INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/185

CAMEROON

July 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CAMEROON

In the context of the request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2017, following discussions that ended on April 7, 2017, with the officials of Cameroon on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 16, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- 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*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/248
FOR IMMEDIATE RELEASE
June 26, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$666.2 Million Arrangement Under the Extended Credit Facility for Cameroon

- Executive Board decision allows an immediate disbursement of SDR 124.2 million (about US$171.3 million) to Cameroon.
- Cameroon's ECF-supported program aims to restore the country's fiscal and external sustainability and unlock job-rich, private sector-driven growth.
- Reforms to maintain financial stability and boost financial inclusion, and address structural obstacles to competitiveness and economic diversification, will be key in accelerating private sector-led diversification.

On June 26, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) with Cameroon for SDR 483 million (about US$666.2 million, or 175 percent of Cameroon's quota) to support the country's economic and financial reform program.

The ECF-supported program is expected to help Cameroon restore external and fiscal sustainability and lay the foundations for sustainable, private sector-led growth.

An amount of SDR 124.2 million (about US$171.3 million) will be immediately made available to Cameroon, further to the approval of the arrangement. The remaining amount will be phased in over the duration of the program, subject to semi-annual program reviews.

Following the Executive Board discussion on Cameroon, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, said:

"Cameroon has been hit hard by the twin oil price and security shocks which have affected the CEMAC region since 2014 and led to a sharp drop in the pooled international reserves. Having initially shown resilience owing to its greater diversification, the Cameroonian economy is now facing decelerating growth, declining fiscal and external buffers, and rapidly-rising public debt. The authorities' Fund-supported program appropriately aims at addressing Cameroon's large balance of payments need and restoring fiscal and external sustainability, while also contributing to the collective effort to rebuild regional reserves. The Cameroonian authorities' leadership has been instrumental in spearheading the coordinated regional response to maintain the integrity of the CEMAC's monetary arrangement.

"Addressing the rising fiscal and external imbalances requires a sustained and balanced fiscal consolidation based on expanding the non-oil revenue base, prioritizing public investment projects with demonstrated growth dividends, and rationalizing recurrent expenditure, while protecting social spending. The authorities' fiscal program is supported by comprehensive structural reforms in revenue mobilization and public financial management to further boost non-oil revenue collection, improve spending efficiency, and contain fiscal risks.

"The authorities are committed to enhance Cameroon's competitiveness and medium-term growth potential, in line with their strategy to reach emerging economy status by 2035. The completion of large energy and transport public infrastructure projects will help boost private sector investment, job creation and further diversification, and is supported by complementary reforms to maintain financial stability, expand access to financial services and improve the business environment.

"The success of Cameroon's program will also depend on the implementation of supportive policies and reforms by the regional institutions."

Annex

Recent Economic Developments

Cameroon, the largest economy in the Central African Economic and Monetary Union (CEMAC), has been hit hard since 2014 by shocks caused by a slump in oil prices and increased security threats. Oil revenue declined and security and humanitarian spending increased, while needed infrastructure programs continued, leading to widening fiscal and current account deficits as well as a rapid accumulation of external debt.

After showing initial resilience to the shocks, growth weakened to 4.7 percent in 2016, from 5.8 percent in 2015 and 5.9 percent in 2014. Inflation declined to 0.3 percent at end 2016 and remained low at 0.4 percent in March 2017. It is expected to stay below the CEMAC convergence criterion of 3 percent in the medium-term. The fiscal deficit rose to 6.5 percent in 2016, from 2 percent of GDP in 2015, largely driven by a surge in capital spending and a decline in revenues.

Program Summary

Cameroon's reform strategy is embedded in the coordinated regional approach outlined at the Yaoundé Heads of States summit in December 2016, during which the Cameroonian authorities spearheaded a coordinated response to maintain regional external stability as well as the integrity of the monetary arrangement. In that context, Cameroon's ECF-supported program aims to restore the country's fiscal and external sustainability and unlock job-rich, private sector-driven growth. The program rests on three main pillars: i) frontloaded fiscal consolidation to strengthen fiscal and external buffers, while protecting social spending and social safety nets; ii) structural fiscal reforms to expand the non-oil revenue base, improve the efficiency of public investment and the quality of budgetary system, and mitigate fiscal risks from contingent liabilities; iii) reforms to accelerate private sector-led economic diversification and boost the resilience of the financial sector.

The fiscal objectives of the program will be achieved through a better prioritization of public investment, focusing on infrastructure projects essential to further economic diversification, and a rationalization of the government's spending on goods and services, while supporting an expansion of essential social expenditure and safety nets. In addition, with oil revenue declining over time, further expanding the non-oil revenue base and enhancing spending efficiency are key to maintaining the fiscal space needed for infrastructure investment and other priority areas.

To address the remaining weaknesses in public financial management, the authorities plan to enhance the budget credibility and transparency, including through the publication of regular reports on budget execution; strengthen treasury management, strictly limit and eventually eliminate the resort to exceptional procedures, and improve the efficiency in planning, executing and monitoring public investment projects.

Public debt management will focus on reducing the pace of debt accumulation in line with the program's fiscal deficit objectives, tilting the composition of new borrowing towards more concessional financing, and closely monitoring contingent liabilities.

Reforms to maintain financial stability and boost financial inclusion, and address structural obstacles to competitiveness and economic diversification, will be key in accelerating private sector-led diversification.

Background

Cameroon, which became member of the IMF on July 10, 1963, has an IMF quota of SDR 276 million.

For additional information on the IMF and Cameroon, see:
http://www.imf.org/external/country/CMR/index.htm

Cameroon: Selected Economic Indicators, 2015-20

	2015	2016	2017	2018	2019	2020
	Est.	Est.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
National account and prices						
GDP at constant prices	5.8	4.7	4.0	4.6	5.0	5.1
Oil GDP at constant prices	28.1	-4.5	-2.4	-0.1	-3.4	-3.8
Non-oil GDP at constant prices	4.9	5.1	4.3	4.8	5.3	5.5
GDP deflator	0.3	-1.2	0.9	1.0	1.3	1.7
Consumer prices (average)	2.7	0.9	0.7	1.1	1.4	2.0
External trade						
Export volume	17.8	1.0	2.0	5.2	6.7	8.5
Oil sector[1,4]	27.9	-3.1	-2.4	-0.1	-3.4	-3.8
Non-oil sector	15.2	2.2	3.2	6.5	9.0	11.0
Import volume	-5.0	-19.0	4.0	5.3	4.9	4.7
Terms of trade	-13.8	-20.4	3.4	-1.0	-3.5	-2.9
Money and credit						
Broad money (M2)	9.1	5.6	3.3	5.7	6.4	7.5
Domestic credit to the private sector	12.8	6.4	5.8	9.3	10.8	11.2
	(Percent of GDP, unless otherwise indicated)					
Central government operations						
Total revenue and grants	17.9	16.3	16.7	17.3	17.6	17.7
of which: Oil revenue	3.3	2.4	2.4	2.4	2.3	2.2
Total expenditure	19.9	22.8	20.1	19.8	19.6	19.3
Overall fiscal balance (payment order basis)	-2.0	-6.5	-3.4	-2.5	-1.9	-1.6
Gross national savings	17.2	16.5	16.9	17.8	18.9	20.1
Gross domestic investment	21.3	20.1	20.0	20.8	21.6	22.4
Public investment	6.7	8.3	7.3	6.9	6.7	6.5
Private investment	14.6	11.9	12.7	13.9	14.9	15.8
External sector						
Current account balance, including grants	-4.1	-3.6	-3.1	-3.0	-2.7	-2.2
Overall balance, including grants	2.9	-4.7	-2.0	-1.2	-1.3	0.4
Public debt						
Stock of public debt[2,3]	33.0	34.1	36.1	36.1	36.1	35.1
Of which: external debt	21.3	22.7	26.6	29.2	31.1	31.2
Memorandum items						
Nominal GDP (CFAF billions)	16,807	17,386	18,242	19,273	20,498	21,925
Oil	876	700	917	913	867	831
Non-Oil	15,931	16,686	17,325	18,360	19,630	21,094

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

[1]The export price for oil reflects actual prices for past years; for the current and future years, projections reflect movements in the Average Petroleum Spot Price (APSP) of three types of crude oil (Dated Brent, West Texas Intermediate, and the Dubai Fateh), with no discount.
[2]Includes the cumulative financing gap.
[3]Projections are taken from an update to the 2015 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de désendettement et de développement" (C2D).
[4]Crude oil volumes are augmented as of 2018 with natural gas exports of 60 million standard cubic feet per year.

INTERNATIONAL MONETARY FUND

CAMEROON

June 16, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. The largest economy in the Central African Economic and Monetary Union (CEMAC), Cameroon has been hit by significant export price declines and security threats since 2014. Oil revenue declined and security and humanitarian spending increased, while large infrastructure programs continued, leading to widening fiscal and current account deficits, rapidly-accumulating external debt and a decline in imputed reserves. The Cameroonian authorities are requesting a three-year program under the Extended Credit Facility (ECF) in the amount of SDR 483 million (175 percent of quota) to restore external and fiscal sustainability, and lay the foundations for sustainable, private-sector led growth.

Program pillars. The program rests on three pillars: (i) sustained fiscal consolidation to strengthen fiscal and external buffers, while protecting social spending and social safety nets; (ii) structural fiscal reforms to expand the non-oil revenue base, improve the efficiency of public investment and quality of budgetary systems, and mitigate fiscal risks from contingent liabilities; and (iii) reforms to accelerate private-sector led economic diversification and boost the financial sector's resilience.

Key policy recommendations.

- Implement sustained fiscal adjustment by rationalizing government overhead costs, better prioritizing and sequencing capital expenditure, and increasing non-oil revenue.
- Preserve social spending and scale up social safety nets.
- Enhance the credibility and transparency of the budget and increase spending efficiency.
- Support private-sector led growth, by addressing high non-performing loans and resolving insolvent banks, and removing administrative obstacles to private sector development.

Staff views. Staff supports the authorities' request for an ECF-supported program. The authorities' strong commitment to the program objectives, the substantial fiscal effort, and a comprehensive capacity development strategy mitigate implementation risks.

Approved By
Anne-Marie Gulde-Wolf and Bob Traa

Discussions took place in Yaoundé during February 20–March 6, 2017 and in Washington during April 3–7, 2017. The staff team comprised Ms. Deléchat (head), Ms. Chen and MacDonald, Messrs. Barry and Kalonji (all AFR), Messrs. Kpodar (SPR), De Santis (FAD), and Bayle (MCM). The team was supported by Mr. Tchakoté (local economist). Staff of the African Development Bank and the World Bank attended some of the policy meetings. Mr. Bah (OED) participated in the discussions.

CONTENTS

ANNEXES

APPENDIX

Glossary

BEAC	Regional Central Bank (*Banque des États de l'Afrique Centrale*)
CEMAC	Central African Economic and Monetary Community (*Communauté Économique et Monétaire de l'Afrique Centrale*)
CET	Common External Tariff
CFA	Central African Financial Cooperation (*Coopération Financière en Afrique Centrale*)
CGER	Consultative Group on Exchange Rates
CNDP	National Public Debt Committee (*Comité National de la Dette Publique*)
COBAC	Regional Supervisory Body (*Commission Bancaire de l'Afrique Centrale*)
CPIA	Country Policy and Institutional Assessment
CSPH	Hydrocarbon Price Stabilization Fund (*Caisse de Stabilisation des Prix des Hydrocarbures*)
DGD	Directorate General of Customs (*Direction Générale des Douanes*)
DGI	Directorate General of Taxes (*Direction Générale des Impôts*)
DSA	Debt Sustainability Analysis
EITI	Extractive Industries Transparency Initiative
EPA	European Partnership Agreement
FSAP	Financial Sector Assessment Program
GESP	Growth and Employment Strategy Paper
GFSM 2001	Government Financial Statistics Manual of 2001
HIPC	Heavily Indebted Poor Countries
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFI	Micro-Finance Institution
MTBF	Medium Term Budgetary Framework
MTEF	Medium Term Expenditure Framework
NOPD	Non-Oil Primary Deficit
NPL	Nonperforming Loan
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
REER	Real Effective Exchange Rate
SME	Small and Medium-Size Enterprise
SOE	State-Owned Enterprise
SNH	National Hydrocarbons Company (*Société Nationale des Hydrocarbures*)
SONARA	National Oil Refinery (*Société Nationale de Raffinage*)
SSA	Sub-Saharan Africa(n)
VAT	Value-Added Tax
WEO	World Economic Outlook

BACKGROUND

1. **Cameroon has been hit hard by the drop in export prices and by security threats since end-2014.** The economy has initially shown resilience owing to its greater diversification, particularly relative to other CEMAC countries (Text Figure 1). Nonetheless, with delayed adjustment and the ongoing public investment scaling up, Cameroon is now facing decelerating growth, declining fiscal and external buffers, and accelerating public debt accumulation. With the whole CEMAC region also reeling from the oil price shock, pooled BEAC reserves fell from a total of US$15.3 billion at end-2014 to US$4.8 billion or 2 months of imports by end-2016.

2. **Against this difficult regional backdrop, the Cameroonian authorities spearheaded a coordinated response to maintain regional external stability and the integrity of the peg.** At a summit convened by President Biya in Yaoundé on December 23, 2016, all CEMAC heads of state agreed on implementing expeditiously a package of coordinated measures to prevent a crisis, based on implementation of a strong fiscal correction accompanied by substantial financing from the Fund and other partners. Cameroon's program aims at addressing its own growing imbalances, but, with the country now contributing over 50 percent of BEAC's pooled reserves, will also support the collective effort to rebuild regional reserves.

3. **The authorities' reform program is tailored to maintain macroeconomic stability, while unlocking Cameroon's growth potential.** A key challenge will be to achieve a fiscal consolidation sufficient to restore fiscal and external stability, while preserving key investments in human and physical capital, and maintaining social cohesion. Social spending, particularly on health, lags behind that of peer countries, and so do most social indicators. Although lower than the CEMAC average, poverty remains high with significant regional disparities (Text Table 1). At the same time, the infrastructure gap is large (see Figure 3). Once completed, ongoing transport and energy infrastructure projects implemented in the context of the country's strategy to become an emerging economy by 2035 would boost productivity, diversification and sustainable growth (Box 1).

Text Table 1. Cameroon: Selected Social Indicators, 2014–15
(Units as indicated)

	Cameroon	CEMAC average	SSA	Year
Health expenditure, public (percent of GDP)	0.9	2.4	2.3	2014
Maternal mortality rate [1]	596	568	547	2015
Life expectancy at birth, total (years)	55.5	57	58.6	2014
Education expenditure, public (percent of GDP)	3.0	3.3	4.0	2014
Female literacy rate (percent)	68.9	62.0	..	2015
Poverty rate (percent of population) [2]	37.5	50.4	..	..

Source: World Developement Indicators, World Bank, 2016.
[1] The maternal mortality ratio is per 100,000 live births, modeled estimate.
[2] Poverty headcount ratio data from 2014 (Cameroon), 2008 (CAR), 2011 (Chad and Congo), 2006 (Equatorial Guinea), 2005 (Gabon), data not available for SSA. Poverty rate defined as poverty headcount ratio at national poverty lines.

4. **Mounting socio-political pressures ahead of the Fall 2018 presidential and legislative elections could limit the policy space for broad-ranging reforms.** There are reportedly about 600,000 refugees from Nigeria and C.A.R. as well as internally-displaced people, and 2.4 million facing food insecurity, creating pockets of fragility in the country. Since November 2016, lawyers and teachers have gone on strike in the two Anglophone regions, in protest at the Francophones' perceived dominance and with some asking for a return to federalism. The strikes have resulted in violence and civil unrest and the situation remains tense, with slow progress towards normalization.

Box 1. Cameroon: Implementation of large Infrastructure Projects

The 2009 Growth and Employment Strategy Paper (GESP) operationalizes Cameroon's plan to achieve emerging market status by 2035, "Cameroon Vision 2035". In 2015, Cameroon implemented the Three-year Economic Emergency Plan (PLANUT) to accelerate progress towards the 2035 goal. The GESP and PLANUT prioritize large public infrastructure projects that will promote private investment and growth. Under these plans, capital spending increased from 24.5 to 30.7 percent of total government spending between 2010 and 2016 (Box 1 Figure 1).

Almost CFAF 3 trillion has been allocated towards the major projects under the GESP and PLANUT. These include critical transport and energy infrastructure projects (Box 1 Table 1).

Box 1 Table 1. Cameroon: Major project costs, by sector

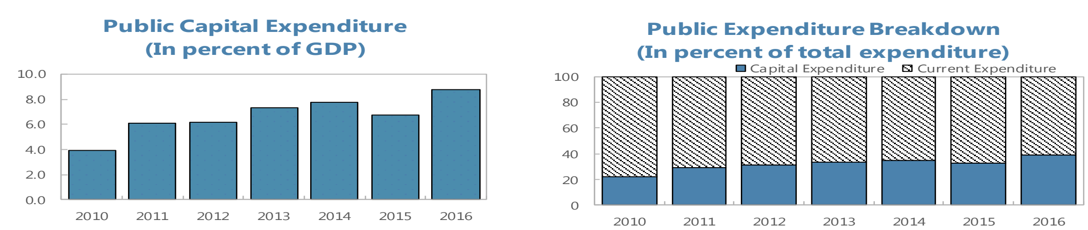
Project Sector	Project descriptions	Cost (billion CFAF)
Electricity and Hydro	Potable water plant; Dams; Gas terminal at Kribi; thermal energy	1,457.9
Ports and airports	Kribi port	553.0
Road and rail	Kribi complex; bridge and highways	499.8
Telecommunications	Fibre optic network installation	42.5
Urban construction	Social housing	387.9
Total		**2,941.1**

Sources: Cameroonian authorities; and IMF staff calculations.

Some large infrastructure projects have suffered from delays in implementation. Weaknesses in strategic planning, project preparation and public procurement processes, as well as insufficient funding for land expropriation, have slowed completion of key projects. For example, the deep sea port of Kribi has been completed since 2014 but delays in finishing the supporting infrastructure (roads, electricity, etc) prevent the port from being operational. The authorities have taken measures to address this situation, including more frequent physical execution reviews and steps to strengthen public investment planning and budgeting.

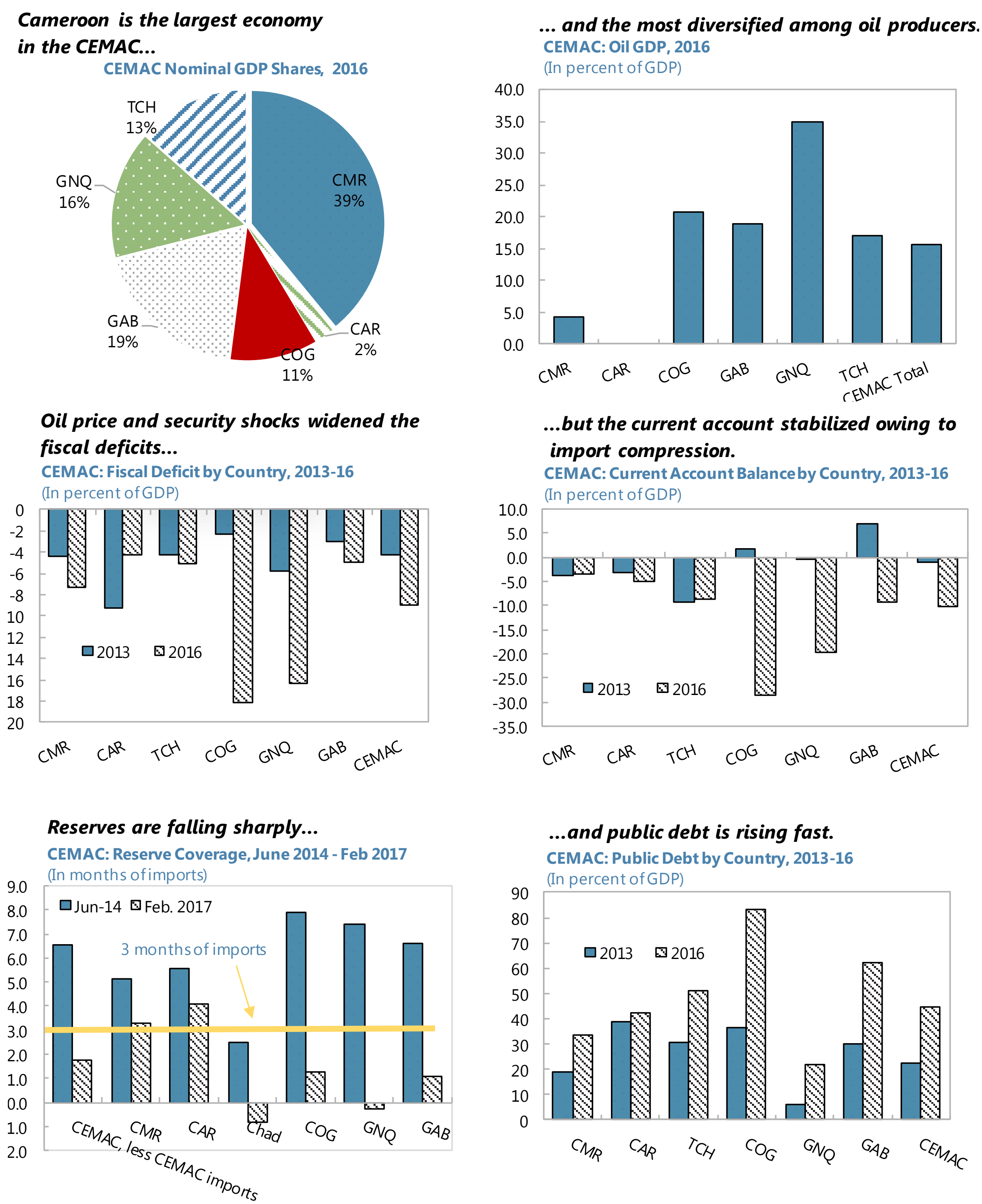
Once completed, the major projects will contribute to non-oil growth in the medium term. A natural gas terminal is expected to be operational at end-2017, the Memve'ele, Mekin and Lom Pangar dams will be fully commissioned by mid-2017, the Lom Pangar power station by end-2018, and highways and bridge have planned completion dates for 2018–19, barring any new delays. Gas production is expected to begin in late 2017 with Kribi's floating liquefied natural gas terminal beginning operations. Cameroon's under-exploited agri-food sector is the focus of the 2014 National Agriculture Investment Program and World Bank projects, targeting a 3-fold increase in yields of major crops by 2021. Together, the GESP and PLANUT projects are expected to increase GDP growth by 0.5 percent in 2018 and 0.8 percent in 2019.

Box 1 Figure 1. Cameroon: Public Investment



Sources: Cameroonian Authorities; and IMF staff calculations.

Text Figure 1. Cameroon and the CEMAC



Sources: CEMAC authorities; BEAC authorities; and IMF staff calculations.

CMR: Cameroon, CAR: Central African Republic, TCH: Chad, COG: Republic of Congo, GAB: Gabon, GNQ: Equatorial Guinea

RECENT DEVELOPMENTS

5. After showing initial resilience to the twin shocks, growth weakened in 2016 (Figure 1, Table 1). Headline growth in 2015 remained high at 5.8 percent (5.9 percent in 2014) as a 28 percent increase in oil GDP masked the deceleration in non-oil growth. In 2016 however, shrinking oil production and broadly flat non-oil output dragged overall growth down to 4.7 percent. Inflation declined to 0.3 percent at end-2016 (y/y), and remained low at 0.4 percent in March 2017, driven by lower import prices. It is projected to remain below the 3 percent CEMAC convergence criterion in the medium term.

6. The fiscal deficit widened. The fiscal deficit rose from 2.0 percent of GDP in 2015 to 6.5 percent in 2016 on a payment order basis,[1] largely driven by a 1.6 percent of GDP surge in capital spending,[2] and a 1.9 percent of GDP decline in revenues, of which oil receipts accounted for 0.9 percent; the increase in the cash deficit was more modest, at 2.7 percent (Figure 2, Tables 2a-b). The deficit was financed by the drawdown of the US$750 million Eurobond proceeds, BEAC statutory advances (0.5 percent of GDP) and domestic bank financing. Despite stronger collection efforts, revenues have stagnated in Q12017, mainly due to weaker customs collections, but expenditure consolidation remains on track. The tight liquidity situation has prompted further drawings of BEAC statutory advances (0.2 percent of GDP) and resort to bank financing.

7. Public debt has more than doubled since 2012. Total public debt reached 34.1 percent of GDP in 2016,[3] a sharp increase from 15.6 percent of GDP in 2012 as the authorities embarked in large infrastructure projects, mostly financed with non-concessional loans. The pace of contracting new loans has exceeded implementation capacity: the stock of contracted, but undisbursed external loans was estimated at 20.8 percent of GDP at end-2016, increasing the risk of a debt overhang.

