fiscal performance in the first half of 2005 was strong with revenue collection above the program targets, reflecting bold fiscal policies, and improved tax and customs administrations. The authorities maintained tight expenditure management control. Although capital outlays were lower than planned, the implementation of HIPC projects accelerated substantially as of July 2005 because the authorities and the Consultative Committee have streamlined projects implementation procedures. The non-oil primary balance improved from a deficit of 2.3 percent of non-oil GDP in 2004 to a surplus of 0.5 percent of annual non-oil GDP in the first half of 2005, in line with the SMP targets. In this regard, the authorities are determined to sustain the country's strong economic performance through diversifying the economy and enhancing competitiveness in order to broaden further the export base.

On the monetary front, the regional central bank (BEAC) has continued to implement a tight monetary policy. The government has reduced its liabilities towards the banking system, and broad money grew by about 1½ percent in the 12 months to June 2005.

As regards the domestic debt, while an audit was conducted to estimate the stock of the public domestic debt as of end-2004, part of the oil windfall was used to pay selected arrears. To this end, the authorities established a service schedule to pay off arrears to the HIPC account at the regional central bank (BEAC) by end-March 2006.

On structural reforms, the authorities have continued to enhance the transparency of fiscal operations and to strengthen public financial management. The bulk of government's accounts in commercial banks were closed and balances were transferred to the Treasury account at the BEAC, and significant efforts were made to commit all spending before making cash payments. The budget execution data (TABORD) was improved and provided in a timely way. In addition, starting August 2005, the budget execution report is published on a monthly basis.

My authorities have continued firmly the implementation of the restructuring and privatization of public enterprises with the support of the World Bank. Efforts focused on alleviating the burden these entities impose on the government's budget, and to improve the quality of the services they provide. As regards the national airline (CAMAIR), the authorities recruited the International Financial Corporation (IFC) as a government advisor, and the workforce was reduced in order to control its wage bill. Adjusting the prices of petroleum product within the first 8 months of 2005 helped to limit the losses of the state-owned refinery (SONARA). While my authorities remain committed to implementing fully their restructuring and privatization agenda, delays that occurred were due notably to technical difficulties including delays in the hiring and/or work of international consultants.

The authorities have prepared an update of the PRSP's macroeconomic framework and a second annual progress report covering January 2004–March 2005. Substantial progress has

been achieved, in particular, on the triggers pertaining to the social sectors, especially education and health (including HIV/AIDS).

III. Economic Policies for 2005/06 and the Medium Term

Building on lessons learned from the 2004 EPA and on the momentum gained while satisfactorily implementing the SMP, the medium-term economic program prepared by my authorities is in line with Cameroon's PRSP. This program aims at consolidating fiscal performance achieved under the SMP by preserving debt sustainability and strengthening structural reforms in order to build a basis for enhanced growth and rapid poverty reduction, including boosting the development of the private sector, increasing investment in human capital and in infrastructures whilst safeguarding long-term fiscal sustainability and making progress in governance.

During 2005-08, maintaining the real GDP growth in the non-oil economy to at least 4.4 percent per year in average is key for stabilizing the economic conditions and reducing poverty. In this vein, a multi-year budget framework that is consistent with these medium-term growth objectives is a necessary tool. With the aim of translating comprehensively the policy objectives into program targets, sectoral Medium-Term Expenditure Frameworks (MTEF) are under preparation with the support of the World Bank.

Fiscal policy

Cameroon is an oil producer and my authorities take seriously the projected decline over the medium-term of oil production. Their fiscal strategy seeks to ensure the availability of resources to cover core expenditure independent of the level of oil revenue and external financial support.

The 2006 budget that will be tabled to the Parliament by end-October 2005 is in line with the program. Non-oil revenue is projected to reach 13 percent of annual non-oil GDP. Measures to enhance tax collection include the strengthening of the tax and customs administration. Despite the prospect of additional resources from debt relief after the completion point, the authorities have agreed to broaden the tax base including containing exemptions and aligning tariff with the CEMAC external tariff, and increasing the taxation of the informal sector. As regards staff's proposal to bring down from 30 to 20 percent the abatement in the calculation of the personal income tax (IRPP) introduced in 2004, my authorities would like to emphasize that the introduction of a new cap will be considered later, in order to take into account the results of the ongoing assessment of the personal income tax reform.

Expenditure will be directed toward growth enhancement and poverty reduction objectives. This goal will be achieved through increasing public investment while controlling outlays on goods and services including the wage bill and subsidies. At the same time, my authorities will vigorously enhance the efficiency and the quality of public spending, and the absorptive and management capacity. Particular attention will be given to the selection, planning and sequencing of capital investment projects drawn from existing MTEF. Furthermore, the momentum gained in HIPC spending since July 2005 will be maintained. The authorities are

keen to enhance investors' confidence, and they are committed to implement the repayment plan of domestic debt that was established early October 2005.