8. The overall balance of payments swung into deficit (Figure 1, Table 3)**.** The slump in international oil prices and declining production have led to a 35 percent fall in oil export revenue in 2016, while non-oil exports stagnated. However, the current account deficit narrowed to 3.6 percent of GDP from 4.1 percent in 2015, as the decline in exports was more than offset by import compression stemming from slower economic activity and import substitution in the construction sector. Nonetheless, imputed reserves fell to 3.7 months of imports (6 months in 2015) as the financial account moved into deficit, mostly due to weak export proceeds' repatriation (Annex I).

9. Monetary aggregates reflected the weaker economic activity. The annual growth rates of broad money and private sector credit almost halved, reaching 5.6 percent and 6.4 percent

---

[1] In Cameroon as in other francophone countries, fiscal reporting is not strictly-speaking on a commitment basis, but on a "payment order" basis (i.e. when payment orders are issued, after the "commitment" phase for spending in the budget). References to "commitment" in the rest of the report should be understood as "payment order".

[2] Some of the domestically-financed investment commitments for 2016 were made late in the year and were credited to below-the-line to correspondent Treasury accounts.

[3] This includes domestic arrears amounting to 3.6 percent of GDP and supplier debt of the oil refinery, SONARA (0.5 percent of GDP).

respectively at end-2016 (y/y), as the sharp decline in reserves was matched by an increase in net claims on the government (Table 4). In January-March 2017, imputed reserves declined further (CFAF 99 billion), while money and private sector credit growth remaining broadly stable.

POLICY DISCUSSIONS

A. Main Program Objectives and Macroeconomic Assumptions

10. Cameroon's reform strategy is embedded in the coordinated regional approach outlined at the Yaoundé summit. The measures proposed by the authorities are in line with the priorities identified in the regional economic reform program for the CEMAC (PREF-CEMAC) and, together with the other CEMAC countries' efforts, will contribute to redress regional imbalances and rebuild adequate buffers. At the same time, the regional policies to be pursued by the BEAC and the COBAC would support the authorities' adjustment efforts (Box 2).

Box 2. Cameroon: Role of Regional Policy Assurances

The December 2016 CEMAC heads of state meeting in Yaoundé set in motion a regionally-coordinated effort to maintain the CEMAC's external stability and preserve the integrity of its monetary arrangement. At that meeting, CEMAC's heads of state and heads of regional institutions undertook to implement a strategy based on (i) sustained fiscal adjustment; (ii) a return to sound monetary policy; and (iii) initiation of substantial structural reforms to support economic diversification. The CEMAC Commission has been tasked with monitoring implementation of individual country policies, as well as the status of program discussions with the Fund, under the umbrella of the regional economic and financial reform program (PREF-CEMAC), launched in July 2016 under the leadership of the President of the Republic of Congo. As described in more detail in the staff report on the common policies in support of member countries' reform programs, the adjustment in Cameroon would also depend on implementation of regional monetary and financial sector policies described in the BEAC/COBAC letter of policy assurances attached to that report:

- *Implement a monetary policy supportive of the countries' adjustment efforts.* For Cameroon, the end of new monetary deficit financing and tighter credit conditions for banks will allow for reduced pressures on external accounts. The forthcoming new BEAC liquidity management framework will help keep banks' excess liquidity low and stable.
- *Address potential "free-rider" concerns.* With all CEMAC countries either already under Fund-supported programs or engaged in program discussions with the Fund, the risk of free rider coming from the sovereign has considerably diminished. BEAC's tighter monetary and credit conditions will also reduce the risk of private capital outflows, supported by measures to strictly enforce repatriation requirements.
- *Maintain financial sector stability and promote financial development.* The Cameroonian financial sector has so far remained resilient to the regional crisis but pockets of vulnerability are emerging. For Cameroon, the main role of the COBAC will be to support the authorities' efforts to maintain financial sector stability by reviewing in a timely manner strategies to address long-standing insolvency of a few non-systemic banks and implementing measures to lower the structurally-high level of NPLs, and strengthening banking supervision. The COBAC will also support the Cameroonian Ministry of Finance in implementing these strategies.

11. The three-year ECF-supported program aims at restoring Cameroon's fiscal and external sustainability and unlocking sustainable private sector-led growth. The program rests on three main pillars: (i) sustained fiscal adjustment to build-up fiscal and external buffers; the impact of the fiscal adjustment on the poor and most vulnerable would be mitigated by a floor on social spending and an expansion of social safety nets; (ii) structural fiscal reforms to mobilize non-oil revenue, improve public financial management and the efficiency of public investment and mitigate fiscal risks from contingent liabilities arising from state-owned enterprises; and (iii) structural reforms to accelerate private-sector led economic diversification and boost financial sector resilience.

12. A fiscal consolidation of about 5 percent of GDP (commitment basis) between 2016 and 2020 is the backbone of the program.[4] This will be achieved through a combination of expenditure rationalization focused on prioritizing public investment, and a gradual expansion in the non-oil revenue base (MEFP ¶19–23, Text Table 2). The fiscal retrenchment, combined with a more restrictive regional monetary policy, would support a buildup of domestic deposits to about 2.4 months of expenditure by 2020 (0.5 month in 2016), as well as a further narrowing of the current account deficit to 2.2 percent of GDP. Together with higher foreign direct investment boosted by enhanced infrastructure and an improved business environment, this would allow for a gradual buildup of imputed reserves to above 4 months of imports.

Text Table 2. Cameroon: Medium-Term Macroeconomic Framework, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022
		Est.			Proj.			
Economic growth and prices			(Percentage change)					
Real GDP	5.8	4.7	4.0	4.6	5.0	5.1	5.5	5.5
Non-oil real GDP	4.9	5.1	4.3	4.8	5.3	5.5	5.5	5.5
Consumer prices (period average)	2.7	0.9	0.7	1.1	1.4	2.0	2.0	2.0
Fiscal aggregates			(Percent of GDP)					
Total revenue (incl. grants)	17.9	16.3	16.7	17.3	17.6	17.7	17.8	17.9
Of which: oil	3.3	2.4	2.4	2.4	2.3	2.2	2.1	2.0
Of which: non-oil	14.6	13.6	13.9	14.5	15.1	15.3	15.4	15.6
Total Expenditure	19.9	22.8	20.1	19.8	19.6	19.3	19.0	19.0
Of which: Current	13.9	14.3	12.8	12.9	12.8	12.7	12.6	12.5
Of which: Capital	6.7	8.3	7.3	6.9	6.7	6.5	6.5	6.5
Overall budget balance, payment order basis (incl. grants)	-2.0	-6.5	-3.4	-2.5	-1.9	-1.6	-1.2	-1.1
Overall budget balance, cash basis (incl. grants)	-2.7	-5.4	-4.2	-3.9	-2.8	-2.4	-1.2	-1.1
Non-oil primary balance (payment order basis, percent of non-oil GDP)	-5.2	-8.4	-5.2	-4.4	-3.6	-3.1	-2.8	-2.5
Non-oil primary balance (cash basis, percent of non-oil GDP)	-5.9	-7.3	-6.0	-5.8	-4.5	-4.0	-2.8	-2.5
Total public debt	33.0	34.1	36.1	36.1	36.1	35.1	33.8	32.4
External sector			(Percent of GDP)					
Current account (incl. grants)	-4.1	-3.6	-3.1	-3.0	-2.7	-2.2	-1.7	-1.3

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

13. Growth would decline in 2017 but recovery would start in 2018. For 2017, with a decline in oil production and the non-oil economy affected by the fiscal contraction and monetary policy tightening, overall GDP growth would decline to about 4 percent of GDP (Box 3). Growth should start recovering to about 4.5–5 percent in 2018–19 as investor confidence returns, non-oil exports pick up, partly due to tariff-free exports to Europe following implementation of the Economic Partnership

[4] The fiscal adjustment on a cash basis is smaller, at 3 percentage points of GDP.

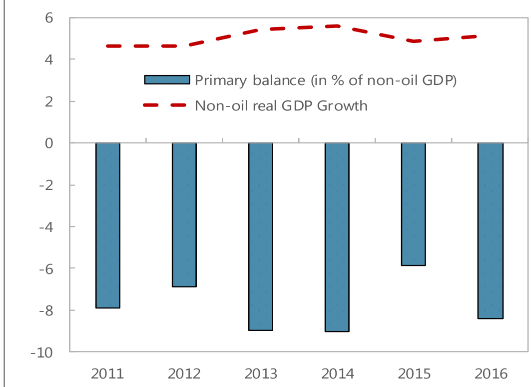
Agreement (EPA) with the European Union (Annex II), and large infrastructure projects come into operation (see Box 1).

Box 3. Cameroon: Assessing the Size of the Fiscal Multiplier

Fiscal multipliers in LICs are highly uncertain and a lack of adequate data prevents rigorous estimation through either a demand side approach or a macroeconomic model. However, several studies have used panel data analysis to estimate fiscal multipliers for LICs and emerging markets, finding a range from -0.2 to 0.5.[1]

A Bucket Approach proposed by the IMF Fiscal Affairs Department (FAD) is used to estimate Cameroon's fiscal multiplier. It consists of assigning scores on several structural dimensions: trade openness, labor market rigidity, the size of automatic stabilizers, the exchange rate regime, the debt level, and public expenditure management and revenue administration. Scores are added and the economy is assigned a multiplier value within one of three ranges: low, medium, or high. Based on this approach, Cameroon's multiplier is between low (0.1 to 0.3) and medium (0.4 to 0.6).

Box 3 Figure 1. Cameroon: Primary Fiscal Balance and GDP Growth



Sources: Cameroonian Authorities; and IMF staff calculations.

In the absence of a baseline scenario, the unconditional elasticity of growth to changes in the primary balance provides additional insight to the potential impact of fiscal adjustment. Elasticities are calculated using two measures: the change in real non-oil GDP growth to (i) the change in government expenditure less interest to non-oil GDP, and (ii) the change in non-oil primary balance to non-oil GDP. Table 1 reports summary statistics for the elasticity, which is estimated to be between 0.3 and 1.1 in recent years. Under the program scenario assumptions the elasticity is between 0.3 and 0.6 in 2017, consistent with historical estimates and similar to the fiscal multiplier assumed in the bucket approach and in the literature.

Box 3 Table 1. Cameroon: Average Unconditional Elasticity of Fiscal Adjustment

Variable	2005-2016	2010-2016	2013-2016	2017 (implied)
Change in real non-oil GDP growth/(Change in government expenditure less interest/non-oil GDP)	1.8	2.6	0.4	0.3
Change in real non-oil GDP growth/(Change in non-oil primary balance (payment order basis)/non-oil GDP)	0.4	0.4	0.3	0.3
Change in real non-oil GDP growth/(Change in non-oil primary balance (cash basis)/non-oil GDP)	0.6	0.9	1.1	0.6

Sources: Cameroonian Authorities; and IMF staff calculations.

[1] Ilzetzki (2011), Kraay (2012), Ilzetzki, Mendoza, and Vegh (2013), and Furceri and Li (2016).

14. Downside risks to the macroeconomic outlook dominate (Table 5)**.** Delays in the necessary adjustments as some CEMAC countries progress at different speeds could dampen confidence and weigh on regional reserves. Other external risks pertain to continued deterioration in commodity prices, and/or tightening of global liquidity conditions, which could adversely affect the country's risk premium. Domestically, the 2018 presidential and legislative elections could disrupt the reform momentum, as could continued socio-political tensions in some regions. The risk of an intensification of regional armed strife has ebbed, but continued security concerns could hamper private investment and constrain government finances. Delays in the start of operations of large infrastructure projects could hamper growth. Mitigating factors include the regional commitment to a coordinated approach, the authorities' ongoing efforts to diversify the economy, control new borrowing and rebuild buffers, as well as the social safeguards in the program.

15. The authorities had a more optimistic view of the growth outlook. They considered that some nearly-completed large infrastructure projects and ongoing investments in agri-business could lift economic growth above current projections. They emphasized that the large remaining infrastructure gaps would necessitate a continued public investment scaling up, but concurred with staff's recommendation to focus on first-generation projects close to completion.

B. Program Pillar # 1: Achieving a Sustained Fiscal Consolidation

16. Early fiscal adjustment is critical to address the immediate external imbalances. The short-term adjustment in the non-oil primary balance (payment order basis), is broadly in line with the objectives of the authorities' 2017 budget (MEFP ¶18–19, Text Table 3). But, starting in 2018, most of the additional consolidation is driven by improvements in non-oil revenue, while recurrent spending is being kept broadly constant in real terms and capital spending is slowly consolidated further (MEFP ¶19, 22–23). Overall, the non-oil primary balance improves by 5.3 percent of non-oil GDP over 2017–20, reaching about -3 percent of non-oil GDP in the medium term, which is consistent with a steady-state stabilization of the public debt ratio at around 25 percent of GDP. The adjustment in the non-oil primary balance on a cash basis is smaller at 3.3 percent of GDP over 2017–20, reflecting the impact of exceptionally large unexecuted investment spending commitments in 2016, expected to be implemented in 2017–18.[5] The program also targets a clearance of domestic arrears of 3½ percent of GDP over the program period.

17. The program would preserve priority social spending and support an expansion of social safety nets. Staff and the authorities agreed that a floor will be set on spending on key sectors such as education, health, employment promotion, youth and women protection (IT). Moreover, the authorities indicated that they intended to prepare a national social protection strategy (SB, MEFP¶20).

[5] Based on preliminary 2016 fiscal data, and the past history of similar practices, staff estimates this amount to be about CFAF 165 billion (1 percent of GDP).

Text Table 3. Cameroon: Fiscal Framework, 2016–20
(Percent of GDP)

	2016	2017		2018	2019	2020
	Est.	Budget	Prog.	Prog.	Prog.	Prog.
Total revenue and grants	16.3	17.1	16.7	17.3	17.6	17.7
Oil sector revenue	2.4	2.5	2.4	2.4	2.3	2.2
Non-oil sector revenue	13.6	14.1	13.9	14.5	15.1	15.3
Total grants	0.3	0.5	0.4	0.3	0.3	0.3
Total expenditure	22.8	21.1	20.1	19.8	19.6	19.3
Current expenditure	14.3	12.4	12.8	12.9	12.8	12.7
Wages and salaries	5.4	5.5	5.5	5.5	5.5	5.5
Goods and services	5.3	3.8	3.9	4.2	4.2	4.1
Subsidies and transfers	2.8	2.0	2.5	2.4	2.4	2.3
Interest	0.8	1.1	0.9	0.8	0.8	0.8
Capital expenditure	8.3	8.7	7.3	6.9	6.7	6.5
o/w Domestically financed investment	5.3	5.1	4.1	3.5	3.5	3.4
o/w Foreign-financed investment	2.8	3.4	3.0	3.1	3.0	2.9
Overall balance (payment order basis, incl. grants)	-6.5	-4.0	-3.4	-2.5	-1.9	-1.6
Overall balance (cash basis, incl. grants)	-5.4	-4.0	-4.2	-3.9	-2.8	-2.4
Non-oil primary balance (payment order basis, incl. grants) [1]	-8.4		-5.2	-4.4	-3.6	-3.1
Non-oil primary balance (cash basis, incl. grants) [1]	-7.3		-6.0	-5.8	-4.5	-4.0
External financing, net	2.0	2.3	2.0	1.8	1.6	1.6
Domestic financing, net	3.5	1.8	-0.6	0.1	-0.6	0.6
Financing gap			2.8	1.9	1.8	0.2
o/w IMF			1.0	0.5	0.5	0.2
o/w budget support (excl. IMF)			1.8	1.4	1.3	0.0

[1] In percent of non-oil GDP.
Sources: Cameroonian authorities; and IMF staff estimates and projections.

18. **Domestic financing would gradually unwind over the course of the program to support private sector credit growth.** The stock of domestic arrears is to be repaid gradually through 2020, with an audit planned to confirm amounts (SB), the adoption of a clearance plan (SB), and the production of quarterly reports on amounts outstanding going forward (SB). Domestic bank financing would unwind in line with the regional monetary policy tightening. The authorities have been prudent in their use of BEAC statutory advances, being the only CEMAC country below their allotted ceiling and have committed to continue to do so, with a program ceiling on net BEAC financing to control liquidity creation.[6] The authorities fully agree with the commitments made at the regional level involving the freeze of the ceiling on statutory advances at the level established based on 2014 budget revenue (MEFP ¶39). In line with BEAC commitments, the authorities would also agree with the BEAC on a schedule to repay outstanding advances by 2027 based on a gradual reduction of the existing country-specific ceilings. Because of Cameroon's more favorable starting point than other CEMAC countries, the gradual lowering of these ceilings would become binding and trigger reimbursements only in the medium term.

[6] Cameroon has drawn CFAF 266 billion out of a ceiling of CFAF 576.5 billion as of end-March 2017.

19. Staff and the authorities agreed on the importance of setting credible and realistic short-term objectives, broadly in line with the 2017 budget.

- On the revenue side, the program is slightly more cautious than the budget, based on a conservative estimate of the combined impact of the new tax measures and exemptions (MEFP ¶22–23, 25–27, Text Tables 3, 4).
- Staff proposed to keep recurrent spending at 12.8 percent of GDP (12.4 percent of GDP in the budget), with a floor of about 3.5 percent of GDP on social spending, to protect the most vulnerable from the impact of the fiscal consolidation (MEFP ¶20–21).

Text Table 4. Cameroon: Yield of Proposed Revenue Measures
(percent of GDP)

	2017	2018	2019	Total
Total	**0.4**	**0.5**	**0.6**	**1.5**
Reduction of exemptions and other tax incentives	0.1	0.1	0.1	0.3
New excise taxes	0.0	0.1	0.1	0.2
Increase of excise tax on fuel distribution	0.1	0.1	0.1	0.3
Gains from tax administration compliance	0.2	0.1	0.1	0.4
Introduction of land tax		0.1	0.2	0.3

Sources: Cameroonian authorities; and IMF Staff calculations.

- Staff and the authorities discussed in detail the contents of the public investment program for 2017, and agreed that spending objectives should be guided by execution capacity of ongoing infrastructure projects, which were being implemented at a slower pace than anticipated.

C. Program Pillar # 2: Boosting Non-Oil Revenue and Spending Efficiency

Revenue Mobilization

20. With oil revenue gradually declining over time, the non-oil revenue base needs to expand to create fiscal space for infrastructure and other priority spending (Annex III). The authorities intend to introduce new tax policy measures in the 2018 budget, focused on three main areas (MEFP ¶23): (i) broadening the property tax base using better collection procedures (SB); (ii) reducing the number of exemptions to improve the VAT yield; and (iii) streamlining tax incentives. Staff fully concurred with these priorities, which were in line with past TA recommendations, but also noted that some revenue measures need to be coordinated at the regional level to reduce tax arbitrage and create a more level playing field.

21. Staff and the authorities agreed that enhancing tax and customs administration efficiency would be essential to support further revenue mobilization. These include: (i) continuing to broaden the income tax base among SMEs through easier physical and electronic access, and simpler forms; (ii) enhancing VAT administration by accelerating VAT refunds and eliminating automatic withholding; (iii) strengthening controls by cross-checking taxpayer information between the customs and tax administrations (SB); and (iv) finalizing implementation of the biometric taxpayer identification (SB). At customs, the implementation of more efficient audit and exemption monitoring procedures should be encouraged (MEFP ¶25–27).

22. Staff and the authorities agreed to enhance the transparency of the fuel pricing mechanism and to reduce the associated fiscal risks. The low pass-through of the drop in international oil prices has generated windfall revenue used by the authorities to offset overdue subsidies to the national oil refinery (SONARA), but the recent recovery in international prices poses the risk that subsidies could re-emerge. Staff indicated that the current low oil prices represent an opportunity to reinstate the automatic fuel pricing mechanism that had protected public finances from costly and inequitable subsidies until 2008. The authorities noted the sensitivity of this measure, which would require careful preparation. They committed in particular to publish petroleum prices on a monthly basis (SB), and to prepare a strategy aiming at ensuring the sustainability of the fuel pricing structure as well as preserving the financial viability of the SONARA (SB, MEFP ¶24).

Public Financial Management (PFM)

23. Despite recent progress, significant weaknesses remain in PFM. In particular, there is currently a disconnect between the *budget passed by parliament*, which systematically underestimates actual spending needs, *spending commitments*, which include off-budget activities by the national oil company (SNH), and *actual cash implementation*, which includes payments of previous year's arrears (Box 4). The authorities reaffirmed their commitment to address these issues, including in the context of their public finances reform strategy. In the short term, they would focus on the following critical areas (MEFP ¶28–30):

- ***Enhance the credibility and transparency of the budget,*** by gradually moving to accrual accounting, strictly limiting exceptional procedures, and accelerating the transposition of CEMAC directives into national law (SB). On direct spending by SNH, the authorities indicated that it consisted of emergency security and humanitarian expenses related to the war against Boko Haram, which required agile execution and were difficult to plan. They nonetheless agreed to start including a larger portion of such expenditures in the budget starting in 2018, and to cap and gradually reduce these interventions (IT). These expenditures will also be included in monthly fiscal reports for better monitoring (prior action). The authorities would adopt a formal budget calendar to support better integration of the recurrent and investment budget and to better align the multi-year public investment plan with the latest macroeconomic projections and budget ceilings (prior action). The publication of regular, quarterly budget execution reports would enhance accountability (prior action).
- ***Strengthen treasury management,*** by broadening the scope of the Single Treasury Account, and preparing more reliable annual Treasury plans, which would be attached to annual budget laws (CEMAC Directive). The authorities would also, *inter alia*, strictly limit the practice of treasury advances, prohibit the use of correspondent accounts to preserve budgetary allocations beyond the current budget year, produce monthly reports on the balances of the these accounts, limit the use of exceptional procedures for investment spending, and undertake more frequent reconciliation of financing data with the BEAC (MEFP ¶34).
- ***Enhance public investment efficiency***. A recent PIMA assessment[7] noted that public investment efficiency in Cameroon was about half that of highest-performing countries (40 percent for SSA), with key weaknesses in the preparation and execution phases. Main weaknesses include the lack

[7] The PIMA assessment was conducted in January 2016 by a joint IMF-World Bank team.

of integration of the medium term budgetary frameworks (MTBF) with annual budgets, and the inclusion of immature projects in the budget which leads to implementation delays and low infrastructure quality. Staff pointed to the slow and inefficient public procurement process as well as difficulties in expropriation procedures and compensation of landowners which have considerably hampered the implementation of major infrastructure projects. The authorities concurred with the assessment and indicated that they planned to strengthen project preparation, including by specifying project selection criteria in a binding document (SB, MEFP ¶31). Enhanced planning of multi-year projects would also support improvements in program budgeting (MEFP ¶32). The authorities' efforts to enhance project maturation and procurement are being supported by the AfDB (through capacity building in strategic planning and the creation of a project maturation fund) and the World Bank (by assisting in the preparation of a new procurement code).

Box 4. Cameroon: Main Challenges in Public Financial Management

Recent and comprehensive diagnostics of Cameroon's PFM systems found that progress has been made on a number of fronts, but that significant weaknesses remain in critical areas.[1/]

- The PEFA assessment found positive developments in revenue administration through improved taxpayer registration, time limits for fund transfers, and regular reconciliation with the Treasury department. It also found the public debt management framework strengthened by the establishment of the National Public Debt Committee (CNDP) in 2008. Improvement is also noted in implementing a medium-term expenditure framework (MTEF) and a MTBF. The introduction of parliamentary reviews has strengthened budget accountability but the review time remains short.
- More problematic issues include the extensive use of treasury advances, payments by the treasury of previous year's arrears, well beyond the (already long) 90-day complementary period, and direct spending by the national oil company (SNH), which is regularized ex-post in the budget and displaces regular budgeted spending. In spite of the adoption of program budgeting, the link between successive MTBFs and between the MTBF and annual budgets remains weak, with below-the-line treasury correspondent accounts being used to secure multi-year budget allocations. These practices blur the line between fiscal years, lead to arrears accumulation, and significantly complicate treasury management. The Fund technical assistance mission also identified significant weaknesses in the budgetary framework, processes, reporting and documentation, as well as budget risks related to public enterprises due to absence of information and aggregated view of risks.

[1/] March 2017 Public Expenditure and Financial Accountability (PEFA) update, and April 2017 Fund PFM mission.

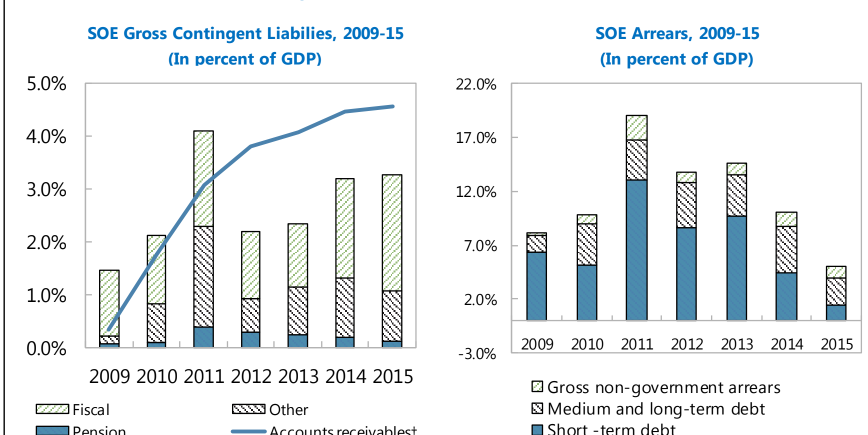
Maintaining Debt Sustainability and Addressing Fiscal Risks

24. Under the program scenario Cameroon's debt would remain on a sustainable path. The results of the debt sustainability analysis (DSA) suggest that Cameroon's risk of external debt distress remains high. However, the breach of the policy-dependent threshold under the baseline scenario is significantly less pronounced than in the 2015 Article IV DSA, reflecting fiscal consolidation envisaged under the program combined with a prudent borrowing plan. Public external debt remains nonetheless highly vulnerable to exogenous shocks. For 2017, the authorities' borrowing target is about CFAF 1.38 trillion in nominal terms for critical priority projects, of which about two-thirds is on semi-concessional terms (MEFP ¶35), out of a total envelope of around CFAF 2 trillion for total non-concessional borrowing in 2017–19. Given the limited availability of concessional resources, the non-zero limit on non-concessional debt would allow the authorities to address the large infrastructure gap in key sectors notably by financing high priority projects, such as the strengthening and stabilization of Douala's power transmission system which is key to improve access to reliable power supply and support private sector activities.[8]

25. Staff urged the authorities to continue to strengthen controls on new borrowing. The rapid accumulation of public debt in recent years calls for a better alignment of new borrowing with absorption capacity. This will require strengthening the capacity of the technical CNDP secretariat to improve the review and approval of loan requests (MEFP ¶37). Moreover, the backlog of contracted-but-not-yet-disbursed debt must be cleaned, and concessional financing prioritized. The authorities have initiated a review of the loan portfolio to investigate the factors behind slow disbursement of some loans and identify appropriate actions (MEFP ¶36). Staff also supports the authorities' intent to limit the contracting of new non-concessional loans to focus resources on completion of existing projects, and allow projects in the pipeline to mature (MEFP ¶35). Finally, strictly limiting external borrowing by public enterprises, under the National Public Debt Committee's (CNDP) control, should reduce the risks of external arrears' accumulation (prior action, MEFP ¶38).

26. Staff welcomes the authorities' intention to strengthen the monitoring of fiscal risks linked with public enterprises and PPPs. Public enterprises account for a sixth of public sector employment and hold monopolies in key sectors. Annual budget subsidies to public enterprises reach about 1 percent of GDP. SOEs have accumulated gross debt of about 4 percent of GDP, including 0.4 percent of GDP in publicly-guaranteed external debt, and arrears in the order of 3 percent of GDP (Text Figure 2). Staff supported the authorities' plan to gradually reduce the arrears, divest commercially-viable SOEs, and eliminate subsidies to insolvent SOEs. The authorities indicated that they would report SOEs' contingent liabilities together with explicit and contingent government commitments on PPPs in an annex to the budget (SB, MEFP ¶33, 38).

Text Figure 2. Cameroon: State Owned Enterprises



Sources: Cameroonian authorities; and IMF staff calculations.
†2015 accounts receivable for five SOEs with unavailable data are calculated as 2014 value times average 2015 SOE accounts receivable growth rate.

D. Program Pillar # 3: Accelerating Private Sector-Led Diversification

[8] Cameroon's per capita income is above the IDA cutoff, and Cameroon is thus eligible to regular (non-concessional) IBRD and AfDB financing, with limited access to IDA and ADF resources.

Maintaining Financial Stability and Boosting Financial Inclusion

27. The banking system in Cameroon has remained resilient but vulnerabilities are emerging (Annex IV). Low exposure to the government and underdeveloped interbank and regional financial markets have limited the impact of the regional crisis on Cameroon's banks. But their increased holdings of regional government claims[9] render them vulnerable to a sovereign default. Compliance with prudential ratios has remained unchanged from end-2015, with five small and non-systemic banks still insolvent.[10] Banks' liquidity remains high, although declining, with only a few requiring BEAC refinancing. However, the share of loans in arrears has been steadily increasing. Structurally-high non-performing loans encumber banks' balance sheets and hinder the ability of these banks to extend new credit, a source of vulnerability (Text Table 5, Figure 4).

Text Table 5. Cameroon: Financial Sector Indicators, 2014–16

(Percent)

	2014	2015	2016
Capital adequacy			
Capital/risk-weighted assets [1]	11.4	9.9	8.8
Base Capital/ risk-weighted assets	9.1	9.3	7.6
Non-performing loans less provisions/Equity	10.3	28.0	12.3
Capital/Assets	3.3	8.7	8.1
Asset quality			
Loans in arrears/total loans [1]	12.3	12.5	14.1
Non-performing loans/total loans	9.7	10.5	9.6
Large exposures (> 25 % of equity)/equity [1]	125	166.0	160.1
Results and profitability			
Return on Assets (ROA) [1]	0.8	0.7	0.7
Return on Equity (ROE) [1]	15.0	15.0	18.0
Liquidity			
Reserves/total deposits [1]	27.7	24.3	18.0
Liquid assets/Total assets	9	23.0	23.2
Liquid assets/ST liabilities [1]	139.0	147.0	148.2
Total deposits /Total loans [1]	141.0	129.0	128.3

Sources: BEAC; COBAC; and IMF Financial Soundness Indicators.
[1] Data obtained from BEAC/COBAC. The new small public bank is excluded.

28. Resolving insolvent banks and the structurally-high non-performing loans (NPLs) would be essential to maintain financial sector resilience. In cooperation with the COBAC, the authorities agreed on the following measures:[11]

- ***Accelerate the resolution of the five ailing banks***, by submitting to the COBAC a resolution plan by end-August 2017 (SB). Regarding the private banks, staff urged the authorities to push for reaching capitalization agreements with shareholders to reduce the fiscal costs and moral hazard. Public non-systemic banks ought to be recapitalized by the State as this option is less costly than liquidation. Overall, staff estimate the fiscal costs associated with the existing plans at a maximum of 0.7 percent of GDP, including both (i) the cost of transferring the NPLs of public banks to the State as well as those of private banks if shareholder recapitalization plans fail to materialize; and (ii) the cost of further recapitalization after their nationalization (MEFP ¶43).[12] If private banks can be recapitalized at no cost to the state, the fiscal cost or recapitalizing public banks would be only 0.3 percent of GDP. To ensure transparency, the authorities will align with

[9] 16 percent of banks' total assets as of end 2016.

[10] This includes three private banks, a bank recently nationalized, and a recently-created small public bank.

[11] The regional financial sector strategy is described in the report on CEMAC regional policies.

[12] The cost of recapitalizing insolvent banks has two components: (i) 0.5 percent of GDP in the form of 10-year government bonds to cover the cost of transferring the NPLs of the ailing banks to the Treasury, which will be collected by the government debt collection agency and added to the domestic debt stock for the DSA with future debt service included in the budget; and (ii) 0.2 percent of GDP of residual capital needs for the banks (after the release of provisions on the NPLs bought by the treasury), which could be accommodated in the current budget envelope.

best practices the methodology used by the public debt collection company (SRC) to price these NPL transfers, as well as its governance and accountability;

- ***Prepare a strategy to reduce NPLs,*** by facilitating their workout, through rescheduling and/or write-off. The foreclosure processes, the tax treatment of debt restructuring or write-off, and the judiciary process on contentious debts will be streamlined. The strategy would be submitted to the COBAC for review and joint implementation by September 2017 (SB, MEFP ¶42).

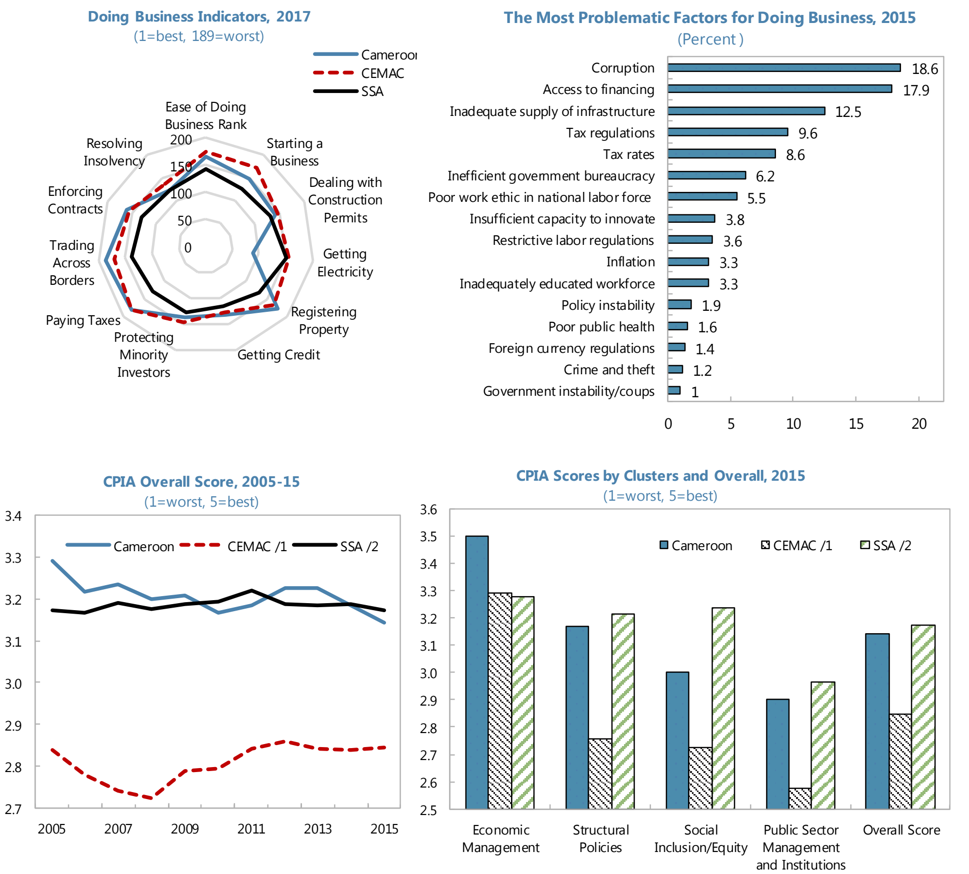
29. The authorities recognized the importance of promoting the development of the financial sector, in close cooperation with the regional institutions. They indicated that they would support broader access to financial services by (i) giving access to the client information platform to all credit institutions and micro-finance institutions to reduce information asymmetries (SB, MEFP 44a); (ii) reinforcing the reliability of collateralization by computerizing the cadaster, as well as the movable collateral registry (SB), and securing the land registry (MEFP ¶44b); (iii) establishing specialized courts for financial matters and developing extra-judicial arbitration mechanisms (MEFP ¶44c); and (iv) reinforcing the legal framework for mobile banking (MEFP ¶46).

Addressing Structural Obstacles to Competitiveness and Economic Diversification

30. Cameroon's competitiveness deteriorated in 2016 as falling commodity prices worsened the terms of trade and the REER marginally appreciated. Falling prices for Cameroon's main commodity exports (oil, cocoa and timber) yielded a deterioration in the terms of trade of 31.5 percent in 2014–16. This contrasts with a broadly stable REER, which recorded a slight appreciation of 2 percent in 2016, mainly driven by changes in the Euro exchange rate against major currencies. The EBA-lite methodologies indicate only a moderate REER overvaluation of up to about 12 percent (Annex I). The projected recovery in oil prices is expected to support an improvement in the terms of trade in 2017, while reforms aimed at improving the business climate would strengthen diversification and alleviate structural bottlenecks to competitiveness.

31. The authorities concurred with the mission that the main obstacles to competitiveness were structural. Cameroon ranked 166 in the World Bank's Doing Business indicators in 2016, down from 148 in 2014, and other surveys on the quality of institutions rank Cameroon—and the CEMAC—equally low (Text Figure 3). The main issues include inadequate transport and telecommunications infrastructures, an unfriendly institutional environment for enterprises, limited access to finance, and a burdensome tax system. Regional integration remains limited, with the unilateral implementation of the EPA representing an additional challenge. The authorities indicated that they were pursuing broad reforms in these areas, also supported by other development partners. For example, with the support of the World Bank and the African Development Bank, the authorities are addressing remaining bottlenecks to electricity distribution and transport. In the short term, they were focusing on measures aimed at facilitating intra-regional trade, making the tax system more accessible and ensuring timely payment of government bills to domestic suppliers (SB, MEFP ¶48).

Text Figure 3. Cameroon: Structural Competitiveness Indicators, 2005–17



Sources: World Bank's 2017 Doing Business Indicators and 2005-15 CPIA scores; and 2015 Africa Competitiveness Report, World Economic Forum.

1/ Does not include Equatorial Guinea and Gabon.

2/ Only includes IDA-eligible countries in Sub-Saharan Africa.

PROGRAM MODALITIES

32. The authorities are requesting a 36-month arrangement under the Extended Credit Facility (ECF), with access of SDR 483 million (175 percent of quota). The level of access is justified by the size and protracted nature of the balance of payment need, the strength of the proposed program, and Cameroon's capacity to repay the Fund.

- *The oil price and security shocks have contributed to a large and protracted balance of payments need of about US$2.1 billion (6.7 percent of GDP) over 2017–20 (Tables 6, 7)*. Oil revenue declined by 2 percent of GDP between 2014 and 2016 owing to the collapse in world oil prices. The medium-term oil price forecast remains subdued, and prospects for new oil production are lukewarm, suggesting that oil revenue would remain weak in the years ahead. At the same time, Cameroon became a front-line player in the war against Boko Haram, incurring additional security and humanitarian costs amounting to about 1 percent of GDP annually in 2014–16. Although the security situation has somewhat stabilized, the support of refugees and internally-displaced persons will remain a burden on the budget over the medium term.

- *The authorities are committed to implementing a strong, sustained fiscal adjustment, supported by comprehensive structural reforms.* Program conditionality (Appendix I Table 1, and TMU) is structured around quantitative performance criteria based on semi-annual reviews (Table 8) for end-June and end-December, starting in June 2017, on the non-oil primary balance, net domestic financing, disbursement of already contracted non-concessional loans, net BEAC financing to the central government, accumulations of new external arrears, and contracting of new non-concessional loans. Key elements of the BEAC balance sheet that are under the authorities' control are being presented in the monetary survey on a quarterly basis to facilitate program monitoring. Indicative targets are set on the net reduction in the stock of domestic arrears, non-oil revenues, and social spending, as well as on off-budget spending by the national oil company (SNH). Structural conditionality supports the program's three pillars (Appendix I Table 2).
- *Cameroon's capacity to repay the Fund remains strong (Table 9)*. Cameroon has implemented three PRGT and four GRA-supported programs, and its track record of repaying the Fund has been good with 49.08 million SDRs outstanding as of end-May. Repayments to the Fund from the proposed ECF-supported program would peak at 3.9 percent of imputed reserves in 2026 and start declining in 2027.

33. Fund support would help catalyze significant additional donor financing. Budget support from other IFIs and donors would cover the remaining financing gap of about US$1.4 billion (Text Table 6). Close coordination between the Fund and these partners would help ensure complementarity, avoid overlaps, and address issues critical to unlock Cameroon's medium-term growth potential.

Text Table 6. Cameroon: Financing Gap, 2017-20

CFAF Billion	2017	2018	2019	2020	Total
1. Financing gap	**514**	**370**	**370**	**47**	**1302**
2. IMF financing	**178**	**95**	**95**	**47**	**415**
percent of quota	*75*	*40*	*40*	*20*	*175*
3. Budget support from other donors	**337**	**275**	**275**	**0**	**887**
World Bank	123	62	62	0	**247**
European Union	22	22	22	0	**66**
African Development Bank	126	126	126	0	**377**
France	66	66	66	0	**197**
4. Residual financing gap (1-2-3)	**0**	**0**	**0**	**0**	**0**
Share of Fund financing	35	26	26	100	**31.9**

Source: IMF staff calculations.

34. Ahead of the Board meeting, the authorities have fulfilled the following prior actions:

- The total amount of oil revenue and direct spending by SNH have been added to monthly fiscal reporting (implemented on June 1).
- A Directive from the Minister of Finance mandating that the CNDP must issue a prior opinion for all new external borrowing of public enterprises was issued on June 6.
- A Ministerial Circular setting the budgetary calendar for 2018 was issued on June 20.
- A first quarterly budget execution report (January-March 2017) was published on June 20.

35. Program implementation risks are manageable with sound policies in place, strong commitment from the authorities and a stable international environment. Implementation capacity is good, and will be supported in key areas by a medium-term capacity building strategy developed jointly with the authorities (Annex V). Implementation of a significant portion of the adjustment and key structural measures in 2017 is designed to mitigate risks associated with the 2018 elections. Staff and the authorities also discussed contingent measures such as additional expenditure consolidation in current spending and faster rollout of new tax measures. To cope with possible revenue shortfalls, staff encouraged the authorities to undertake an analysis of revenue sources most at risk and to release corresponding expenditures only once these revenues materialize. Data quality is generally satisfactory but staff encouraged the authorities to establish/adjust internal processes to ensure timely and accurate production of the information required to monitor the program.

36. Safeguards assessment. The BEAC is finalizing implementation of remaining priority recommendations as part of the IMF safeguards "rolling measures". Following numerous measures adopted in recent years, at end-March 2017 the BEAC Board of Directors and CEMAC Ministerial Committee successfully adopted the critical governance-focused amendments to the BEAC Charter, marking a key milestone on longstanding efforts to strengthen governance at the central bank; the adoption of these amendments was finalized in early June 2017. In addition, major advances have been made for the BEAC's full transition to the international financial reporting standards (IFRS) during 2017 to strengthen financial transparency.[13] An update safeguards assessment started in June 2017.

STAFF APPRAISAL

37. Cameroon is facing serious challenges from growing external and fiscal imbalances. The twin shocks of falling export prices and security threats since 2014, together with expansionary policies to support growth, have led to widening fiscal deficits, rising public debt, dwindling international reserves, and weakening competitiveness. Redressing these imbalances while preserving growth will require a careful calibration of policies, particularly regarding the composition of the fiscal correction. Over the medium term, further economic diversification and enhanced competitiveness will be the key to continued resilience and sustained growth, as the external stability assessment shows only modest overvaluation of the real effective exchange rate.

38. The authorities are committed to implementing a sustained fiscal adjustment, which will help maintain fiscal and external sustainability at the national level. As it is the largest economy in the CEMAC, contributing over half of the BEAC's pooled reserves, Cameroon's efforts will also support restoring external stability at the regional level. A large share of the adjustment will be achieved in 2017, relying on a balanced reduction of recurrent and capital spending. Staff welcomes the authorities' commitment to preserve social and critical recurrent spending to protect vulnerable groups and avoid disruptions of public services, while broadening the non-oil revenue base. Staff also urges the authorities to carefully review the pipeline of investment projects with a view to prioritize key, ongoing infrastructure projects with established growth benefits.

39. Tighter regional monetary policy will support the fiscal consolidation efforts. For Cameroon, limits on net BEAC financing and tighter credit conditions for banks will contribute to

[13] The implementation of safeguards recommendations is currently monitored annually as a condition for continued IMF financial engagement with CEMAC countries. The 2016 safeguards monitoring found that two priority recommendations remained outstanding: governance reforms with amendments to the BEAC Charter and full transition to IFRS starting with the 2018 financial statements to strengthen transparency of financial reporting.

alleviate pressures on external accounts. Staff also welcomes the authorities' commitment to abide by the regional agreement to freeze the country-specific ceilings on statutory advances at their 2014 level and by BEAC's policies aiming at the gradual reimbursement and full elimination of these advances.

40. Boosting non-oil revenue mobilization and enhancing spending efficiency are key to maintain the fiscal space needed for infrastructure and priority spending.

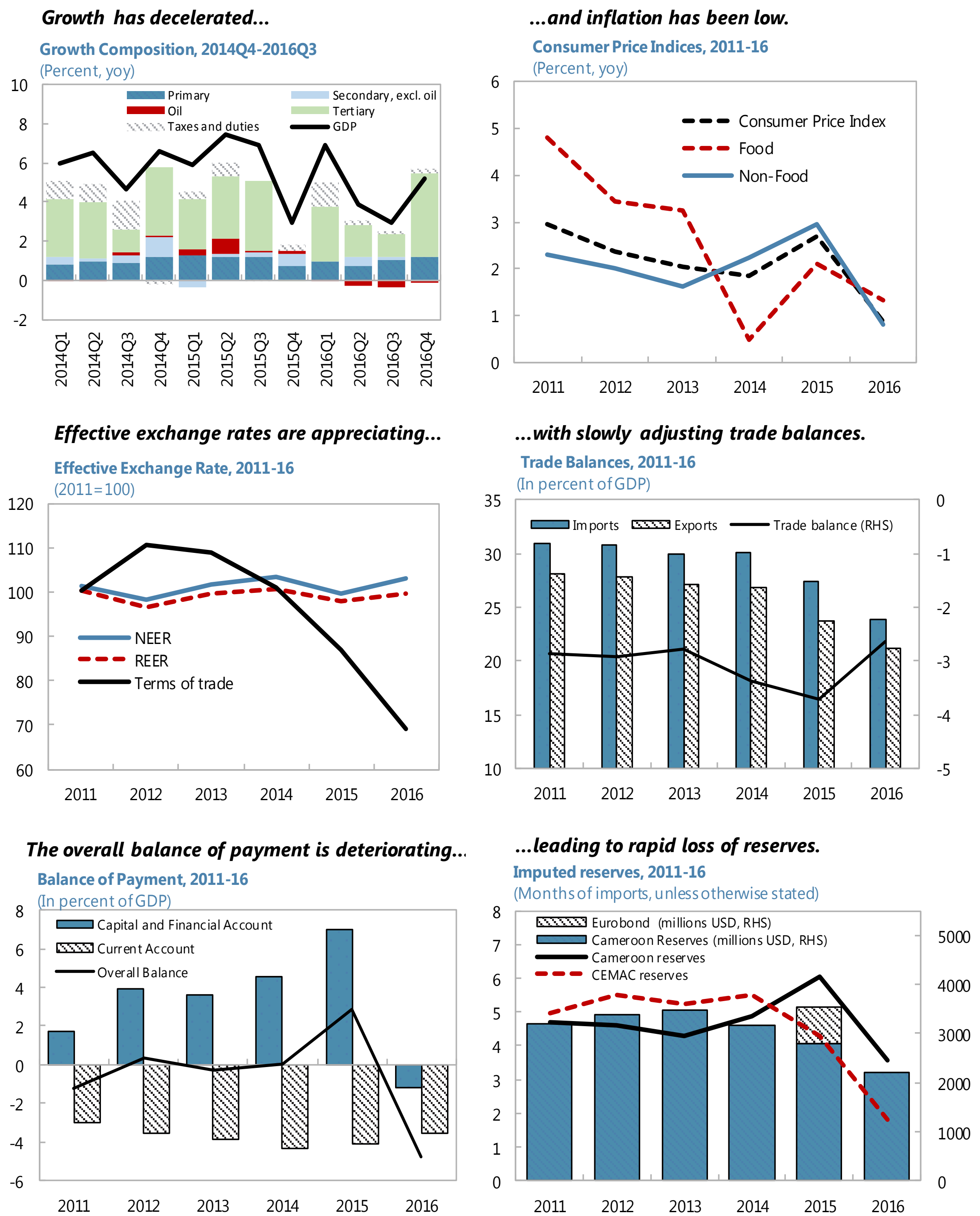
- Starting in 2018, new tax policy and administration measures are expected to drive the fiscal adjustment, while expenditure would remain broadly stable in real terms. Staff welcomes the authorities' plans to develop the potential of the land tax, and to streamline exemptions and tax incentives. The authorities should be mindful of the potential adverse impact of the EPA on tariff revenue and are urged to consider contingency measures in case of revenue shortfalls.
- On the expenditure side, enhancing the credibility and transparency of the budget are key to ensure an efficient allocation of public resources. Key priorities in this regard are to ensure alignment of annual budgets with MTBFs, eliminate the resort to exceptional spending procedures, and to gradually reduce the share of off-budget spending by the oil company. The publication of regular budget execution reports will support greater spending discipline and accountability. Enhanced quality and efficiency of public investment spending will be essential to ensure that the large infrastructure projects deliver on their expected growth dividends.

41. Public debt management should focus on reducing the pace of debt accumulation, tilting the composition of new borrowing towards more concessional financing, and closely monitoring contingent liabilities. The rapid accumulation of non-concessional loans risks increasing the debt service burden by sizeable amounts, while the large stock of undisbursed commitments attests to limitations in absorption capacity. Staff welcomes the authorities' commitment to strictly limit the volume of new non-concessional borrowing, to review the portfolio of undisbursed loans and to implement measures to strengthen project preparation and execution. Further, contingent liabilities from state-owned enterprises and PPPs need to be closely monitored and contained through more comprehensive reporting and deeper structural reforms.

42. Determined actions are needed to support greater private-sector led diversification. These include measures to promote a sound and inclusive financial system, and to improve the business environment. In this regard, staff welcomes the authorities' commitment to accelerate the resolution of insolvent banks and address high NPLs. Timely action will go a long way to boost financial sector resilience and support greater financial intermediation. Staff commends the authorities for their resolve in improving the business environment and support regional integration. Staff also encourages the authorities to support enhanced coordination of tax policies and harmonization of customs procedures at the regional level.