Structural Policy

My authorities are determined to promote fiscal governance and transparency that is crucial to sustain private sector development and growth. From January 2006, all cash advances by the oil company (SNH) will be discontinued, and the monthly fiscal reporting will be strengthened further, including the publication of the budget execution report. The experience gained since the establishment of the Large Taxpayers Unit will be consolidated in order to enhance revenue mobilization. The integrated financial management system (SIGEFI) will be gradually implanted in other government entities. Concerning the civil service reform, the integrated payroll and human resource management system (SIGIPES) will be extended to eleven line ministries by end-2006.

My authorities remain resolved to enhance governance and tackle corruption. In this regard, the national governance program (PNG) is being streamlined. The *Chambre des Comptes* (the audit chamber) will start its activities as soon as the training of judges is completed. To make progress in the implementation of the EITI, a multi-stakeholder Committee was established and an action plan aimed at strengthening the implementation of the EITI principles was adopted with the assistance of the World Bank.

To reduce impediments to growth and improve the business climate, the authorities will improve the regulatory framework in key sectors including energy, transport, and forestry. In the forestry sector, the plan is to enhance and maintain coherent data on forestry exploitation and on related fiscal revenue. In the electricity sector, studies show that the generation capacity needs to be increased by 2008 in order to meet the growing demand. The authorities will develop with the support of the World Bank a least-cost investment plan consistent with international standards by March 2006. Efforts to reduce delays in clearance time and cost in the port of Douala include the enhancement of the one-stop window (GUCE) for international trade operations.

Monetary sector

Monetary policy conducted at the regional level by the BEAC will remain prudent and consistent with the objective of maintaining the parity of the CFAF with the Euro. The monetary and credit policies have helped to keep inflation low, and the policies will be maintained. Consistent with these objectives, broad money is projected to grow by about 4½ percent at end-2005.

Restructuring and Privatization

Limiting the losses of public enterprises and improving the services they provide will continue to be the objectives of my authorities. They are committed to paying, on a timely basis, public enterprises and utilities bills thus helping to preserve the financial position of these entities. The restructuring and privatization program will be intensified with the support

of the World Bank. For the national airline company (CAMAIR), the invitation for bid will be launched by end-January 2006, and the sale is expected by end-May 2006. The sectoral strategy on telecommunications will be completed by end-October 2005 and CAMTEL will be offered for sale by end-June 2006. To ensure the viability of the water distribution company (SNEC), water tariffs will gradually be increased by end-January 2006 with the aim to reach cost-recovery levels, and the invitation for bids will be launched by end-July 2006. In the context of high international oil prices, the adjustment mechanism of petroleum products prices will be implemented monthly. Since SONARA will continue to incur losses, the government has agreed to provide a budgetary transfer that will cover the subsidies to the consumer. Various studies are underway to determine the prerequisites for the privatization of CDC and SODECOTON.

Financial Sector

The authorities remain committed to the deepening of financial intermediation in Cameroon. In this regard, they will complete the microfinance licensing by end-October 2005 and will ensure ongoing supervision of microfinance institutions in cooperation with COBAC. In collaboration with BEAC, they will improve accounting practices and enhance the enforcement of property rights. The restructuring of CAMPOST will be pursued with a view to insuring its long-term sustainability and establishing a viable subsidiary for its financial activities. The authorities will firmly continue the restructuring of state-owned housing credit company (*Credit Foncier*) under the plan agreed with the COBAC, including renewed efforts to recover non-performing loans. They request an update of the FSAP in the regional context while continuing to build on the recommendations of the 2000 FSAP for Cameroon.

IV. External Debt Issue

The staff report indicates that, based on key assumptions consistent with the proposed PRGF-supported program, Cameroon external debt situation would improve significantly after the full delivery of HIPC and bilateral debt relief beyond the HIPC completion point. My authorities are cognizant that the program financing depend on debt relief, and they will work with Paris Club and non-Paris Club creditors in order to obtain a substantial reduction of debt servicing.

V. PSRP Process, Harmonization, and Alignment with Donors

My authorities acknowledge the need to accelerate the implementation of the PRSP while further enhancing transparency in the management of HIPC resources. To this end, they will implement the recommendations of the 2004 audit. Notably, the financial and physical monitoring of HIPC projects will be strengthened by establishing a special control unit under the Consultative Committee. To facilitate and enhance the implementation of the poverty reduction strategy, the authorities will accelerate the preparation and adoption of sectoral strategies and associated MTEFs in all priority sectors. Efforts towards improving access and service in the social sectors in order to meet the MDGs by increasing spending volume and efficiency will be pursued. The authorities' goal is also to enhance donor harmonization and alignment in line with the 2005 Paris Declaration on aid effectiveness. They intend to work

with donors on an action plan aimed at improving donor alignment with PRSP priorities, and harmonization of operational policies and procedures.

VI. Conclusion

My authorities reiterate their strong commitment to the implementation of sound policies based on an enhanced ownership to accelerate poverty reduction and make progress towards MDGs. They would also like to reaffirm their determination to pursue steadfastly the economic reform program as described in their PRSP. They remain confident that their efforts will enable them to fulfill the remaining completion point triggers of the HIPC Initiative. My authorities are confident that they can continue to rely on the strong support of the international community, including the Fund, to support their efforts. In this regard, I would like to ask Directors for their support for my authorities' request for a new PRGF arrangement.