43. Staff supports the authorities' request for a new three-year arrangement under the ECF. There are risks to program implementation, including delayed or insufficient fiscal adjustment, and/or lukewarm structural reform implementation, but the authorities' leadership in the regional effort and strong commitment to reform bode well for the new program.

Figure 1. Cameroon: Real and External Sector Developments, 2011–16



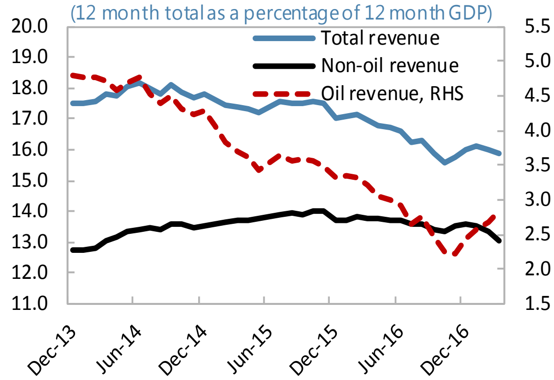
Sources: Cameroonian authorities; BEAC authorities; and IMF staff calculations

Figure 2. Cameroon: Fiscal Sector Developments, 2013–17

Revenue has been declining, mainly due to oil…

Revenue and its composition

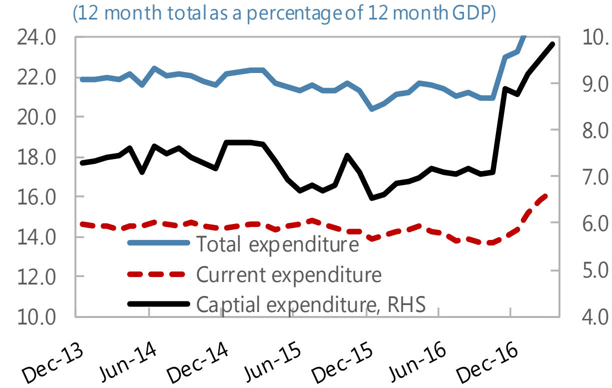
(12 month total as a percentage of 12 month GDP)



…while expenditure has been rising, driven by capital spending

Expenditure and its composition

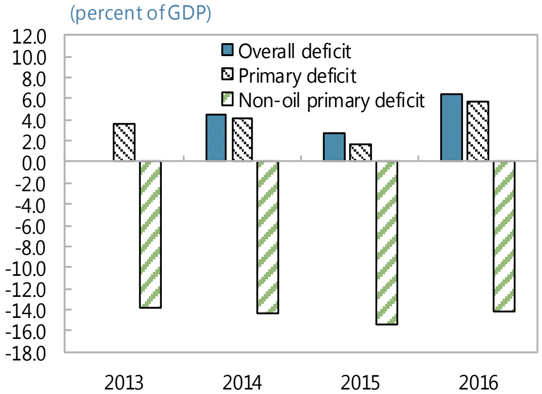
(12 month total as a percentage of 12 month GDP)



Fiscal deficit is increasing….

Fiscal Deficit, 2013-16

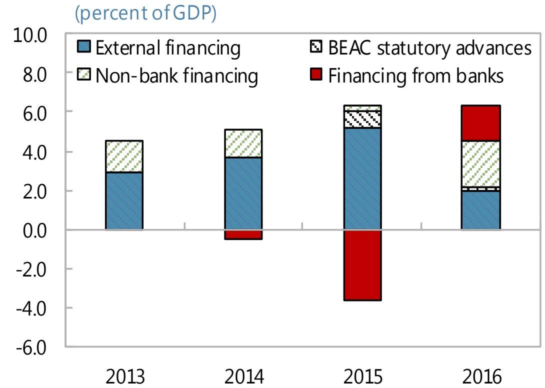
(percent of GDP)



…with more reliance on domestic resources.

Financing, 2013-16

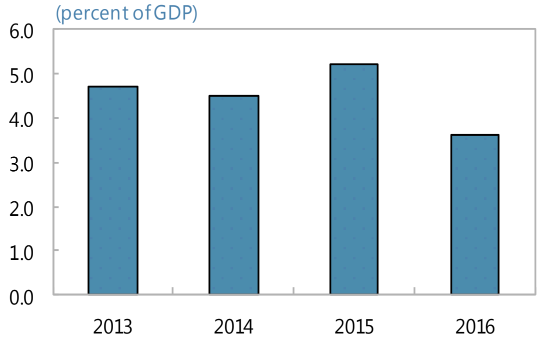
(percent of GDP)



While unpaid government obligations are shrinking…

Unpaid government obligations

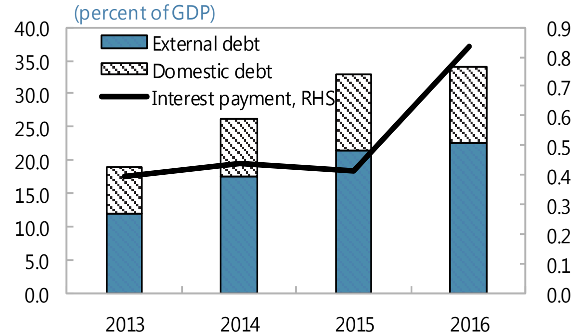
(percent of GDP)



…public debt and interest payment are rising fast.

Public Debt and Interest Payments

(percent of GDP)

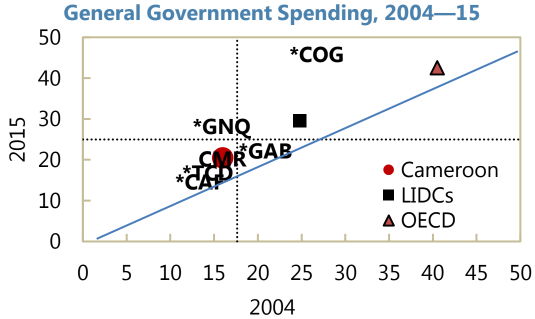


Sources: Ministry of Finance; CAA; and IMF staff calculations.

Figure 3. Cameroon: Government Expenditure Assessment [1/], 2004–15

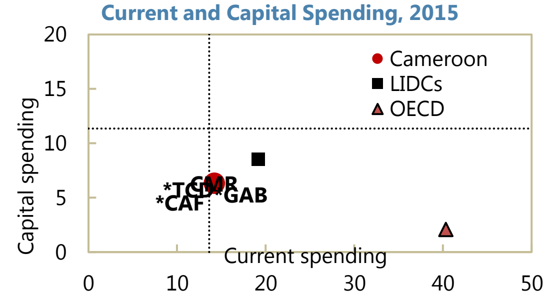
Government spending in Cameroon, while rising since 2004, continues to lag behind average LIDC levels…

General Government Spending, 2004—15



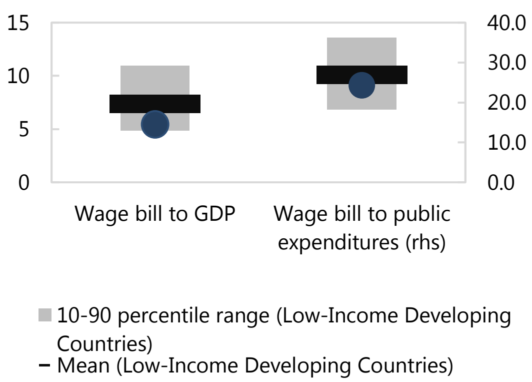
… and is driven by lower spending on both current expenses and capital projects.

Current and Capital Spending, 2015



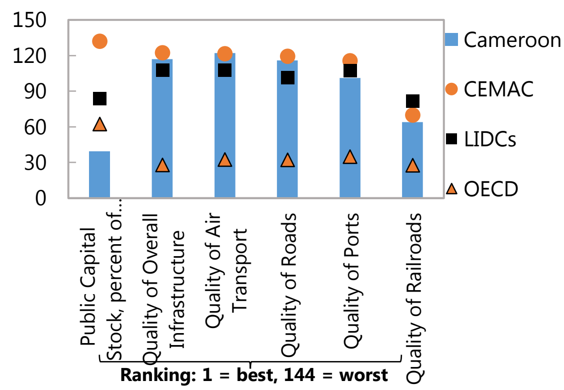
On current spending, Cameroon's wage bill is significantly lower than that of the average LIDC…

Wage Bill Benchmark, 2015 or most recent year



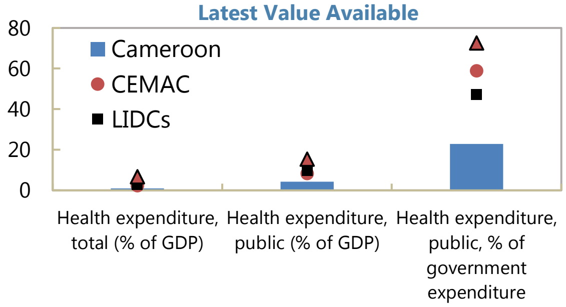
…and its capital stock is among the lowest in the world and of poor quality.

Capital Stock and Infrastructure Quality, 2015



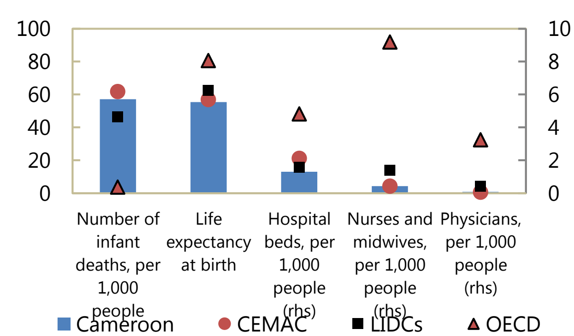
Public health expenditure is considerably lower than both its CEMAC peers and the average LIDC level…

Health Expenditure--Different Metrics, Latest Value Available



… resulting in lower-than-average health outcomes for Cameroonians.

Health Indicators and Health System Characteristics,



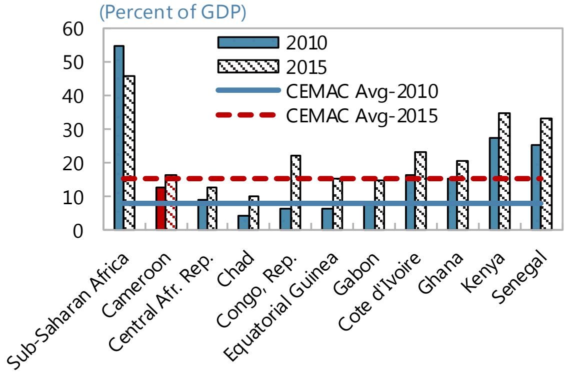
Sources: IMF FAD Expenditure Assessment Tool (EAT); IMF FAD Government Wage Bill and Employment Dataset; and WEO.

[1/] Coverage refers to general government per World Economic Outlook metadata.

Figure 4. Cameroon: Financial Sector Indicators, 2010–16

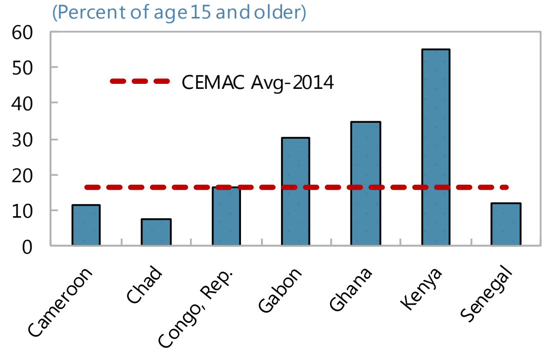
The financial sector is relatively shallow but has been deepening.

Domestic Credit to Private Sector, 2010-15
(Percent of GDP)



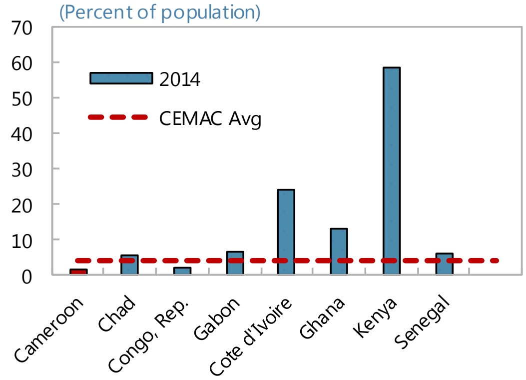
Financial access remains low.

Account at a Financial Institution, 2014
(Percent of age 15 and older)



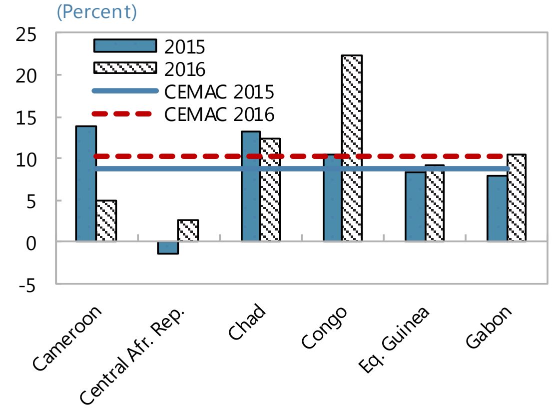
The use of mobile banking is among the lowest in SSA.

Mobile Account, 2014
(Percent of population)



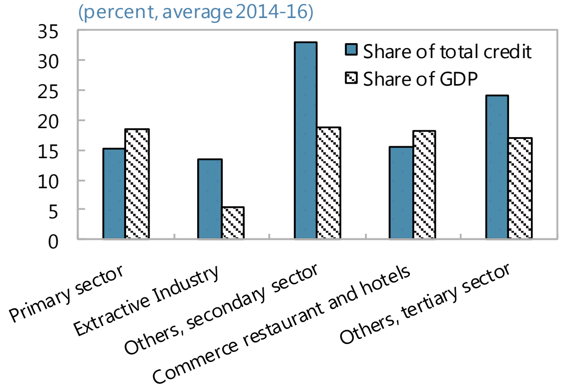
Banks continue to be profitable.

Return on Equity, 2015-16
(Percent)



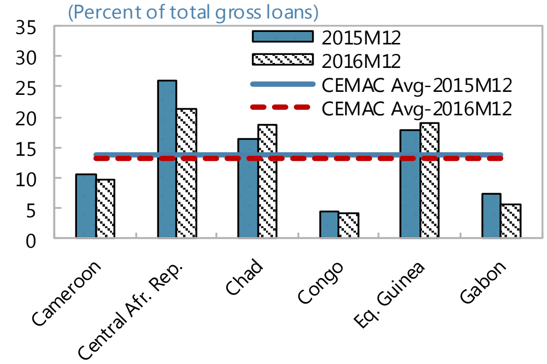
Credit is well distributed accross sectors.

Cameroon: Credit Sectoral Disbution, 2014-16
(percent, average 2014-16)



Non-performing loans are high but below the regional average.

Non-Performing Loans, 2015-16
(Percent of total gross loans)



Sources: WDI; Financial Access Survey; and Financial Soundness Indicators.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
		Est.	Est.	Proj.	proj.	proj.	proj.	proj.	proj.
	(Annual percentage change, unless otherwise indicated)								
National account and prices									
GDP at constant prices	5.9	5.8	4.7	4.0	4.6	5.0	5.1	5.5	5.5
Oil GDP at constant prices	13.8	28.1	-4.5	-2.4	-0.1	-3.4	-3.8	6.2	5.8
Non-Oil GDP at constant prices	5.6	4.9	5.1	4.3	4.8	5.3	5.5	5.5	5.5
GDP deflator	2.6	0.3	-1.2	0.9	1.0	1.3	1.7	1.8	1.9
Nominal GDP (at market prices, CFAF billions)	15,846	16,807	17,386	18,242	19,273	20,498	21,925	23,558	25,338
Oil	977	876	700	917	913	867	831	886	937
Non-Oil	14,869	15,931	16,686	17,325	18,360	19,630	21,094	22,672	24,401
Oil output (thousands of barrels per day)	75.4	95.8	92.8	90.4	89.5	86.4	83.1	86.9	90.7
Consumer prices (average)	1.9	2.7	0.9	0.7	1.1	1.4	2.0	2.0	2.0
Consumer prices (eop)	2.6	1.5	0.3	1.2	1.1	1.4	2.0	2.0	2.0
External trade									
Export volume	17.6	17.8	1.0	2.0	5.2	6.7	8.5	10.0	9.5
Oil sector[1,5]	20.6	27.9	-3.1	-2.4	-0.1	-3.4	-3.8	4.2	3.8
Non-oil sector	16.9	15.2	2.2	3.2	6.5	9.0	11.0	11.0	10.5
Import volume	15.0	-5.0	-19.0	4.0	5.3	4.9	4.7	4.7	4.9
Average oil export price (US$ per barrel)[1]	88.5	51.9	34.6	44.7	44.5	43.8	43.6	44.0	44.7
Nominal effective exchange rate (depreciation -)	1.6	-3.7	3.6	…	…	…	…	…	
Real effective exchange rate (depreciation -)	1.3	-3.0	2.0	…	…	…	…	…	
Terms of trade	-7.3	-13.8	-20.4	3.4	-1.0	-3.5	-2.9	-1.8	-1.1
Export price index	-8.1	-19.2	-13.1	10.9	-0.3	-2.9	-2.6	-0.7	-0.2
Non-oil export price index	-2.6	-12.4	-0.7	3.5	0.5	-1.9	-1.7	-0.2	0.1
Import price index	-0.8	-6.3	9.2	7.2	0.8	0.6	0.3	1.1	0.9
Money and credit									
Broad money (M2)	10.8	9.1	5.6	3.3	5.7	6.4	7.5	8.0	8.6
Net foreign assets[2]	3.4	13.9	-18.3	-0.3	1.3	0.7	1.7	2.8	2.6
Net domestic assets[2]	7.3	-4.8	23.9	3.6	4.3	5.7	5.8	5.2	6.1
Domestic credit to the private sector	14.4	12.8	6.4	5.8	9.3	10.8	11.2	11.9	14.3
	(Percent of GDP, unless otherwise indicated)								
Gross national savings	18.6	17.2	16.5	16.9	17.8	18.9	20.1	21.4	22.6
Gross domestic investment	22.9	21.3	20.1	20.0	20.8	21.6	22.4	23.1	23.8
Public investment	7.7	6.7	8.3	7.3	6.9	6.7	6.5	6.5	6.5
Private investment	15.2	14.6	11.9	12.7	13.9	14.9	15.8	16.6	17.4
Central government operations									
Total revenue (including grants)	18.1	17.9	16.3	16.7	17.3	17.6	17.7	17.8	17.9
Oil revenue	4.3	3.3	2.4	2.4	2.4	2.3	2.2	2.1	2.0
Non-oil revenue	13.5	14.6	13.6	13.9	14.5	15.1	15.3	15.4	15.6
Non-oil revenue (percent of non-oil GDP)	14.4	15.4	14.1	14.6	15.2	15.7	15.9	16.0	16.2
Total expenditure	22.9	19.9	22.8	20.1	19.8	19.6	19.3	19.0	19.0
Overall fiscal balance (payment order basis)									
Excluding grants	-5.1	-2.1	-6.8	-3.8	-2.8	-2.2	-1.8	-1.5	-1.4
Including grants	-4.8	-2.0	-6.5	-3.4	-2.5	-1.9	-1.6	-1.2	-1.1
Overall fiscal balance (cash basis)									
Excluding grants	-4.9	-2.8	-5.7	-4.6	-4.2	-3.1	-2.7	-1.5	-1.4
Including grants	-4.6	-2.7	-5.4	-4.2	-3.9	-2.8	-2.4	-1.2	-1.1
Non-oil primary balance (payment basis, percent of non-oil GDP)	-9.2	-5.2	-8.4	-5.2	-4.4	-3.6	-3.1	-2.8	-2.5
External sector									
Current account balance									
Excluding official grants	-4.7	-4.5	-4.0	-3.5	-3.4	-3.1	-2.6	-2.0	-1.6
Including official grants	-4.3	-4.1	-3.6	-3.1	-3.0	-2.7	-2.2	-1.7	-1.3
Public debt									
Stock of public debt[3,4]	26.2	33.0	34.1	36.1	36.1	36.1	35.1	33.8	32.4
Of which: external debt	17.5	21.3	22.7	26.6	29.2	31.1	31.2	31.0	30.6

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

[1]The export price for oil reflects actual prices for past years; for the current and future years, projections reflect movements in the Average Petroleum Spot Price (APSP) of three types of crude oil (Dated Brent, West Texas Intermediate, and the Dubai Fateh), with no discount.

[2]Percent of broad money at the beginning of the period.

[3]Includes the cumulative financing gap.

[4]Projections are taken from an update to the 2015 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de désendettement et de développement" (C2D).

[5]Crude oil volumes are augmented as of 2018 with natural gas exports of 60 million standard cubic feet per year.

Table 2a. Cameroon: Central Government Operations, 2014–22

(CFAF billions, unless otherwise indicated)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Budget	Est.	Budget	Proj.	Proj.				
Total revenue and grants	2,870	3,013	2,945	2,838	3,119	3,046	3,330	3,612	3,878	4,190	4,526
Total revenue	2,825	3,002	2,886	2,784	3,033	2,978	3,266	3,553	3,820	4,134	4,471
Oil sector revenue	679	556	397	425	455	445	471	466	473	499	512
Non-oil sector revenue[1]	2,146	2,446	2,489	2,359	2,578	2,532	2,795	3,086	3,347	3,635	3,959
Direct taxes	613	684	665	636	667	683	753	837	891	967	1,051
Special tax on petroleum products	119	104	112	106	128	128	149	171	195	220	237
Other taxes on goods and services	938	1,024	1,075	1,125	1,216	1,211	1,339	1,469	1,592	1,711	1,858
Taxes on international trade	357	338	365	349	399	356	385	425	466	513	565
Non-tax revenue	119	154	152	144	169	155	170	185	203	224	249
Exceptional revenue	0	143	120	0	0	0	0	0	0	0	0
Total grants	45	11	58	54	86	69	64	60	58	57	55
Projects	6	11		36		36	36	36	36	36	36
Other (debt relief)	39	0		18		32	28	23	22	20	19
Total expenditure	3,626	3,352	3,750	3,964	3,845	3,663	3,813	4,010	4,222	4,483	4,816
Current expenditure	2,286	2,334	2,224	2,493	2,258	2,334	2,486	2,630	2,794	2,960	3,178
Wages and salaries	852	911	955	940	999	999	1,065	1,123	1,210	1,290	1,375
Goods and services	768	789	667	919	694	718	803	859	904	957	1,030
Subsidies and transfers	597	564	359	489	367	454	463	484	515	548	589
Interest	69	70	243	145	198	164	155	164	165	166	183
External	56	52	212	131	155	98	146	146	151	154	172
Domestic	13	18	30	14	43	66	26	18	14	12	12
Capital expenditure	1,319	1,132	1,526	1,441	1,587	1,329	1,328	1,380	1,428	1,522	1,638
Domestically financed investment	615	552	946	919	927	754	684	716	743	799	859
Foreign-financed investment	655	523	525	489	625	540	607	624	642	678	729
Rehabilitation and participation	49	57	55	33	35	35	37	40	43	46	49
Net lending	0	0		30	0	0	0	0	0	0	0
Adjustment to fiscal year spending[2]	22	-113									
Overall balance (payment order basis)[2]											
Excluding grants	-801	-350		-1,180	-811	-685	-547	-458	-402	-349	-345
Including grants	-756	-339		-1,126	-726	-617	-483	-398	-344	-292	-290
Adjustment to cash basis[2,3]	22	-113		183	-10	-148	-261	-186	-186	0	0
Unexecuted payment orders				166		-91	-75	0	0	0	0
Float and other unpaid obligations (- = reduction)	22	-113		17	-10	-57	-186	-186	-186	0	0
Overall balance (cash basis)											
Excluding grants	-780	-463	-863	-997	-821	-833	-808	-644	-588	-349	-345
Including grants	-734	-452	-805	-943	-736	-765	-744	-584	-530	-292	-290
Financing	734	452		943	736	250	374	214	482	292	290
External financing, net	579	880		340	415	359	356	335	351	382	346
Amortization	-70	-82		-113	-170	-184	-215	-253	-255	-260	-278
Drawings	649	962		453	585	544	571	588	606	642	624
Domestic financing, net	137	-429		615	320	-109	18	-121	131	-90	-56
Banking system	-3	-367		610	260	-286	-128	-208	-76	-259	-129
o/w statutory advances from BEAC		138		93		35	0	0	0	0	0
Amortization of domestic debt	-83	-109		-237	-240	-119	-134	-118	-48	-31	-28
Other domestic financing	223	48		242	300	296	279	205	255	200	100
Errors and omissions	19	1		-12	0	0	0	0	0	0	0
Financing gap	0	0		0	0	514	370	370	47	0	0
Of which: IMF	...					178	95	95	47	0	
Of which: budget support (excl. IMF)						337	275	275	0	0	0
Memorandum items:											
Floor of social spending						624	668	711			
Primary balance (payment order basis, incl. grants)	-687	-269		-981		-453	-328	-234	-178	-127	-107
Primary balance (cash basis, incl. grants)	-665	-382		-798		-600	-589	-420	-364	-127	-107
Non-oil primary balance (payment order basis, incl. grants)	-1,365	-826		-1,406		-898	-800	-701	-652	-626	-618
Non-oil primary balance (cash basis, incl. grants)	-1,344	-939		-1,223		-1,046	-1,060	-887	-837	-626	-618
Unpaid government obligations	711	598		615		558	372	186	0	0	0

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

[1] Historical and budget figures exclude direct, custom, and VAT taxes due by SONARA which were subject to cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2016 onward, projections for these taxes are made on a gross basis.

[2] The payment of float and past unpaid obligations was included in individual expenditure lines prior to 2016. From 2016 onward, fiscal data report payment orders for the current fiscal year; payments of the float and unpaid obligations are recorded between the overall deficit on a payment order basis and the overall balance on a cash basis.

[3] Includes adjustment for payment orders issued in 2016 for investment to be executed in 2017 and 2018.

Table 2b. Cameroon: Central Government Operations, 2014–22

(in percent of GDP)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			Budget	Est	Budget	Proj			Proj		
Total revenue and grants	18.1	17.9	16.9	16.3	17.1	16.7	17.3	17.6	17.7	17.8	17.9
Total revenue	17.8	17.9	16.6	16.0	16.6	16.3	16.9	17.3	17.4	17.5	17.6
Oil sector revenue	4.3	3.3	2.3	2.4	2.5	2.4	2.4	2.3	2.2	2.1	2.0
Non-oil sector revenue[1]	13.5	14.6	14.3	13.6	14.1	13.9	14.5	15.1	15.3	15.4	15.6
Direct taxes	3.9	4.1	3.8	3.7	3.7	3.7	3.9	4.1	4.1	4.1	4.1
Special tax on petroleum products	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.9	0.9
Other taxes on goods and services	5.9	6.1	6.2	6.5	6.7	6.6	6.9	7.2	7.3	7.3	7.3
Taxes on international trade	2.3	2.0	2.1	2.0	2.2	1.9	2.0	2.1	2.1	2.2	2.2
Non-tax revenue	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0
Exceptional revenue	0.0	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total grants	0.3	0.1	0.3	0.3	0.5	0.4	0.3	0.3	0.3	0.2	0.2
Projects	0.0	0.1		0.2		0.2	0.2	0.2	0.2	0.2	0.1
Other (debt relief)	0.2	0.0		0.1		0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	22.9	19.9	21.6	22.8	21.1	20.1	19.8	19.6	19.3	19.0	19.0
Current expenditure	14.4	13.9	12.8	14.3	12.4	12.8	12.9	12.8	12.7	12.6	12.5
Wages and salaries	5.4	5.4	5.5	5.4	5.5	5.5	5.5	5.5	5.5	5.5	5.4
Goods and services	4.8	4.7	3.8	5.3	3.8	3.9	4.2	4.2	4.1	4.1	4.1
Subsidies and transfers	3.8	3.4	2.1	2.8	2.0	2.5	2.4	2.4	2.3	2.3	2.3
Interest	0.4	0.4	1.4	0.8	1.1	0.9	0.8	0.8	0.8	0.7	0.7
Capital expenditure	8.3	6.7	8.8	8.3	8.7	7.3	6.9	6.7	6.5	6.5	6.5
Domestically financed investment	3.9	3.3	5.4	5.3	5.1	4.1	3.5	3.5	3.4	3.4	3.4
Foreign-financed investment	4.1	3.1	3.0	2.8	3.4	3.0	3.1	3.0	2.9	2.9	2.9
Rehabilitation and participation	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment to fiscal year spending[2]	0.1	-0.7									
Overall balance (payment order basis)[2]											
Excluding grants	-5.1	-2.1		-6.8	-4.4	-3.8	-2.8	-2.2	-1.8	-1.5	-1.4
Including grants	-4.8	-2.0		-6.5	-4.0	-3.4	-2.5	-1.9	-1.6	-1.2	-1.1
Adjustment to cash basis[2,3]	0.1	-0.7		1.1	-0.1	-0.8	-1.4	-0.9	-0.8	0.0	0.0
Unexecuted payment orders				1.0		-0.5	-0.4	0.0			
Float and other unpaid obligations (-=reduction)	0.1	-0.7		0.1	-0.1	-0.3	-1.0	-0.9	-0.8	0.0	0.0
Overall balance (cash basis)											
Excluding grants	-4.9	-2.8	-5.0	-5.7	-4.5	-4.6	-4.2	-3.1	-2.7	-1.5	-1.4
Including grants	-4.6	-2.7	-4.6	-5.4	-4.0	-4.2	-3.9	-2.8	-2.4	-1.2	-1.1
Financing	4.6	2.7		5.4	4.0	1.4	1.9	1.0	2.2	1.2	1.1
External financing, net	3.7	5.2		2.0	2.3	2.0	1.8	1.6	1.6	1.6	1.4
Amortization	-0.4	-0.5		-0.6	-0.9	-1.0	-1.1	-1.2	-1.2	-1.1	-1.1
Drawings	4.1	5.7		2.6	3.2	3.0	3.0	2.9	2.8	2.7	2.5
Domestic financing, net	0.9	-2.6		3.5	1.8	-0.6	0.1	-0.6	0.6	-0.4	-0.2
Banking system	0.0	-2.2		3.5	1.4	-1.6	-0.7	-1.0	-0.3	-1.1	-0.5
o/w statutory advances from BEAC		0.8		0.5		0.2					
Amortization of domestic debt	-0.5	-0.7		-1.4	-1.3	-0.7	-0.7	-0.6	-0.2	-0.1	-0.1
Other domestic financing	1.4	0.3		1.4	1.6	1.6	1.4	1.0	1.2	0.8	0.4
Errors and omissions	0.1	0.0		-0.1							
Financing gap	0.0	0.0		0.0	0.0	2.8	1.9	1.8	0.2	0.0	0.0
Of which: IMF	...	...	...	...		1.0	0.5	0.5	0.2	0.0	0.0
Of which: budget support (excl. IMF)						1.8	1.4	1.3	0.0	0.0	0.0
Memorandum items:			(Percent of non-oil GDP)								
Non-oil revenue	14.4	15.4		14.1		14.6	15.2	15.7	15.9	16.0	16.2
Non-oil primary balance (payment order basis, incl. grants)	-9.2	-5.2		-8.4		-5.2	-4.4	-3.6	-3.1	-2.8	-2.5
Non-oil primary balance (cash basis, incl. grants)	-9.0	-5.9		-7.3		-6.0	-5.8	-4.5	-4.0	-2.8	-2.5
				(Percent of GDP)							
Floor of social spending				...		3.4	3.5	3.5	...		
Primary balance (payment order basis, incl. grants)	-4.3	-1.6		-5.6		-2.5	-1.7	-1.1	-0.8	-0.5	-0.4
Primary balance (cash basis, incl. grants)	-4.2	-2.3		-4.6		-3.3	-3.1	-2.0	-1.7	-0.5	-0.4
Non-oil primary balance (payment order basis, incl. grants)	-8.6	-4.9		-8.1		-4.9	-4.1	-3.4	-3.0	-2.7	-2.4
Non-oil primary balance (cash basis, incl. grants)	-8.5	-5.6		-7.0		-5.7	-5.5	-4.3	-3.8	-2.7	-2.4
Unpaid government obligations (end-year)	4.5	3.6		3.5		3.1	1.9	0.9	0.0	0.0	0.0

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

[1] Historical and budget figures exclude direct, custom, and VAT taxes due by SONARA which were subject to cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2016 onward, projections for these taxes are made on a gross basis.

[2] The payment of float and past unpaid obligations was included in individual expenditure lines prior to 2016. From 2016 onward, fiscal data report payment orders for the current fiscal year; payments of the float and unpaid obligations are recorded between the overall deficit on a payment order basis and the overall balance on a cash basis.

[3] Include adjustment for payment orders issued in 2016 for investment to be executed in 2017 and 2018.

Table 3. Cameroon: Balance of Payments, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Projections					
				(CFAF billions)					
Current account balance	-689.1	-694	-627	-563	-578	-560	-492	-398	-326
Trade balance	-222	-220	-128	-91	-117	-158	-123	-13	122
Exports, goods	3,244	3,085	2,710	3,064	3,214	3,329	3,515	3,838	4,194
Oil and oil products	1,353	1,176	772	994	1,000	962	933	977	1,029
Non-oil sector	1,891	1,909	1,937	2,070	2,214	2,367	2,582	2,860	3,165
Imports, goods	-3,466	-3,306	-2,838	-3,155	-3,331	-3,487	-3,638	-3,850	-4,072
Services (net)	-310	-403	-332	-331	-326	-339	-335	-344	-371
Exports, services	1,003	897	986	1,078	1,118	1,192	1,252	1,350	1,447
Imports, services	-1,313	-1,300	-1,317	-1,408	-1,445	-1,531	-1,587	-1,694	-1,818
Income (net)	-334	-258	-377	-365	-364	-319	-314	-334	-376
Of which: interest due on public debt	-56	-52	-105	-116	-148	-146	-151	-154	-172
Transfers (net)	177	187	210	223	228	256	279	293	299
Inflows	316	347	373	401	414	434	460	476	482
Outflows	-139	-160	-163	-178	-186	-179	-181	-182	-184
Capital and financial account balance	741	1177	-197	194	345	301	579	548	488
Capital account	6	11	36	36	36	36	36	36	36
Capital transfers	6	11	36	36	36	36	36	36	36
Of which: private transfers	0	0	0	0	0	0	0	0	0
Financial account	735	1,166	-233	157	309	264	543	512	451
Official capital	483	821	303	371	369	348	365	397	443
Long-term borrowing	583	990	482	574	602	621	640	678	732
Of which: SDR allocation	0	0	0	0	0	0	0	0	0
Principal not yet due rescheduled	0	0	0	0	0	0	0	0	0
Amortization	-100	-169	-178	-202	-234	-273	-275	-282	-290
Principal not yet due (relief)	0	0	0	0	0	0	0	0	0
Non-official capital (net)	252	345	-537	-214	-60	-84	178	115	8
Oil sector (net)	156	83	82	97	96	95	94	94	93
Non-oil sector	97	262	-619	-311	-156	-179	83	22	-85
Errors and omissions	-23	0	0	0	0	0	0	0	0
Overall balance	29	483	-824	-370	-233	-260	86	151	161
Financing	-29	-483	824	370	233	260	-86	-151	-161
Bank of Central African States	-29	-483	824	-145	-137	-110	-134	-151	-161
Use of IMF credit (net)	-3	-18	-18	-18	-18	-17	-1	-1	-11
Change in imputed reserves (net, BEAC)[1]	-26	-465	842	-126	-119	-93	-133	-150	-150
Financing gap	0	0	0	514	370	370	47	0	0
Of which :				0	0	0	0	0	0
Possible IMF financing	0	0	0	178	95	95	47	0	0
Remaining financing gap	0	0	0	337	275	275	0	0	0
				(Percent of GDP)					
Trade balance	-1.4	-1.3	-0.7	-0.5	-0.6	-0.8	-0.6	-0.1	0.5
Oil exports	8.5	7.0	4.4	5.5	5.2	4.7	4.3	4.1	4.1
Non-oil exports	11.9	11.4	11.1	11.3	11.5	11.5	11.8	12.1	12.5
Imports	21.9	19.7	16.3	17.3	17.3	17.0	16.6	16.3	16.1
Current account balance									
Excluding grants	-4.7	-4.5	-4.0	-3.5	-3.4	-3.1	-2.6	-2.0	-1.6
Including grants	-4.3	-4.1	-3.6	-3.1	-3.0	-2.7	-2.2	-1.7	-1.3
Overall balance	0.2	2.9	-4.7	-2.0	-1.2	-1.3	0.4	0.6	0.6
Foreign direct investment	2.9	2.1	1.9	1.7	1.8	1.8	1.9	2.3	2.5
				(Percentage change, unless otherwise indicated)					
Export volume	17.6	17.8	1.0	2.0	5.2	6.7	8.5	10.0	9.5
Crude oil	20.6	27.9	-3.1	-2.4	-0.1	-3.4	-3.8	4.2	3.8
Nonoil	16.9	15.2	2.2	3.2	6.5	9.0	11.0	11.0	10.5
Import volume	15.0	-5.0	-19.0	4.0	5.3	4.9	4.7	4.7	4.9
Terms of trade	-7.3	-13.8	-20.4	3.4	-1.0	-3.5	-2.9	-1.8	-1.1
Non-oil export price index	-2.6	-12.4	-0.7	3.5	0.5	-1.9	-1.7	-0.2	0.1
Export price index	-8.1	-19.2	-13.1	10.9	-0.3	-2.9	-2.6	-0.7	-0.2
Import price index	-0.8	-6.3	9.2	7.2	0.8	0.6	0.3	1.1	0.9
Exchange rate (CFAF per US$; period average)	493.6	591.2	592.7	…	…	…	…	…	…
Gross official reserves (imputed reserves, US$ billions)	3.2	3.5	2.3	2.5	2.7	2.9	3.1	3.4	3.6
Official reserves in months of imports	3.9	6.0	3.7	3.9	4.0	4.1	4.2	4.3	4.3

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

[1] Excluding new IMF financing

Table 4. Cameroon: Monetary Survey, 2014–22

(CFAF billions, unless otherwise indicated)

	2014	2015	2016	2017				2018			2019	2020	2021	2022
				Q1	Q2 Proj.	Q3 Proj.	Q4 Proj.	Q1 Proj.	Q2 Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	1,669	2,192	1,438	1,504	1,302	1,116	1,424	1,458	1,415	1,483	1,516	1,603	1,753	1,903
Bank of Central African States (BEAC)	1,447	1,930	1,106	1,018	867	732	1,091	1,126	1,082	1,151	1,183	1,270	1,420	1,570
Of which: IMF credit	-81	-68	-50	-41	-148	-139	-210	-210	-257	-288	-366	-414	-414	-403
Commercial banks	221	262	332	486	435	384	332	332	332	332	332	332	332	332
Net domestic assets	2,106	1,924	2,907	2,789	3,003	3,188	3,066	3,093	3,245	3,260	3,529	3,820	4,103	4,459
Domestic credit	2,170	2,146	3,054	2,961	3,178	3,362	3,212	3,240	3,392	3,406	3,676	3,966	4,249	4,605
Net claims on the public sector	-90	-394	347	207	386	532	353	317	405	292	228	140	-30	-281
Net credit to the central government	34	-284	477	373	508	610	369	340	436	337	224	196	-63	-192
Central Bank	-201	-569	-11	6	114	190	-78	-110	-18	-124	-171	-181	-350	-479
Claims	81	205	281	307	414	405	476	476	523	554	632	680	680	669
Credit under statutory ceiling	0	138	231	266	266	266	266	266	266	266	266	266	266	266
Counterpart of IMF credit	81	68	50	41	148	139	210	210	257	288	366	414	414	403
Deposits	-282	-774	-292	-301	-300	-215	-553	-586	-541	-677	-803	-861	-1,030	-1,148
Commercial Banks	234	285	488	368	394	420	447	450	453	460	395	377	287	287
Claims on the Treasury	238	288	491	370	396	423	449	452	456	462	397	379	289	289
Deposits	-4	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Deposits of other public entities	-274	-324	-329	-347	-303	-258	-214	-222	-229	-244	-214	-284	-219	-314
Credit to autonomous agencies	25	19	-10	-11	-11	-11	-10	-10	-10	-9	-11	-13	-13	-13
Credit to public enterprises	126	194	209	191	191	191	209	209	209	209	230	241	265	239
Credit to financial institutions	36	32	39	57	56	55	35	33	31	28	28	25	25	24
Credit to the private sector	2,224	2,508	2,668	2,697	2,736	2,775	2,824	2,890	2,955	3,086	3,419	3,802	4,255	4,862
Credit to the economy 1/	2,386	2,734	2,916	2,945	2,983	3,021	3,067	3,131	3,195	3,323	3,677	4,068	4,545	5,124
Other items (net)	-64	-222	-147	-172	-174	-174	-147	-147	-147	-146	-146	-146	-146	-146
Broad money	3,774	4,116	4,346	4,294	4,306	4,304	4,490	4,551	4,660	4,743	5,045	5,423	5,856	6,362
Currency outside banks	636	799	905	848	834	806	934	941	950	985	1,045	1,120	1,207	1,308
Deposits	3,138	3,317	3,441	3,446	3,471	3,497	3,556	3,610	3,711	3,759	4,000	4,302	4,649	5,053
Memorandum items:														
Contribution to the growth of broad money (percentage points)														
Net foreign assets	3.4	13.9	-18.3	...	...	...	-0.3	...	...	1.3	0.7	1.7	2.8	2.6
Net domestic assets	7.3	-4.8	23.9	...	...	...	3.6	...	...	4.3	5.7	5.8	5.2	6.1
Of which: net credit to the central government	2.1	-8.4	18.5	...	...	...	-2.5	...	...	-0.7	-2.4	-0.6	-4.8	-2.2
Credit to the economy (annual percentage change)	11.3	14.6	6.6	11.2	9.9	7.1	5.2	6.3	7.1	8.3	10.6	10.6	11.7	12.8
Credit to the private sector														
Annual percentage change	14.4	12.8	6.4	11.1	10.8	6.3	5.8	7.1	8.0	9.3	10.8	11.2	11.9	14.3
In percent of GDP	15.2	14.9	15.3	14.8	15.0	15.2	15.5	15.0	15.3	16.0	16.7	17.3	18.1	19.2
Broad money (annual percentage change)	10.8	9.1	5.6	5.8	3.5	2.3	3.3	6.0	8.2	5.7	6.4	7.5	8.0	8.6
Currency outside banks	13.6	25.6	13.3	18.6	17.8	6.1	3.2	11.0	13.9	5.4	6.1	7.2	7.7	8.4
Deposits	10.2	5.7	3.7	3.1	0.5	1.4	3.3	4.8	6.9	5.7	6.4	7.6	8.1	8.7
Velocity (GDP/average M2)	4.2	4.1	4.1	4.2	4.2	4.2	4.1	4.2	4.1	4.1	4.1	4.0	4.0	4.0
Total														
Government usable deposits 2/	52.7	465.7	155.0	164.0	162.4	77.9	416.2	448.6	403.9	540.0	665.7	723.5	892.6	1010.5
In months of total expenditure 3/	0.2	1.9	0.5	0.6	0.6	0.3	1.6	1.7	1.5	2.0	2.4	2.4	2.8	3.0

Sources: BEAC; and IMF staff estimates and projections.

1/ Credit to the economy includes credit to the public enterprises, financial institutions and private sector.

2/ Deposits readily available for government operations.

3/ Excluding foreign financed investment.

Table 5. Cameroon: Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Economic fallout from political fragmentation	**Medium**	**Medium** Rise in populism and nationalism in large economies, protracted uncertainty associated with negotiating post-Brexit arrangements, and heightened risk of fragmentation/security dislocation in part of the Middle East, Africa, and Europe could weigh on global growth and exacerbate financial market volatility.	Improve CEMAC integration and economic relationship with Nigeria; improve business environment; implement structural reforms to improve competitiveness.
Tighter and more volatile global financial conditions	**Medium**	**Medium** Monetary tightening in US and EU could affect Cameroon's competitiveness and the ongoing efforts to reduce the internal and external imbalances. Rise in risk premia and flight to safety currency could increase capital flow volatility and external financing conditions. Reduced financial services by correspondent banks could hamper cross-border payments and trade finance.	Implement necessary fiscal consolidation and structural reforms to reduce external imbalances and boost investor confidence.
Persistently lower energy prices	**Low**	**High** Persistently low oil prices will cause further decline in oil revenues and put extra strain for fiscal and balance of payment needs.	Widen the non-oil tax base, increase efficiency of the national oil refinery (SONARA) and spur competition in the oil import sector.
Spillovers of the worsening economic situation of other CEMAC countries	**High**	**High** Worsening economic situation of other CEMAC countries could affect Cameroon through extra pressure in the payment and banking systems.	Coordinate with other CEMAC countries to build additional buffers through fiscal consolidation and structural reforms.
Spillovers of the regional security situation	**Medium**	**High** A deterioration of the regional security situation would lead to an increase in displaced populations, a costlier security response, and decline of investment in affected regions.	Provide space for higher security expenditure in the budget by curtailing unproductive public investments; prepare contingency plans for refugees with UNHCR.

Table 6. Cameroon: External Financing Requirements, 2014–22
(CFAF billions, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projection					
1. Total financing requirement	**817.9**	**1346.6**	**-18.6**	**910.3**	**949.1**	**943.8**	**901.7**	**830.0**	**777.2**
Current account deficit	689.1	694.1	627.5	563.2	578.5	560.4	492.3	397.7	326.2
Debt amortization	99.9	169.5	178.2	202.4	233.7	273.0	275.4	281.6	289.6
Repayment to the Fund	2.6	18.4	17.7	18.3	17.8	16.9	0.7	0.7	11.4
Change in gross reserves (increase=+)	26.3	464.6	-842.0	126.5	119.1	93.5	133.3	150.0	150.0
2. Total financing sources	**817.9**	**1346.6**	**-18.6**	**396.0**	**578.9**	**573.6**	**854.2**	**830.0**	**777.2**
Capital transfers	6.4	11.1	36.3	36.3	36.3	36.3	36.3	36.3	36.3
Foreign direct investment (net)	455.1	352.3	324.7	315.4	340.9	379.1	417.8	530.3	639.0
Portfolio investment (net)	11.6	12.0	12.3	12.7	13.1	13.5	13.9	14.3	14.7
Debt financing	344.8	971.3	-392.0	31.6	188.6	144.8	386.2	249.1	87.2
Public sector	582.8	990.3	481.6	573.6	602.3	621.0	640.3	678.4	732.5
Non-public sector	-237.9	-19.1	-873.6	-542.0	-413.7	-476.2	-254.1	-429.3	-645.3
Short-term debt	-237.9	-19.1	-873.6	-542.0	-413.7	-476.2	-254.1	-429.3	-645.3
Other net capital inflows	-23.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Total financing needs	**0.0**	**0.0**	**0.0**	**514.3**	**370.2**	**370.1**	**47.5**	**0.0**	**0.0**
Expected financing				**336.7**	**275.1**	**275.1**			
African Development Bank				125.7	125.7	125.7			
World Bank				123.5	61.9	61.9			
France				65.6	65.6	65.6			
European Union				21.9	21.9	21.9			
Residual financing gap				**177.6**	**95.0**	**95.0**	**47.5**		
IMF ECF financing				177.6	95.0	95.0	47.5		

Source: IMF staff estimates and projections.

Table 7. Cameroon: Gross Fiscal Financing Needs, 2016–22

	2016	2017	2018	2019	2020	2021	2022
				Projections			
A. Overall fiscal deficit (cash basis, including grants)	943	765	744	584	530	292	290
B. Other financing needs	394	624	476	579	378	549	434
Amortization (including arrears)	367	391	436	417	303	290	316
External	131	202	232	269	255	260	289
o/w Amortization (excl. IMF)	113	184	215	253	255	260	278
o/w Repayment of IMF credit	18	18	17	16	0	0	11
Domestic	237	189	204	148	48	31	28
o/w Amortization of Tbills	203	119	134	118	48	31	28
o/w Amortization of Bonds	33	70	70	30	0	0	0
Banking System	27	233	40	161	76	259	118
Repayment of statutory advances	0	0	0	0	0	0	0
Other deposits	27	233	40	161	76	259	118
C=A+B Total financing needs	1338	1389	1220	1163	908	842	724
D. Identified sources of financing	1349	874	850	793	861	842	724
External	453	544	571	588	606	642	624
Drawing	453	544	571	588	606	642	624
o/w Project financing (ext.)	453	544	571	588	606	642	693
Domestic	896	331	279	205	255	200	100
Banking System	655	35	0	0	0	0	0
BEAC Statutory advances	93	35	0	0	0	0	0
Government deposits	475	0	0	0	0	0	0
Bank loans	83	0	0	0	0	0	0
Other bank financing	4	0	0	0	0	0	0
Other non-bank financing	242	296	279	205	255	200	100
o/w Bond issuance	82	50	50	0	0	0	0
E=C-D Financing gap	-12	514	370	370	47	0	0
Errors and omissions	-12	0	0	0	0	0	0
F. Exceptional external financing		337	275	275	0	0	0
Multilateral		315	253	253	0	0	0
Bilateral		22	22	22	0	0	0
E-F Residual financing needs							
IMF -ECF		178	95	95	47	0	0

Source: IMF staff estimates and projections.

Table 8. Cameroon: Proposed Schedule of Disbursements under the ECF Arrangement, 2017–20

	Date of Availability	Amount (in millions of SDR)	In percent of quota 1/	Conditions for Disbursement
1	6/26/2017	124.2	45	Executive Board approval of the ECF arrangement.
2	12/15/2017	82.8	30	Observance of continuous and end-June 2017 performance criteria, and completion of the first review.
3	6/30/2018	55.2	20	Observance of continuous and end-December 2017 performance criteria, and completion of the second review.
4	12/15/2018	55.2	20	Observance of continuous and end-June 2018 performance criteria, and completion of the third review.
5	6/15/2019	55.2	20	Observance of continuous and end-December 2018 performance criteria, and completion of the fourth review.
6	12/15/2019	55.2	20	Observance of continuous and end-June 2019 performance criteria, and completion of the fifth review.
7	5/31/2020	55.2	20	Observance of continuous and end-December 2019 performance criteria, and completion of the sixth review.
	Total	483.0	175	

Source: IMF staff calculations.

1/ Cameroon's current quota is SDR 276.0 million, of which 49.08 million was outstanding as of May 31, 2017.

Table 9. Cameroon: Capacity to Repay the Fund, 2016–27

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
		Projection										
Fund obligations based on existing credit (SDR millions)												
Principal	21.5	20.7	19.9	18.8	-	-	-	-	-	-	-	-
Charges and interest	-	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Fund obligations based on existing and prospective credit (In millions of SDRs) [1]												
Principal	21.5	20.7	19.9	18.8	-	-	12.4	46.9	69.0	91.1	96.6	84.2
Charges and interest	-	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total obligations based on existing and prospective credit												
SDR millions	21.5	21.3	20.7	19.6	0.8	0.8	13.2	47.7	69.8	91.8	97.4	85.0
CFA F billions	17.7	18.3	17.8	16.9	0.7	0.7	11.4	41.4	60.5	79.7	84.5	73.7
Charges and interest	-	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Principal	17.7	17.8	17.1	16.2	-	-	10.8	40.7	59.8	79.0	83.8	73.0
Prcent of government revenue	0.6	0.6	0.5	0.5	0.0	0.0	0.3	0.9	1.2	1.4	1.4	1.1
Percent of exports of goods and services	0.5	0.4	0.4	0.4	0.0	0.0	0.2	0.7	0.9	1.2	1.1	0.9
Percent of debt service[2]	9.7	7.4	5.8	4.7	0.2	0.2	2.7	6.4	9.0	10.9	13.6	11.4
Percent of GDP	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.2
Percent of quota	7.8	7.7	7.5	7.1	0.3	0.3	4.8	17.3	25.3	33.3	35.3	30.8
Percent of gross reserves	1.3	1.2	1.1	0.9	0.0	0.0	0.5	1.9	2.8	3.6	3.9	3.4
Outstanding Fund credit												
SDR millions	59.4	245.7	336.2	427.8	483.0	483.0	470.6	423.7	354.7	263.6	167.0	82.8
CFA F billions	49.0	210.9	289.5	368.2	415.5	416.6	408.2	367.5	307.6	228.6	144.8	71.8
Percent of government revenue	1.7	6.9	8.7	10.2	10.7	9.9	9.0	7.6	5.9	4.1	2.4	1.1
Percent of exports of goods and services	1.3	5.1	6.7	8.1	8.7	8.0	7.2	6.1	4.8	3.3	2.0	0.9
Percent of debt service [2]	26.7	84.9	94.3	101.6	110.6	106.0	95.0	57.1	45.7	31.2	23.3	11.1
Percent of GDP	0.3	1.2	1.5	1.8	1.9	1.8	1.6	1.4	1.1	0.7	0.4	0.2
Percent of quota	21.5	89.0	121.8	155.0	175.0	175.0	170.5	153.5	128.5	95.5	60.5	30.0
Net use of Fund credit (SDR millions)	-21.5	186.3	90.5	91.6	55.2	0.0	-12.4	-46.9	-69.0	-91.1	-96.6	-84.2
Disbursements	-	207.0	110.4	110.4	55.2		-	-	-	-	-	-
Repayments and repurchases	21.5	20.7	19.9	18.8	-	-	12.4	46.9	69.0	91.1	96.6	84.2
Memorandum items: (CFA F billions)												
Nominal GDP	17,386	18,242	19,273	20,498	21,925	23,558	25,338	27,117	29,031	31,097	33,288	35,636
Exports of goods and services	3,695	4,142	4,333	4,521	4,767	5,187	5,641	6,049	6,471	6,925	7,384	7,902
Government revenue	2,839	3,040	3,330	3,612	3,878	4,190	4,529	4,852	5,228	5,631	6,057	6,512
Debt service[2]	183.1	248.3	307.0	362.4	375.5	393.1	429.6	643.6	673.8	733.8	622.5	648.8
CFA francs/SDR (period average)	823.8	858.2	860.9	860.8	860.2	862.6	867.4	867.4	867.4	867.4	867.4	867.4

Source: IMF staff estimates and projections.

[1] On October 3, 2016, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF till end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter.

[2] Total debt service includes IMF repurchases and repayments.

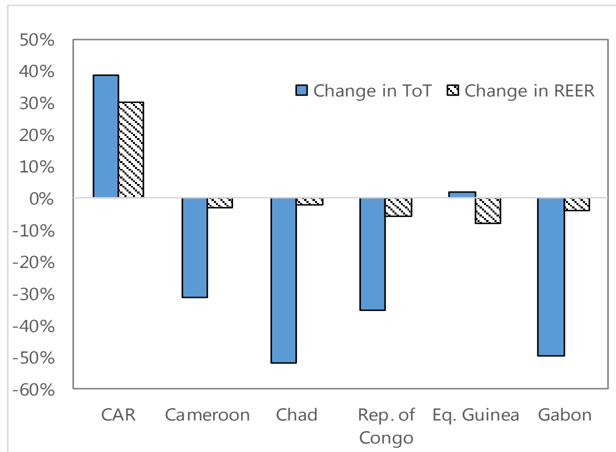
Annex I. External Stability Assessment

Cameroon's real effective exchange rate (REER), under the assumptions of the program scenario, is estimated to be overvalued by up to about 12 percent across three "EBA-lite" models. Cameroon's current account improved slightly in 2016 due to import compression. However, the external position deteriorated due to the large and protracted terms-of-trade shock from low oil prices, fiscal pressure from security threats, public investment scaling-up, lower remittances and weak repatriation of export proceeds.

1. Cameroon's terms of trade deteriorated by over 30 percent over the last two years, primarily driven by a fall in oil prices. Though substantial, the deterioration is less than that of other CEMAC countries for whom oil accounts for a much larger share of total exports relative to Cameroon. From 2015 to 2016, the real effective exchange rate appreciated by 2 percent and the nominal effective exchange rate by 3.6 percent (Figure 1). The disconnect between the evolution of terms of trade and the REER has been observed in the past (Figure 2). As a relatively open economy, Cameroon's terms of trade are subject to large shocks that can be an important source of economic fluctuations. At the same time, changes in the REER reflect mostly changes in the nominal effective exchange rate, which, considering the peg to the Euro, may not be correlated to the country's business cycles.

Figure 1. CEMAC: Trade and Exchange Rate 2014–16

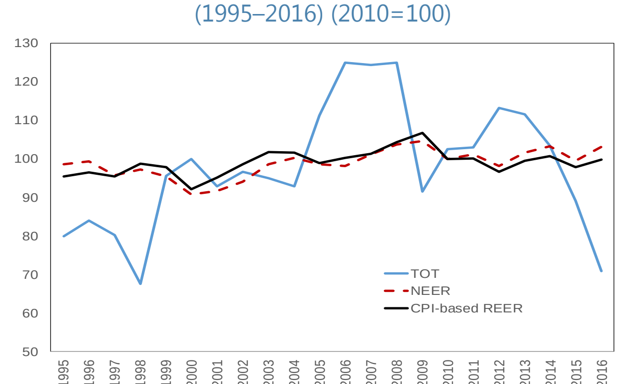
(Percentage Change)



Sources: Regional Economic Outlook and IMF staff estimations.
Note: Change in the terms of trade are from 2016 to 2014, and the change in the real effective exchange rate is from 2015 to 2014.

Figure 2. Cameroon: Terms of Trade, Real and Nominal Effective Exchange Rate Indices

(1995–2016) (2010=100)



Sources: Cameroonian authorities; and IMF staff estimations

2. Cameroon's current account deficit improved in 2016. The deficit had been gradually widening since 2010 as a large proportion of public investment inputs were from imported goods. In 2016 the deficit is projected to have narrowed to 3.6 percent of GDP, reflecting import compression that more than offset the decline in oil exports and import substitution driven by domestic production of investment input goods, in particular cement. The volume of imports fell by 19 percent while the export volume rose by 1 percent. Under a program reform scenario, it is projected that the medium-term current account deficit will gradually narrow to about 2 percent of GDP by 2020.

3. **Cameroon's financial account, after being temporarily boosted by the 2015 issuance of a Eurobond, worsened substantially in 2016**. This was attributable to sizable drop in net non-official capital flows from the non-oil sector as well as a rise in payments on external debt. The deterioration in net capital flows reflected mostly weak repatriation of export proceeds and, possibly, negative market sentiment in mid-2016. However, evidence suggests they abated by December 2016 and are projected to further subside under a program scenario as fiscal consolidation restores confidence. The financial account is projected to stabilize in the medium term below historical values.

4. **Foreign exchange reserves declined in 2016, both in nominal terms and in terms of import coverage.** Reserves declined rapidly to US$2.3 billion from US$3.5 billion in 2015, or from 6 to 3.7 months of imports. The fiscal balance, which is under pressure from sustained capital investment and continued security threats, is a significant contributor of the widening external financing need.

5. **External sustainability assessments point towards an overvaluation of the real exchange rate between 0.1 and 11.5 percent under program assumptions.** The three EBA-lite methodologies which extend the EBA methodology for low income and emerging market countries are considered. The panel regression-based approaches, including the current account approach (CA) and the indexed real effective exchange rate approach (IREER), estimate the REER to be overvalued by 11.5 percent and 8 percent, respectively. The external sustainability approach (ES) estimates the REER to be overvalued by 0.1 percent, under the assumption that the net international investment position stabilizes at a level consistent with a current account norm of 0.4 percent of GDP over 20 years, where the current account norm is calculated from the CA method.[1] In all approaches, the desired level of other key policy variables are set to their projected level at the end of the program (2020) and a trade elasticity of -0.34 is assumed, consistent with estimates for Cameroon from Tokarick (2010),[2,3] Results are sensitive to certain changes in assumptions. In one downside scenario where zero reserve growth is assumed, the estimated valuation of the REER is between -0.4 percent (REER model) and -1.5 percent (CA). In an alternative downside scenario, GDP growth is assumed to stagnate at

[1] A current account surplus of 0.4 percent of GDP is possibly unrealistic for a developing country like Cameroon that is trying to reach emerging market status by 2035. This assumption is estimated within the model and arises from the sizable growth rate in the ratio of foreign assets to GDP assumed over the period of 8.9 percent.

[2] That is, it is assumed that the change over the program period of foreign reserves asset to GDP is 8.9 percent, that private credit to GDP is 17.5 percent at the end of program, that the cyclically adjusted fiscal balance is -1.6 percent at the end of the program, that the capital control index is stable at 0.836, and that growth averages about 5 percent over 5 years.

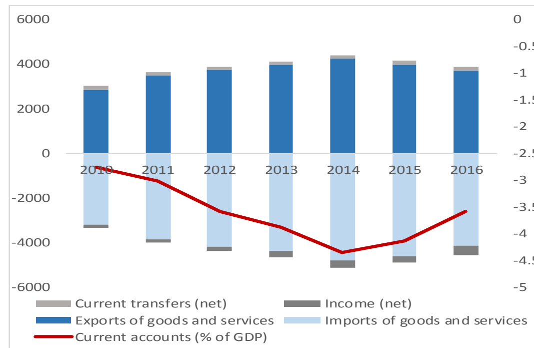
[3] Stephen Tokarick "A Method for Calculating Export Supply and Import Demand Elasticities" *IMF Working Paper 10/180 (*2010).

3.7 percent in the medium term. Under this assumption the estimated REER gap becomes 11.8 percent and the current account gap -4 percent, consistent with the main estimates.

6. **The CA and IREER methods indicate that Cameroon's overall policy gap is driven primarily by lower than desirable fiscal spending, with deviations from reserve accumulation contributing minimally.** The CA method estimates a total policy gap in Cameroon of -8.1 percent, and the IREER method a gap of 0.11 percent. Consistent with cross-country studies, the fiscal policy gap accounts for a large portion of the total policy gap. Calculated by the CA approach, the fiscal gap is estimated to be 2.5 percent below its desirable level. The desirable level is assumed to be the value of the fiscal balance in the medium-term with full employment, a 1.6 percent fiscal deficit in the case of Cameroon. Results show mixed evidence regarding the estimated gap in the change in reserves: the CA method suggests reserve accumulation is 5.9 percent below desired levels and the IREER approach estimates accumulation 0.12 percent above desired levels. The models assume that the desired level of reserve growth is 9 percent, which would bring Cameroon's stock of reserves to 4.2 months of imports by the end of the program. The policy gap for private credit is negligible, with the CA method estimating private credit 0.3 percent higher than desired and the IREER estimating no gap. Similarly, no gap is estimated in capital control policies or in the real interest rate. Together, these estimates suggest Cameroon's current policies need to be adjusted to achieve the desirable levels under a program scenario, and that the adjustment should come in large part from fiscal policy.

Figure 3. Cameroon: Current Account, 2010–16

(billions CFA, unless otherwise specified)



Sources: Cameroon authorities; and IMF staff estimates.

7. **Overall, the assessment of Cameroon's REER does not indicate a substantive misalignment with the current account norm.** It is important to note, however, that the above results are sensitive not only to the macroeconomic assumptions on which the program scenario is predicated, but also to the assumptions each approach uses.

Table 1. Cameroon: EBA-lite External Stability Assessment, 2016

	Current Account (CA)		Index Real Effective Exchange Rate (IREER)		External stability, target NIIP (ES)
Current account norm (percent of GDP)	0.4	Log REER - norm (percent)	4.5	Current account norm (percent of GDP)	0.4
Underlying current account (percent of GDP	-3.6	Log REER - actual (percent)	4.6	Target net IIP	-23.2
Current account elasticity	-0.34			Target # of years	20
Estimated REER gap	11.6	Estimated REER gap	8	Estimated REER gap	0.1

Source: IMF Staff estimates.

Annex II. Potential Impact of the Economic Partnership Agreement with the European Union

1. The Cameroon-European Union (EU) Economic Partnership Agreement (EPA) entered into force in August 2016. It aims to strengthen regional integration and boost trade with the EU through progressive and asymmetric trade liberalization, and by the adoption of transparent rules to promote and facilitate trade. The regional CEMAC-EPA, which has not been signed yet, is expected to be under similar terms. The EPA is anticipated to reduce customs revenue substantially, but may have a positive impact on domestic tax revenue in the long run.

2. Once fully implemented, the EPA will provide duty- and quota-free access for Cameroon exports to the EU, and a gradual liberalization of 80 percent of EU exports to Cameroon over 15 years. The agreement allows Cameroon to exclude some products, a provision which the country has used to protect nascent local industries. The agreement also provides compensation to be negotiated under the *programme régional de mesures d'accompagnement de l'APE* (PRADA) that brings together all the projects and programs intended to mitigate the negative effects of the EPA.

3. The EU has been one of Cameroon's largest trading partners historically. In 2015, 27.6 percent of all Cameroonian imports were from the EU (33.4 percent of non-oil imports), which accounted for 31 percent of all customs revenue, and exports to the EU represented 39.6 percent of total exports. However, Cameroon's trade with Asian countries, including China, has been growing fast and, since 2014, has exceeded that with the EU.

4. The EPA will affect trade volumes through three channels. First, by firms increasing the quantity of imported goods from the EU, as their cost falls; second, by a trade diversion effect wherein firms importing from non-EU countries may switch to importing goods from EU countries to take advantage of their relatively lower price; and third, by guaranteeing Cameroon's exports continued free access to the EU market. The overall trade impact will depend on the imports' elasticity to tariff changes and the ability of the domestic firms to supply the EU market. The authorities have set up the Enterprise Upgrading Centre to boost domestic firms' competitiveness.

5. The short-term revenue impact is likely to be limited given the gradual phasing out of tariffs, but, in the medium-to-long term, the revenue loss could be substantial. Estimates suggest that foregone revenue could be less than 0.1 percent of GDP in the first few years, but would increase to 0.5–0.6 percent of GDP once tariffs are fully eliminated. However, this does not account for the potential revenue loss that could result from trade diversion effects. At the same time, the EPA is expected to reduce the cost of production of domestic firms, improve competitiveness and ultimately boost growth, which may have positive implications for domestic tax revenue. As a result, it is difficult to pin down a precise figure on the overall impact of the EPA on government revenue. This highlights the need for Cameroon to strengthen domestic tax collection with a view to reducing reliance on trade-related tax revenue.

Annex III. Increasing Revenue Mobilization

In the current context in Cameroon and the region, with continued low revenue levels expected in the natural resources sector for the next three years, the customs and tax administrations must give priority to increasing domestic revenue mobilization. This technical note provides a roadmap identifying the main short- and medium-term measures needed to achieve this objective. The IMF's Fiscal Affairs Department (FAD) stands ready to support the authorities in their efforts and to provide the technical assistance necessary to implement the proposed measures.

A. Cameroon's Performance and the General Reform Context

1. **Although, overall, the reforms undertaken by Cameroon over the past ten years have led to improvements in its tax effort,[1] it should be possible to still significantly increase its (non-oil) tax revenues to reflect the country's real potential.[2]** Sustainable progress requires a coherent, progressive and comprehensive[3] approach to improving tax policy and administration. To bring tax revenue collections up to their potential by 2019–20, a combination of measures targeting both the level of taxation and revenue administration is planned. These measures should start to be implemented in 2017 so that they can take effect as of the 2018 budget.

B. Tax policy measures

2. **The expansion and modernization of collection of the property tax will be the first step in enhancing control over the income tax.** The proposed overhaul of the collection of the property tax (*Taxe foncière* – TF) put forward by the Directorate General of Taxation (DGI) should be encouraged. The current administration of the TF by the DGI brings in some CFAF 4 billion, which is earmarked for the financing of local governments. Beyond the considerable revenue potential (estimated by the DGI at CFAF 20 billion when the reform is launched and up to CFAF 100 billion when it is fully up and running, which could then be distributed between the State and the local government), the proposal also presents useful opportunities in terms of the reorganization of the units that should, in time, make it possible to better tax individuals and their property income. Combining the TF with the electricity bill (in partnership with the state electricity company, ENEO), without changing the rate, will enable the DGI to expand and secure the tax base and facilitate collections by reducing the impact of this burden on its teams. Better control of the TF will make it possible to take full advantage of real estate property by taxing the potential

[1] This indicator measures the effectiveness of the tax policy in the strict sense (legislation and administration), combined with the other components of the economic policy. It identifies the margins of progress possible to bring the effectiveness of the administration up to the country's theoretical tax potential.

[2] The most recent FAD mission on revenue administration estimated a gap of 2.5 percent of GDP between Cameroon's revenues and its tax potential in 2015.

[3] Given Cameroon's important position in the CEMAC regional space, it could take the initiative of requesting a revision of the laws and regulations aimed at a more simple implementation of tax policy approaches (particularly in the area of exemptions and excises). If the revenue administration considers the measures to improve its effectiveness to be more national than regional, the CEMAC could nonetheless encourage its members to commit to the recommended tax and customs reforms by playing a role of coordination and monitoring of the approaches recommended.

income from that property. Furthermore, a wealth-based approach, and the comparison of standards of living with income levels that it allows, are useful for detecting income hidden abroad.[4]

3. **Exemptions and other tax expenditures are an important and growing source of foregone tax revenues.** They represented 0.93 percent of GDP in 2015 (CFAF 155 billion). VAT tax expenditures set out in the General Tax Code (CGI) represent more than 80 percent of all such expenditures assessed.[5] A significant reduction in the scope of exemptions, by limiting them strictly to those set out in CEMAC Directive 07/11-UEAC-028-CM-22, is essential to improve the VAT yield. Similarly, it is highly recommended that the tax and customs advantages of mining or oil titles be restricted to the holders of those titles, to the exclusion of subcontractors.

4. **It is essential that investment incentives in Cameroon be better targeted to ensure that they do not become counterproductive.** The investment incentives are essentially set out in Law No. 2013/04 of April 18, 2013 establishing private investment incentives. Under this law, the investment incentives are primarily outside the CGI. This law essentially establishes three categories of investments entitling new enterprises to exceptional arrangements during the setup and operational phases and including one category for existing companies. This law is a threat to revenue mobilization owing to its tax planning risks. Moreover, as the conditions for eligibility for the incentives are easy to meet, almost all new investments qualify. It is therefore recommended that:

- the scope of the investment regimes be limited to companies only;
- implementation of the law on investment incentives be very strict, excluding all investments in an activity already existing on the Cameroonian territory to limit the risk of unfair competition;
- the fluidity and transparency of key administrative procedures (processing of VAT credit refund applications, for example) be improved for all economic activities that are essential to boosting the confidence of investors when they engage in a market.

5. **The completion of an initial evaluation of the impact of tax expenditures in 2015 is an important step in improving fiscal transparency.** It is important to understand all of the implications of exemptions that do not have a satisfactory cost/benefit ratio. The publication of the conclusions of the evaluation will inform civil society and contribute to the public debate on the benefits granted, particularly in favor of individual interests. Entrenching and institutionalizing the calculation of tax expenditures is a useful tool for preventing the proliferation of preferential tax measures of all kinds.

C. Key Administration Measures

6. **The DGI is also considering a number of tax administration measures to support enhanced non-oil revenue mobilization:**

[4] Consideration could be given to combining this approach with an amnesty measure during the first year of implementation to encourage the "voluntary" repatriation of funds hidden outside the country.

[5] From: "Definition, estimation and assessment of VAT tax expenditures in Cameroon in fiscal year 2015," study conducted by FERDI with financing from GIZ.

- ***Improving the control of exemptions will be encouraged.*** In the customs area, recent technical assistance identified a weakness resulting from the possible failure to respect the final destination/use assigned to merchandise in determining eligibility for exemptions. Given the significant risk of diversion (and the associated financial consequences), an annual program of ex post controls of exemptions should be introduced. If launched on a large scale under the auspices of the National Investigations Unit, such a measure should make it possible to recover duties owed immediately and, in particular, to apply appropriate administrative penalties and sanctions with a rapidly perceptible dissuasive effect. For the DGI, controlling exemptions will be based on closer monitoring of exceptional arrangements granted in the context of large investment projects. Particular attention could be paid to controlling the applicability periods and areas concerned.
- ***Measures to combat fraud will be enhanced.*** The capacity to combat tax fraud will focus more on risk analysis and be based more broadly on a better use of investigation and research and ex post assessment of the relevance of the measures taken.
- ***Improving VAT management and increasing the effectiveness of this tax*** will involve making the processing of VAT credit refund applications smoother and reducing payment delays (the target should be a maximum of 10 days).
- ***Further efforts will be made to expand the tax base***. The DGI should take advantage of the progress made with the deployment of the medium-sized taxpayer centers (CIMEs) throughout the territory. This approach to streamlining taxpayer management provides a better understanding of the VAT. The jurisdictional threshold of the CIMEs, which is equivalent to the VAT threshold, ensures professional management of this tax and consolidates the potential tax base. Once the deployment of the CIMEs is complete, consideration could be given to raising the VAT threshold.
- ***The effective exchange of information and collaboration between customs and taxation*** will make the fight against the development of the informal sector more effective and the tax rolls more secure.
- ***Finally, establishment of a dedicated unit allowing for better control of transfer pricing*** by multinational companies located in Cameroon would enable the DGI to demonstrate its grasp of international tax issues.

Annex IV. Financial Sector Issues and Policies to Maintain Financial Stability and Enhance Inclusion

Maintaining financial sector stability

1. **Against the background of deteriorating solvency and asset quality, Cameroon's banking sector has shown resilience over the last two years, with only four small banks[1] remaining critically insolvent**. At end-2016, 14 banks (of which two are state-owned) operate in Cameroon with high concentration (Table 1). System-wide compliance with prudential norms remains unchanged, but signs of vulnerability are increasing. The system's capital adequacy remains satisfactory by CEMAC standards, but declined from 11.4 to 8.8 percent in the last 2 years. The deposits to loans ratio declined slightly and the liquidity and profitability ratios remained stable at a comfortable level. The deterioration of these indicators requires a close monitoring, given the large variation across banks and the lack of frequent on-site supervision, which raises concerns about the quality of the reported data.

Table 1. Cameroon: Banking Assets, End-2016

	CFAF billion	Market share
Assets		
All banks (13)	5,042	100.0
4 largest banks	3,047	60.4
Foreign-owned banks (9)	3,422	67.9
Domestic private banks (3)	1,403	27.8
Domestic public banks (1)	216	4.3

Sources: BEAC; and IMF staff calculations.

2. **The banking system continues to suffer from structurally high credit risk both in terms of asset quality and credit concentration.** (Table 2) Bank assets quality deteriorated in 2016, notably the ratio of loan in arrears to total loans increased from 12.5 to 14.1 percent in 2016 caused in part by the difficult economic conditions and the implementation of a tighter COBAC 2014 regulation on NPLs. Another vulnerability is the concentration risk, in view of the high ratio to equity of large credit exposures (35 percent).[2] So far, although the significant increase in sovereign exposure, including through holding bonds issued by other CEMAC countries, did not contribute to the deterioration of banks' credit risk, it renders Cameroonian banks highly vulnerable to a sovereign default.

[1] Altogether, these four banks account for 12 percent of total assets in the banking system. The newly created public bank for the SMEs is excluded from the analysis of the banking system.

[2] According to Regulation R-2010–02, large exposures are defined as those whose risk-weighted amount exceeds 15 percent of a bank's capital. They must not exceed 45 percent of the bank's own funds.

Table 2. Cameroon: Banking System Indicators, 2014–16

	2014	2015	2016	Percent Change 2014-16	2015-16
	(CFAF billion, unless specified otherwise)			*(Percent)*	
Financial Soundness Indicators					
Capital Adequacy Ratio (percent)	11.4	9.9	8.8	-22.7	-11.3
Liquidity Ratio	139	147	148	6.6	0.8
Deposits/Credits	141	129	128	-9.0	-0.6
Return on Equity (percent)	15.0	15.0	18.0	20.0	20.0
Return on Investment (percent)	0.8	0.7	0.7	-12.5	0.0
Asset quality					
Loans in arrears	320.6	376.3	448.9	40.0	19.3
Loans in arrears / Total loans (percent)	12.3	12.5	14.1	14.6	12.7
Loan provisions / Gross non-performing loans (percent)	73.0	71.0	71.6	-1.9	0.9
Loans in arrears net of provisions/Net positive equity (percent)	33.0	42.0	52.0	57.6	23.8
Risk concentration (for banks with positive equity only)					
Total exposure to clients which individual risk weighted average exposure is >25% equity / Equity (percent)	125.0	166.0	160.1	28.1	-3.5
Total expoure to clients which individual risk weighted average exposure is >45% of equity / Equity (percent)	8.0	54.0	35.5	343.4	-34.3
Exposures to the State					
(Loans to the Government + Public bonds) / Assets (percent)	11.0	10.0	16.0	45.5	60.0
Positions with the BEAC					
Deposits with the BEAC (after refinancing)	457.5	394.7	392.1	-14.3	-0.7
as a percentage of total assets	10.6	8.4	7.8	-26.4	-7.1
Mandatory reserves	312.2	283.6	157.2	-49.7	-44.6
Refinancing with the BEAC	29.0	97.6	299.2	932.5	206.6
Deposits with the BEAC (before refinancing)	428.5	297.2	92.9	-78.3	-68.7
Foreign exchange exposures (unweighted)					
Net short FX exposure/Equity	-15.0	-2.0	-19.0	26.7	850.0

Sources: BEAC/COBAC; and IMF staff calculations

Note: All yearly values correspond to December of the specified year. The new small public bank is excluded.

3. **The analysis of banks' exposure to liquidity, foreign exchange, and interest rate risks also highlights some areas of concern**. Although the system-wide *liquidity* ratio is stable at a comfortable level (148 percent), some banks are either below or have very narrow buffers above the regulatory threshold (100 percent). In addition, the ratio of banks' deposits at the BEAC to their total assets has been declining going from 10.6 to 7.8 percent between 2014 and 2016, even after taking account of refinancing,[3] which increased in 2016 by 6 percent of total assets. The banks' exposure to *foreign exchange risk* has evolved materially, with wide differences across banks. The exposure to *interest rate risk* is not subject to regulation or reporting requirement, which is a major loophole.

4. **The Cameroonian banking system has been carrying 4 ailing banks for many years, that need to be resolved**. Three banks are privately owned and the 4th was nationalized in September 2016 but awaits the transfer of its NPLs to the treasury to restore compliance. A new public, small bank, is also experiencing difficulties. The restructuring plans rely on the following:

[3] However, these refinancings are mostly due to one bank, whereas other borrowing banks have generally contained or even reduced their refinancing to the BEAC over the last months.

(i) the public bank would benefit from a transfer of non-performing assets to the State and a recapitalization, the transaction being less costly than an orderly liquidation; and (ii) the private banks would be recapitalized by the current shareholders (preferred option). If no agreement is reached with private shareholders, they would benefit from a combination of State recapitalization and sale of NPLs to the State. Any such rescue would respect the following principles: the private shareholders should be either wiped out or diluted, and the rescue should be justified for reasons of political stability. The recapitalization plan is preferred provided it could lead the banks to be fully compliant with prudential requirements in a short time horizon. The overall maximum fiscal costs would remain manageable at about 0.7 percent of GDP, with two components: (i) the issuance of 0.5 percent of GDP worth of 10-years government bonds to cover to cost of transferring the NPLs of the ailing banks to the Treasury (Table 3). The government debt collection agency will have the mandate to collect the debt. This amount will be added to domestic debt stock for the DSA and the future debt services included in the budget; and (ii) 0.2 percent of GDP of residual capital needs for the Banks (after the release of provisions on the NPLs bought by the treasury), which could be accommodated in the current budget envelope.

Table 3. Cameroon: Fiscal cost associated with the resolution of the 5 ailing banks

		Billions CFAF	Percent of GDP
Debt	Bond issuance to purchase the NPLS (i)	**92.6**	**0.5**
Contingent liabilities	Release of the Provision (100%) (ii)	**92.6**	**0.5**
	Need of capital to respect prudential norm (iii)	**151.0**	**0.8**
	Need of capital after the NPLs operation (iv)=(iii)-(ii) if (iii)>0	**58.4**	**0.3**
	Contribution expected from the Private sector (v)	**33.0**	**0.2**
	Need of capital after considering private sector contribution (vi)=(v)-(iv) if (v)<(iv)	**27.5**	**0.2**
Total	Potential fiscal cost (i)+(vi)	**120.1**	**0.7**

Sources: Cameroonian authorities; and IMF staff calculations.

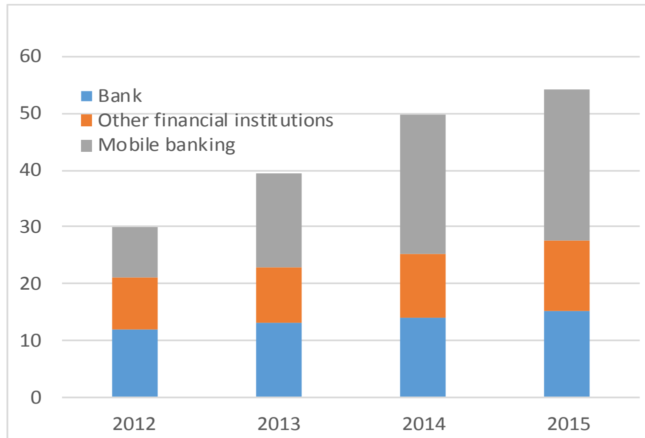
Enhancing financial inclusion

5. According to the World Development Indicators (WDI), financial access in Cameroon was low and lagging by regional standards, but more recent government data show an improvement. The Cameroonian financial sector, the largest in the CEMAC region, remains shallow and access to finance is among the lowest in the continent. The sector suffers from large concentration of banks' services (almost 90 percent of services generated in Douala and Yaoundé), with private enterprises receiving 80 percent of total credits. WDI data for 2014 show that only 11.4 percent of Cameroonian adults had an account in a financial institution, 1.9 percent had access to credit, and 1.8 percent had a mobile account despite a cellphone subscription rate of more than 70 percent of the population. However, more recent government data show improvement across the board with the number of adults with an account at a financial institution rising in 2015 to 27.8 percent and the number of financial institutions per 100,000 habitants to

4.9. Adding mobile money services brings the access level to an estimate of 54 percent of the adult population (Figure 1).[4]

6. Based on the Global Findex database,[5] financial access in Cameroon remains conditioned by gender and socioeconomic factors. (Figure 2) According to Findex (2014), being a male in Cameroon improves the probability of having a bank account by 35 percent; while holding at least a primary school diploma doubles this probability. Being among the top 60 percent earners multiplies this probability by a factor of 9. However, among the most educated groups and salaried workers, it is women who show a higher propensity to own bank accounts. At the other end of the income scale (lowest income quintile), it is also women who have higher access to loans as they benefit form targeted loan programs.

Figure 1. Cameroon: Account Penetration, 2012–16
(in percent of adult population)



Sources: Cameroon authorities; and IMF staff calculations.

7. The existence of a large unmet demand for financial services underscores the strong potential to boost financial inclusion in Cameroon if structural impediments are addressed. Compared to SSA countries, Cameroon has the sixth largest share of adults relying on informal financial arrangements (51 percent compared to 40 percent for average for SSA). Such informal users could switch to established financial service providers if existing impediments were removed, such as fees and procedural requirements, travel distance to agencies, lack of trust, and other obstacles resulting from poverty and lack of financial education. In addition, there are operational factors hindering access to credit such as the lack of: reliable debtor information, adequate collateral, bankable projects, suitable legal recourse for bad loan recovery, and competition in the telecommunications sector that slows the development of mobile banking.

8. Enhancing the regulatory framework for microfinance institutions (MFIs) and mobile money are key in promoting greater financial inclusion in Cameroun, while maintaining financial stability. The priorities include finalizing the ongoing regulatory reform for the MFIs and a tightening of the regulatory requirements to reduce the number of MFIs to a manageable level for the regulator. Another priority is to review the regulatory framework for mobile banking in coordination with the relevant regional authorities, to better meet the business needs of the

[4] This is based on Cameroon authorities' administrative data, which are often product based and not customer based, therefore could be counting multiple times customers that has multiple accounts.

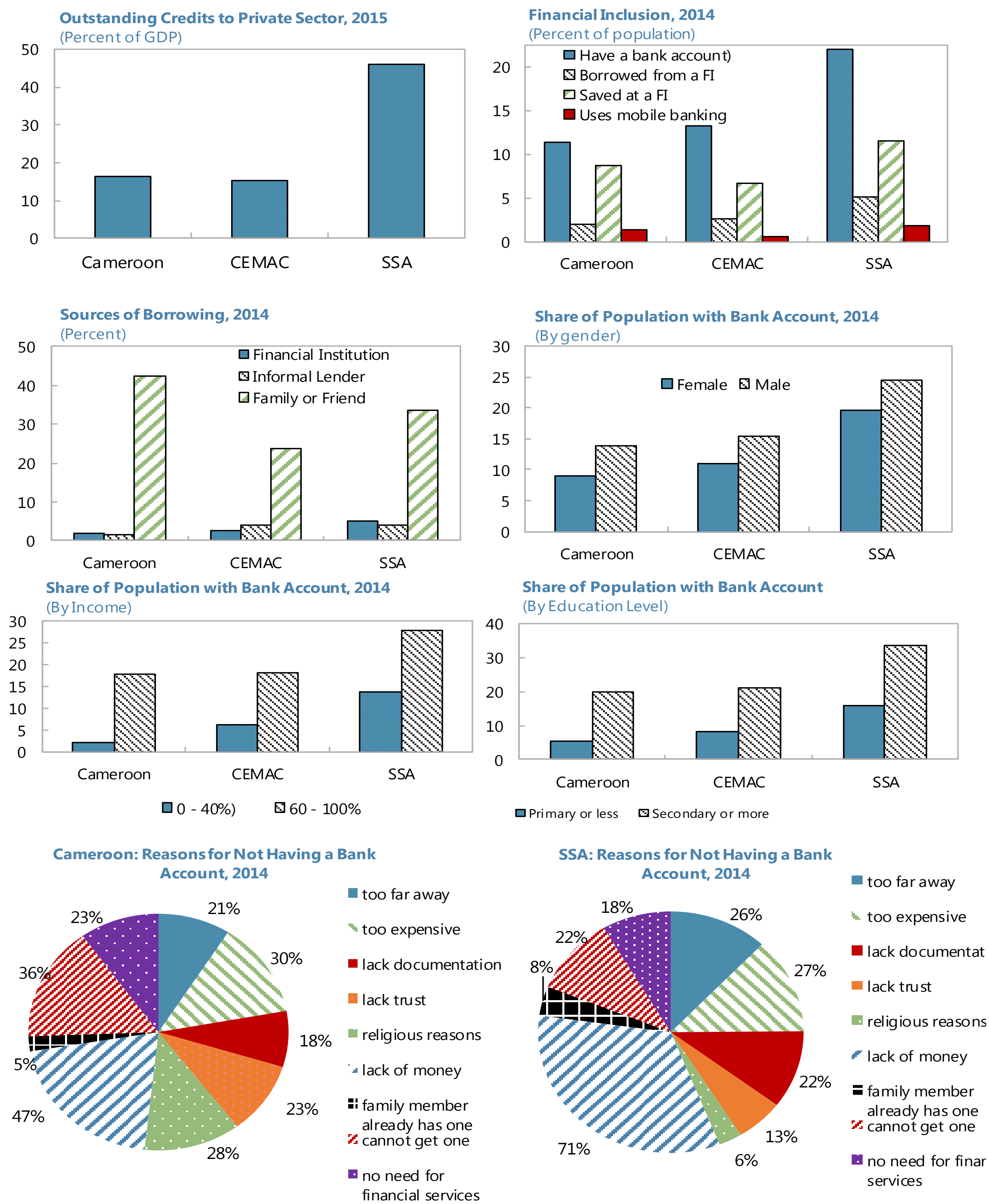
[5] The Global Findex database is often obtained from surveys made on very small samples that could not be representative of national estimates.

various market stakeholders. The development of mobile banking might also benefit from greater competition in telecommunication and internet markets.

- **MFIs play an important role in Cameroon but suffer from a challenging regulatory framework and high non-performing loans.** A total of 412 MFIs operate independently or through cooperatives in Cameroon, representing about 16 percent of banks' total assets, which increased by 61 percent between 2012 and 2015. Although some MFIs cover remote rural areas, they are mostly concentrated in the Douala and Yaoundé regions (51 percent of the agencies) and are dominated by few operators. The largest MFI, with a 25 percent market share, was recently authorized to operate as a bank, highlighting the complexity of the bank-MFI nexus, which requires close monitoring to mitigate risks. Some banks were initially MFIs or are owned by MFIs, while big banks increasingly use MFIs (through sponsorship and/or direct ownership) to access a larger customer base. The MFIs suffer from lax supervision and high credit risk with loan in arrears above 20 percent owing to the lack of credit information, reliable collateral, internal controls, and adequate debt collection mechanisms. Weak capacity and governance, and large exposure to connected parties are other sources of vulnerabilities. In addition, the difficult regional security situation has posed additional challenges to the MFIs operating in the affected areas, requiring increased investment in security.

- **Launched in 2011, Cameroon's mobile financial services have been expanding rapidly requiring the design of an enabling regulatory framework that preserves financial stability**. Operated by the two out of three mobile companies and three banks, mobile money penetration in Cameroon was, until recently, among the lowest in the continent suffering from low competition in the telecom and internet markets. However, with the increasing number of financial services offered by mobile money — deposits collection, payroll deposit, bill payment (energy, cable television, telephone), money transfers (including international), insurance sales, and tax payments— its use has more than tripled since 2012 in terms of number of subscribers and transactions. With less than a quarter of cellphone subscribers using mobile money, and more banks and the third mobile operator expected to enter the market, the growth potential of mobile banking is high.

Figure 2. Cameroon: Financial Development and Inclusion, 2010–15



Sources: WDI, World Bank; Findex (2011 and 2014), World Bank; and staff calculations.

Annex V. Capacity Development Strategy 2017–20

A. Context

1. **Cameroon has received extensive TA from IMF departments and AFRITAC-Central in recent years (see Information Annex for detailed list).** Going forward, the TA strategy should transition from one-off TA missions, which have been the norm in recent years, to a comprehensive and cohesive ongoing capacity building strategy which will support the Government's reform objectives.

2. **In the context of the authorities' program supported by the ECF, policy priorities include maintaining fiscal and external sustainability through** (i) re-focusing investment spending on ongoing priority projects while protecting social spending and enhancing the efficiency and quality of public expenditure; (ii) increasing non-oil revenue in the context of declining oil revenues; and (iii) imparting greater discipline in budget preparation and implementation to allow the budget to fully play its role as a guide for strategic allocation of public resources. The fiscal consolidation will bring about a slowdown in the pace of debt accumulation, while enhanced debt management capacity would allow for closer alignment between borrowing policies, investment plans and investment projects' preparation and implementation capacity.

3. **Capacity development (CD) activities** would support these priorities on an ongoing basis, focused on public financial management, tax policy, tax and customs administration, debt management and statistics such that policy and TA priorities are aligned.

B. Focus and Execution

Public Financial Management

4. **Current situation**. There is currently a disconnect between the budget passed by parliament, spending commitments and actual cash implementation. The budgetary envelope approved by the National Assembly systematically underestimates actual expenditure needs. This stems from a tight resource envelope but also from the lack of adequate planning of expenditure commitments for multi-year investment projects. At the same time, direct, off-budget spending by the national oil company displaces regular expenditures and leads to reallocations across budget lines. The selection of non-mature investment projects in the budget leads to unspent commitments that are recorded below the line as an accumulation of budgetary credits in correspondent accounts. These issues are compounded by the fact that the budget does not make provisions for payments on past years' obligations, which leads to an accumulation of expenditure float with payments due exceeding 90 days.

5. Priorities. Under the program, the PFM reform priorities are: (i) ensuring that annual budgets are comprehensive, credible and transparently implemented, by strengthening the medium-term fiscal framework, focusing on multi-year investment planning, and by fully enforcing existing budget regulations and limiting/eliminating resort to exceptional procedures; (ii) strengthening treasury management and fully implementing the single treasury account; (iii) strengthening expenditure control procedures; and (iv) enhancing the monitoring of fiscal risks, by eliminating cross-debt cancellations between the State and SOEs, and identifying and reducing state contingent liabilities, including those arising from PPP.

6. CD strategy. A TA mission from the IMF Fiscal Affairs department (FAD) visited Yaoundé in April 2017 to assess the current state of PFM and establish, jointly with the authorities, a plan for ongoing support through the program period. The capacity development plan will also be informed by the results of the recent PEFA update. FAD has expressed its willingness to support the authorities' efforts, in cooperation with AFRITAC-Center.

Tax policy

7. Current situation. The decline in oil prices since 2014 has brought to the fore the need to increase more than ever non-oil tax revenue. However, in order to obtain significant results, it will be important to remove obstacles that are weighing down on efforts to widen the tax base, notably the large informal sector, and inefficient tax exemptions and subsidies. Furthermore, customs and tax administration should be improved and better integrated to reduce opportunities for tax fraud and thereby increase revenues.

8. Priorities. The priorities for tax policy and administrative reform will focus on (i) widening the tax base, notably through the successful roll-out of a land tax starting in 2018; strengthened control over transfer pricing practices by multinational companies established in Cameroon, the adoption of an automatic fuel price adjustment mechanism coupled with the revision of excise tax policy; (ii) rationalizing exemptions, and eliminating inefficient tax incentive schemes; and (iii) enhancing tax and customs administrations by strengthening their capacity to mobilize revenue notably by establishing a single tax payer ID which will allow for a better sharing of information between both administrations, accelerating VAT refund, and improving customs reporting and risk management.

9. CD Strategy. TA missions from headquarters and AFRITAC-Central will continue to assist the authorities in implementing these priorities. The strategy will be also informed by the results of a recent TADAT assessment.

Statistics

10. Current situation. Fiscal, price, and trade statistics are compiled on a monthly basis, while GDP and external debt statistics are produced quarterly. Regarding external accounts, current account data are produced on an annual basis while the international investment position is published irregularly. There is typically a long lag going from 4 weeks to several months for the transmission of these statistics to the Fund (for instance, GDP data is transmitted with a 4-month lag). For program purposes, data transmission lags will need to be significantly reduced. In this respect, the use of the National Summary Data Page (NSDP) installed by STA and the African Development Bank in April 2016 at the National Statistics Institute would significantly improve the timeliness of data dissemination. In the medium term, TA support will be provided to increase the frequency of production for statistics, particularly balance of payments data. Cameroon has begun the process of rebasing their national account data, but this remains to be fully implemented and statistics are not yet reported at the rebased level.

11. Priorities. Priorities to be addressed include (i) using the NSDP as the main dissemination portal for macroeconomic statistics, (ii) finalizing the rebasing of national account statistics, (iii) completing the transition to Balance of Payments Manual 6 (BPM6), and (iv) increasing the frequency of data collection to quarterly for balance of payments, and annually for international investment position (IIP). Transmission of monthly trade data would be important.

12. CD strategy. Additional TA from STA and AFRITAC-Central should be provided to help the authorities complete and implement their national accounts rebasing exercise. A joint 3-year program (commencing in July 2016) by the Fund's statistics department and the Japanese Government will support the authorities in the transition to BPM6 and collection of IIP statistics.

Other TA priorities

13. Financial sector stability and development. Other TA priorities include supporting the national authorities in (i) establishing a framework for effectively and efficiently solving the problem of troubled banks; (ii) designing a strategy to address high NPLs; and (iii) implementing a collateral registry. Support in these areas would ensure that these activities are closely coordinated with activities at the level of the regional supervisor (COBAC).

Appendix I. Letter of Intent

June 16, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde:

The economy of Cameroon has sustained the twin shock of falling petroleum prices and the security threats in the subregion. It continues to show resilience, particularly because of its diversification, which enabled the country to maintain robust growth. Nevertheless, these external shocks have led to fiscal deterioration due to the decline in petroleum revenue combined with an increase in security and humanitarian outlays related to the flood of refugees from Cameroon's neighboring countries (Nigeria and the Central African Republic), displaced persons within the country, and food-insecure populations. In addition, as we are faced with the need for our country to continue to acquire the infrastructure necessary for its development, public debt has increased substantially, although it remains sustainable. External accounts were also affected negatively by the decline in commodity prices, which contributed to the sharp decline in our country's reserve coverage.

The government is determined to restore fiscal and external sustainability in the medium term and to keep public debt on a sustainable path. This requires a fiscal consolidation of just under 5 percent of GDP over three years, of which about 3 percent of GDP will be in 2017. This consolidation is driven by measures designed to increase revenue and rationalize and improve the quality of public expenditure, particularly for expenditure linked to priority investments, while preserving certain social expenditure and emergency humanitarian aid in Northern and Eastern Cameroon. Special emphasis has been placed on strengthening the credibility and transparency of the budget as part of our fiscal reform plan. Debt policy will aim at slowing the pace of new external debt commitments by favoring concessional loans and financing in the form of public-private partnerships.

This economic and financial program is part of a collective effort of the CEMAC countries to address the economic crisis afflicting the subregion. In keeping with the commitments outlined in the final communiqué of the Extraordinary Summit of CEMAC Heads of State of December 23, 2016 in Yaoundé, the Government has agreed to take concerted action with the other CEMAC countries and regional institutions to ensure that the policies implemented are consistent with maintaining fiscal and external sustainability for the region, as well as the stability of its monetary arrangement.

Cameroon's program of economic reforms is consistent with the objectives of our Growth and Employment Strategy Paper (GESP), which aims to reduce poverty and underemployment and accelerate economic growth to achieve emerging country status by 2035. Accordingly, the government intends to continue its efforts to provide the country with modern infrastructures capable of attracting private investment while improving the business climate. The objective is to set the stage for the private sector to take over as the driving force for development. Economic activity will also benefit from enhanced stability in the financial sector and expanded access to credit.

The objectives of the government's economic and financial program are outlined in the attached Memorandum of Economic and Financial Policies (MEFP). The government of Cameroon would like to request the IMF's support in its implementation under a three-year arrangement supported by the Extended Credit Facility (ECF) covering the period 2017–20, in an amount equivalent to 175 percent of its quota, corresponding to SDR 483 million (or approximately CFAF 415 billion), to be disbursed in seven tranches, as well as through the establishment of quantitative performance criteria and structural measures until December 2017. To meet our balance of payments financing requirement, amounting to approximately 4.7 percent of GDP in 2017, and to support our fiscal consolidation effort, we are requesting an initial disbursement of 45 percent of our quota.

The government believes that the policies and measures outlined in the MEFP will make it possible to achieve the program's objectives. It agrees to undertake any additional measures that may be required for that purpose. The Cameroonian authorities will consult with the IMF on any additional measures that may be required in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. To facilitate program monitoring and assessment, the government undertakes to report all required information regularly to IMF staff, in a timely manner, and in accordance with the attached Technical Memorandum of Understanding.

Finally, the government confirms that it agrees to the publication of this Letter, the MEFP, the Technical Memorandum of Understanding, and the IMF Staff Report on this Program.

Sincerely yours,

/s/

Philemon Yang
Prime Minister and Head of Government

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies For 2017–19

I. INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) describes the recent economic developments and economic priorities and objectives of the authorities of Cameroon concerning their request for an arrangement supported by the International Monetary Fund (IMF) through the Extended Credit Facility (ECF) for the period 2017–19.

2. This economic and financial program is part of a collective effort by the countries of the Central African Economic and Monetary Community (CEMAC) to address the economic crisis affecting the subregion. In keeping with the commitments outlined in the final press release of the Extraordinary Summit of the CEMAC Heads of State of December 23, 2016 in Yaoundé, the government undertakes to engage in concerted action with the other CEMAC countries and regional institutions to ensure that all policies implemented are consistent and that they collectively support the region's fiscal and external sustainability, as well as the stability of its monetary arrangement. The economic program of the government of Cameroon is being implemented against a particularly difficult backdrop characterized by the twin shock of falling petroleum prices and security threats in the Lake Chad Basin and in the Central African Republic. This program, supported by the ECF, aims to restore external and fiscal sustainability, to improve the competitiveness of Cameroon's economy while supporting economic growth and to strengthen the resilience of the financial sector.

3. The economic reforms described in this Memorandum are consistent with the Growth and Employment Strategy Paper (GESP), which represents the country's 10-year development strategy for 2010–20. The GESP's main objectives are to ensure strong, inclusive growth with a view to significantly reducing poverty and attaining emerging country status by 2035.

II. RECENT ECONOMIC DEVELOPMENTS AND POLICY FRAMEWORK

A. Recent economic developments

4. Cameroon's economy has shown resilience to the twin external shock. Economic diversification has been a major asset that has enabled the country to maintain strong economic growth despite the sharp decline in the price of oil and other commodities. However, growth has slowed somewhat, declining from 5.9 percent in 2014 to 5.8 percent in 2015 and then to around 4.5–5 percent in 2016. Oil production, which had increased since 2012 because of production in new oilfields and offset the price decline in 2015, declined slightly in 2016. In addition, some industries have been unable to benefit from investments made in the energy sector due to inadequate electricity transmission infrastructure. However, the positive performance attributable mainly to the primary sector through food agriculture and construction and public works offset this slowdown to a certain extent.

5. Following a slight increase of 2.7 percent in 2015 deriving from second-round effects of the increase in retail fuel prices in 2014, inflation in 2016 fell below the CEMAC convergence criterion of 3 percent. Inflation stood at 0.9 percent in 2016, a decline of 1.8 points. This decline primarily reflects lower prices for communication and, in particular, transportation costs, which fell by 0.7 percent in 2016 against an increase of 7.5 percent in 2015. The decline in transport costs was also supported by the government's decision in January 2016 to reduce the price of gasoline from CFAF 650 to CFAF 630 and the price of diesel fuel from CFAF 600 to CFAF 575.

6. The fiscal situation deteriorated in 2016. The significant fall in petroleum revenue, in addition to higher-than-expected disbursements in the 2016 budget, contributed to the widening of the fiscal deficit, which can be expected to amount to 6.5 percent (on a payment order basis). This is due in part to a substantial commitment in the budget devoted to the war against Boko Haram, refugees and displaced persons in Northern and Eastern Cameroon, capital expenditure related to the Emergency Plan, and the gradual clearing of arrears from prior fiscal years. The government has continued to implement its ambitious public investment budget to mitigate the infrastructure deficit and to attract the private investment required for stronger, inclusive growth.

7. Public debt remains under control, although it increased substantially between 2013 and 2016. The stock of public debt is expected to be around 34.1 percent of GDP at end-2016, as compared to 19 percent in 2013 as a result of (i) accelerated disbursements for the completion of major infrastructure projects (first generation of the GESP); (ii) the first international debt issue (Eurobonds) in 2015 in the amount of US$750 million, equivalent to approximately CFAF 450 billion; (iii) the mobilization of financing for the implementation of the three-year emergency plan to accelerate growth (PLANUT), which will impact growth beginning in 2018; and the incorporation of domestic and external payment arrears (3.5 percent of GDP) and the debt of SONARA, the national refinery, to its suppliers (0.5 percent of GDP).

8. The external accounts registered a sharp decline in coverage of our reserves from 5.9 months of imports in 2015 to 3.7 months in 2016. Despite a slight improvement in the current account of the balance of payments, driven by a substantial reduction in imports, the capital account was negatively affected by an accumulation of outward deposits from the private nonbanking sector, deriving substantially from the low level of export revenue repatriation. The monetary position reflected slow growth in money supply and credit to the economy combined with a sharp deterioration in the net position of the government *vis-à-vis* the banking system due to the concurrent effects of the use of Eurobonds and recourse to statutory advances from the Bank of Central African States (BEAC) and issuances of bills and bonds in the banking system.

B. Implementation of the Growth and Employment Strategy Paper

9. In August 2009, Cameroon adopted the GESP as reference framework for government action during the period 2010–20, aiming to reduce poverty and underemployment while accelerating economic growth with a view to attaining emerging country status by 2035 (Vision 2035). The main objectives of the GESP are as follows:

- Increase annual average economic growth to 5.5 percent between 2010 and 2020;
- Reduce underemployment by approximately one third, from 75.4 percent in 2005 to less than 50 percent in 2020;
- Reduce the poverty rate from 39.9 percent in 2007 to less than 28 percent in 2020.

10. Implementation of the GESP is monitored through semiannual and annual assessments. The most recent assessment was carried out in 2016. The report shows that the growth rate for the period 2010–15 was 4.9 percent, more than one percentage point below the target of 6.1 percent projected in the GESP. This growth was driven in particular by domestic demand following the implementation of major investment projects, including the construction of the Kribi gas fired power station, the Kribi industrial port complex, including the Kribi deep water port, the construction of the Lom Pangar reservoir dam, the construction of the eastern and western entrances to the city of Douala, the Memve'ele and Mekin hydroelectric dams, the start of works on the Douala-Yaoundé and Yaoundé-Nsimalen highways, and the construction of the second bridge over the Wouri River. In addition, the government has been implementing the PLANUT since 2015, the aim of which is to make up for the delays encountered in the implementation of its medium-term investment program, accelerate the fight against poverty, and promote job creation. The implementation of these projects has led to an increase in the share of capital expenditure in total government outlays from 24.5 percent in 2010 to 30.7 percent in 2015. In terms of employment, the underemployment rate reported in the results of the fourth Cameroonian household survey (ECAM-4) was situated at 79.0 percent in 2014, representing a deterioration in the labor market of 7.9 percentage points as compared with 2007. The poverty rate reported in the same survey registered a decline of 2.4 percentage points to 37.5 percent in 2014, although the disparities in the standard of living between urban and rural areas have widened. Moreover, the government is committed to achieve the objectives of the GESP.

III. ECONOMIC AND FINANCIAL PROGRAM FOR 2017–20

11. During the period 2017–20, the government intends to consolidate the achievements made to date and to strengthen the conditions enabling the private sector to take over from public investment in driving growth. Accordingly, during the period, we aim to:

a. Complete execution of the first-generation projects and make them operational;

b. Accelerate execution of the PLANUT projects and ensure that they come into operation;

c. Enable the start and effective implementation of the projects in progress and/or those in the startup phase, that are required not only to optimize the economic benefits of the projects that have been completed, but also to comply with Cameroon's international obligations. For these projects, whose financing is not yet secured, it will be our priority to seek financing under concessional terms, and/or to use public-private partnerships;

d. Ensure the selection and maturation of second generation projects;

e. Remove the main bottlenecks blocking the procurement process and undermining the efficiency of public investment;

f. Implement key structural reforms considered essential to stimulate the private sector and reduce poverty;

g. Promote the diversification of our economy, enhanced processing of our primary commodities, and enable our economy to be integrated more effectively into global value chains.

C. Macroeconomic Framework

12. **Economic growth is expected to be around 4 percent in 2017.** This performance, which represents a decline from 2016, is due to the low contribution from the extractive industries sector, where value added has reportedly declined despite the recovery in gas production expected during the fourth quarter of 2017. Furthermore, the persistent effects of the crises in Nigeria and in the CEMAC subregion, as well as the reduction in the government's spending patterns, should lead to a slowdown in economic activity. However, this negative impact will be compensated by growth in certain sectors that benefit from structural measures aimed at stimulating economic competitiveness. Accordingly, growth will be driven by: (i) food agriculture (in the primary sector), which represents 15 percent of total GDP and 70 percent of primary sector GDP; and (ii) the contribution from agrofood and manufacturing industries (in the secondary sector).

13. **Growth can be expected to increase gradually in 2018 to 5 percent in 2019 and to stabilize at approximately 5.5 percent in the medium term.** The positive impact of non-hydrocarbon exports that will benefit from the tariff elimination in August 2016 under the Economic Partnership Agreements (EPAs), the entry into operation of the Kribi deep water port, the Memve'ele hydroelectric dam, and the start of Kribi natural gas operations at end-2017 should help stimulate growth in the private sector and continue diversifying the Cameroonian economy. Moreover, investments in new oil fields may be followed by an increase in production after 2019. The pursuit of government policies aimed at improving the business climate and supporting development of the private sector will also contribute to accelerate structural transformation.

14. **The government is determined to restore fiscal and external accounts sustainability in the medium term, and in so doing to keep public debt on a sustainable path.**

i. To that end, the fiscal policy objectives include the continued implementation of measures to broaden the non-oil tax base and to increase the efficiency of non-oil revenue collection, particularly through the development of the property tax, more effective value-added tax (VAT) management, and through further control of exemptions. The proposed rationalization of expenditure will be carried out while protecting and even boosting various social expenditure items and promoting priority capital expenditure to support sustained economic growth. The overall budget deficit is expected to gradually reach 1.9 percent of GDP in 2019 (on a commitment basis), while the current account balance is expected reach 2.6 percent of GDP.

ii. Debt policy will aim to keep public debt on a sustainable path by slowing the pace of new external debt commitments and by favoring concessional borrowing. The strengthening of debt management policies will aim to (i) limit the debt ceilings in line with the capacity to prepare and implement projects; (ii) strengthen the authority of the National Public Debt Committee (CNDP) to approve new external loans, specifically involving debt undertaken by public enterprises; and (iii) improve the capacity of the Caisse Autonome d'Amortissement (CAA) to monitor external debt of public enterprises to avoid the accumulation of arrears.

15. **The tighter regional monetary policy that the BEAC intends to implement complements fiscal policy with a view to gradually stabilize and restore the level of external reserves in the subregion.** This will be achieved by a freeze on the ceiling on statutory advances at their 2014 level, an increase in the policy rate to absorb excess liquidity, and, if required, a limitation on the refinancing of government bills and bonds.

16. **In light of the volume of available domestic and external resources, there will continue to be a significant financing gap that could be met through budgetary support from Cameroon's technical and financial partners, as well as with Fund resources.** These resources are expected to amount to approximately 6.7 percent of GDP over four years, and would allow for a more moderate budget deficit contraction, for the stock of unpaid balances to be reimbursed and for an accumulation of a precautionary buffer in terms of both our deposits with the BEAC and of external reserves, which should help increase our reserve coverage from 3.7 months of imports in 2016 to more than 4 months by 2019–20.

17. **However, this baseline scenario involves a number of risks, both external and domestic.** These risks include (i) the rapid deterioration of imbalances at the regional level as a result of insufficient adjustments made by the countries or by inadequate management by the BEAC of "free riders", leading to a greater decline in foreign exchange reserves; (ii) a possible resurgence of the terrorist threat in the Lake Chad basin that would entail additional security costs and place an even greater strain on the already limited budget resources; or (iii) persistently sluggish external demand, which would reduce non-hydrocarbon exports. However, this risk might be mitigated if the oil price was to increase further. The government also stands ready to implement additional policies should any of these risks materialize. Regarding delayed adjustment by other CEMAC countries, Cameroon would consult with its CEMAC peers to ensure that the regional effort remains on track. The government is also committed to enhance budgeting of security spending and is engaged in a fund-raising effort with the United Nations to support additional humanitarian costs.

D. Fiscal Policy

Fiscal policy objectives for 2017

18. The overall budget deficit (on a payment order basis) can be expected to amount to CFAF 617 billion in 2017. While this represents a significant effort compared with 2016, it is nonetheless in line with the 2017 budget law, which aims for an overall budget deficit of CFAF 726 billion. The combination of decisive measures, designed to mobilize additional revenue and to reduce expenditure, should enable this target to be reached while preserving the progress made in the social sector.

19. The 2017 budget law represents a major step towards regaining fiscal and external sustainability. In particular, this law includes measures aimed at increasing non-oil revenue. These include: an increase in the excise tax on petroleum products (TSPP); the introduction of a tourist tax on overnight stays in hotels and other accommodation; VAT, and income tax on furnished rental accommodation; reestablishment of a 10 percent customs duty on imports of clinker (cement) and of 5 percent on fish; and the levy of excise duties on tourism vehicles over 10 years old, utility vehicles over 15 years old, and on nonreturnable packaging. It also consists of a 10 percent withholding tax on agricultural levies on cocoa and coffee. These measures could generate additional revenue of approximately CFAF 55 billion.

20. In the area of expenditure, the government is steadfastly committed to undertake profound changes in the structure of current expenditure and to improve the efficiency of such expenditure. First, the government has taken steps to reduce its expenditure patterns, specifically by freezing procurement of vehicles outside of the strategic and social sectors; reducing the scale of overseas missions; and streamlining committees and commissions, which can be expected to generate savings of approximately CFAF 60 billion compared to the 2016 budget law. Moreover, to improve the living conditions of the poorest sectors of the population, the government plans to allocate a greater share to health and education spending in particular, as well as to social protection. In fact, with the support of its partners, the government plans to prepare a national social protection strategy.

21. Where capital expenditure is concerned, the government has chosen to prioritize those expenditures with the greatest impact on growth and to defer other lower-priority spending. More specifically, to streamline public investment, the government has adopted a series of four criteria that will make it possible to limit the budget allocation for investment projects to a level that is consistent with the capacity to execute the projects involved. These criteria relate to:

- The rate of financial execution of the resources allocated to the PLANUT for the 2015 and 2016 fiscal years;
- The sectoral priorities set forth in the GESP;
- The requirement to use resources held in banks and financial institutions, which are already earning interest;

- The absorption capacity of project managers.

Where external financing is concerned, forthcoming projects will receive concessional loans as a priority. When concessional resources are insufficient to finance projects with confirmed socioeconomic and financial returns, the government will consult IMF staff to examine the possibility of amending the debt ceiling to include non-concessional loans, to the extent that such loans can be reconciled with debt sustainability. Moreover, public-private partnerships will be used to support the government's investment policy.

Fiscal policy objectives for 2018–19

22. For 2018 and 2019, fiscal consolidation will be fundamentally based on measures aiming to increase revenue while limiting and enhancing the quality of expenditure. Tax policy measures, supported by an improvement in the efficacy of the tax and customs administrations, should enable non-oil revenue to reach approximately 15 percent of GDP in 2019. There will be a gradual consolidation of expenditure from 20.1 percent of GDP in 2017 to 19.6 percent of GDP in 2019, while preserving priority social expenditure.

23. The tax policy measures identified are outlined below:

i. Beginning with the 2018 budget law, the government plans to develop the potential of personal income tax, focusing on the property tax, for which the collection system could be reformed through an enhanced partnership with the electricity distribution company. This measure could bring in approximately CFAF 10 billion to the government budget at the beginning of its implementation and up to CFAF 50 billion once it is fully deployed, based on the assumption that resources would be shared with the decentralized local governments.

ii. It aims to ensure better control of the transfer price practices applied by private operators, particularly in the petroleum and forestry sectors, but also in relation to the other large enterprises that are subsidiaries of multinationals by establishing a dedicated unit within the Directorate General of Taxes (DGI), that might benefit from appropriate technical assistance.

iii. Exemptions and other tax expenditure are an additional significant and growing source of shortfalls. They represented 0.93 percent of GDP in 2015 (CFAF 155 billion). Most of the measures giving rise to tax expenditure are included in the General Tax Code (CGI). VAT tax expenditure provided for in the CGI represent more than 80 percent of the total assessed expenditure.[1] While continuing the assessment of VAT tax expenditure by extending it to other indirect taxes and to income taxes, we will also begin with the 2018

[1] Information from: "*Définition, estimation et appréciation des dépenses fiscales de TVA au Cameroun pour l'année fiscale 2015*" (Definition, estimation, and assessment of VAT tax expenditure in Cameroon for the 2015 fiscal year), a study produced by the Foundation for International Development Study and Research (FERDI) with financing from the German cooperation authorities [Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)].

budget law to conduct a review of the texts governing tax exemptions designed to manage the periods during which special exemption regimes are granted; to shift their scope of application to priority sectors such as agriculture, health, education, and tourism; and to reserve tax and customs relief only to those holding mining or petroleum permits, excluding subcontractors.

24. The profitability of the national oil refinery, SONARA, is dependent on trends in world petroleum prices, the exchange rate for the U.S. dollar, and the structure of domestic prices for petroleum products. Having benefited from the substantial decline in petroleum prices since 2014, SONARA is now facing a shortfall from fuel sales as a result of its relatively limited refining capacity and the recent rise in petroleum prices. In order to ensure the sustainability of the reforms undertaken to restructure SONARA, we envisage reforms relating to the fuel price setting mechanism and the fuel price structure. Specifically:

a. Publishing the petroleum product price structure on a monthly basis, clearly highlighting the subsidy component, from end-June 2017 (structural benchmark).

b. Prepare a strategy aiming at ensuring the sustainability of the petroleum products' price structure and the financial viability of the SONARA, ahead of a possible future increase in world petroleum prices.

c. Undertaking a review of a fixed adjustment coefficient for SONARA's margins with a view to reducing its revenue volatility. Such an adjustment coefficient should be set at an appropriate level to allow SONARA to cover its operating costs associated with the supply of petroleum products to the domestic market.

25. The tax policy measures will be supported by efforts to continue the reforms already planned to enhance the efficiency of the tax and customs administrations. These reforms have already resulted in significant improvements to the collection process as well as an increase in the level of collections. For example, the performance of domestic non-oil tax revenue over the last five fiscal years has increased by almost 51 percent from CFAF 1,053 billion in 2012 to CFAF 1,585.5 billion in 2016. To expand the tax base while maintaining incentives in the priority sectors (agriculture, health, education, tourism, and agroindustry), we plan to take the following measures:

a. Increased efforts will be made to collect outstanding balances. For 2016, the backlog of outstanding balances pending collection by the Directorate General of Customs (DGD) from public administrations amounted to CFAF 107.3 billion, with a collection potential of approximately CFAF 9 billion in 2017. In 2016, 77 percent of the stock of outstanding balances pending collection (equivalent to CFAF 814.6 billion) of the DGI was derived from public agencies, of which approximately CFAF 45 billion could be collected in 2017.

b. The monitoring of exemptions at the DGI and the DGD will be strengthened through closer collaboration between the tax and the customs administrations in the areas of investigations and inspection.

c. Sharing of information and collaboration between the DGI and the DGD will be enhanced. Joint quarterly DGI-DGD reports will identify the results of such collaboration, in terms of identifying fraud and additional revenue, deriving from this information sharing based on the FUSION system (structural benchmark).

d. For various reasons, the DGD and the DGI are still unable to automate management of critical tasks to gain a command of the tax base. Where the DGI is concerned, apart from the introduction of electronic declaration procedures and the payment of taxes already implemented within the DGI, we will continue to implement the project involving an integrated tax management system that could be operational in 2020. We will also continue the computerization of the DGD through:

- Optimal use of the functionalities of the Customs information technology applications;
- Extension of the single form for foreign trade operations to all segments of customs clearance of goods (pre and post clearance) and its more effective internalization by the various parties involved;
- Continued geographical expansion of the electronic payment platform;
- Continued geographical expansion of the Automated System for Customs Data (ASYCUDA) and other applications;
- Development of a specific application for managing foreign exchange controls;
- Development of a new computerized customs system (CAMPASS).

26. **More specifically with regard to the DGI,** we will continue the efforts undertaken to improve the efficiency of VAT collection (control of refunds, gradual review of the system of withholding at the source, continuation of the taxpayer segmentation approach through the creation of Medium-sized Taxpayer Centers throughout the country). We will also continue the biometric registration of taxpayers to have a complete register by June 2018 (structural benchmark).

27. **With reference to the DGD:** We will take actions designed to strengthen the value checking system, based, inter alia, on the scanning of 100 percent of the merchandise offloaded, as well as on more advanced use of the information system. Additionally, we are considering the following measures:

i. Carry out more intensive monitoring of the informal sector;

ii. Strengthen the monitoring of customs disputes, which was successful in 2016;

iii. Continue the HALCOMI operation to stop illegal trading:

- Operations at the borders with Gabon and Equatorial Guinea to avoid the dumping of tax-exempt products from these countries into Cameroon;

- Nigeria side: to restrict the negative effects of the devaluation of the naira on the Cameroonian economy;

iv. Strengthen the post customs clearing controls based, inter alia, on the partnership with the DGI (FUSION application);

v. Initiate a partnership with certain large operators that use subcontractors to ensure that the rules are observed in their subcontractors' customs operations;

vi. Sign the agreement with the Regulatory Agency for Public Procurement (ARMP) to improve monitoring of customs taxation for public procurement.

E. Structural Fiscal Reforms

Budget management

28. We plan to resolutely pursue the fiscal reforms already in progress to strengthen the credibility and transparency of the budget and to ensure that public expenditure is effective. Accordingly, we are planning several decisive measures to confirm the principle of universality (comprehensiveness) and annuality of the budget as part of a rolling medium-term expenditure program more closely aligned to the annual budget, to ensure that the resources available for a given year more accurately cover expenditure. In fact, the payment of previous years' arrears, and of budget appropriations from previous years with revenue from the following year displaces current year budgeted spending and undermines efficient cash management and transparency in budget execution. Full implementation of the program budgeting approach will enable us to ensure sufficient budget provisions for expenditure planned during the current year (even when such items have been undertaken during the previous year), thereby providing greater clarity and transparency in budget execution. This improved clarity will also be ensured with the entry of all revenue and expenditure into the budget, and avoiding offsetting operations, in particular between the central government and public enterprises.

29. We are planning the following measures for 2017:

a. Direct interventions by the Société Nationale des Hydrocarbures du Cameroun (SNH) hydrocarbon company enable a swift and flexible response to vital, mostly security-related emergencies. During 2016, these interventions accounted for 60 percent of total petroleum royalties. The Government intends to maintain the direct interventions by the SNH at a level compatible with the security challenges facing the country. Nevertheless, to avoid a substantial displacement in planned annual budget expenditure, we will limit such expenditure to 50 percent of the amount of SNH royalties and gradually reduce this ceiling thereafter. Total SNH petroleum revenue and the amount of direct interventions will be indicated as memorandum items in the table of government financial operations (TOFE), in addition to the amount of royalties (prior action). Beginning in 2018, we will envisage providing a sufficient budget entry to cover all security expenditure.

b. We will publish the quarterly budget execution reports on line, beginning with the first quarter of 2017 (prior action).

c. We will adopt a budget calendar enabling the medium-term expenditure framework to be aligned with the annual budgets to ensure that the budget law corresponds to the first year of the medium-term expenditure framework (MTEF), aiming specifically for the communication of expenditure ceilings in June of each year (prior action).

d. We will accelerate the transposition of the CEMAC public finance directives into Cameroon's body of legislation. More specifically, the draft law transposing the Directive on Budget Laws will be forwarded to the CEMAC for validation by September 30, 2017 (structural benchmark).

30. The process of fiscal reform will be continued in 2018–19. Specifically, we are planning full implementation of the program budget approach, and, beginning with the 2018 budget law, the preparation of a reliable, consolidated commitment plan based on the public procurement plan, to guide budget programming and support cash management. We will also prepare a TOFE on a payment order basis, and subsequently on a commitment basis.

Capital expenditure efficiency

31. With a view to improving the quality and efficiency of our capital expenditure, we plan to implement a number of measures based, in particular, on the recommendations from the Public Investment Management Assessment (PIMA) conducted in 2016.

a. First, this will involve ensuring that all sectors have strategies on which priority actions will be based, and to strengthen the capacity of line ministries to identify and prepare investment programs and projects.

b. We will concurrently continue the ongoing reforms aimed at improving the process of planning, allocation, and execution of capital expenditure, as well as the monitoring and evaluation process. This approach will involve creating a database of "mature" projects, using only "mature" projects in the medium-term budge framework (MTBF) and only budgeting for projects included in the MTBFs. The criteria for selecting projects for the budget will be specified in the project maturity guide (structural benchmark).

c. In terms of the process, when the extended programming discussions take place and in preparation for the preliminary budget conferences, the Ministry of Economy, Planning and Regional Development (MINEPAT) will begin in July 2017 to establish a multidisciplinary team tasked with reviewing the level of maturity of the projects in the following areas: administrative, technical and financial. During the discussions on the maturity status of the projects, this team will be responsible for ensuring or contributing to the quality of the studies, the quality of the bidding documents, efficient allocation of projects, the choice of appropriate procedures, identification of procedures to be undertaken in advance for year n-1, planning of operations to award and execute the relevant contracts, etc. Downstream, we will implement a strategic monitoring process for project execution. As a result, projects will be executed in a timely manner, while minimizing costs, to ensure that public resources are used optimally (end-2017-early 2018).

32. We will concurrently continue and intensify the management of multiyear commitments aimed at effective implementation of the program budget. This approach must incorporate compliance with the principle of annuality of the budget through the breakdown of overall commitment authorizations for multiyear projects into payment appropriations included in the subsequent budget laws. The objective remains to provide realistic annual programming of project execution to ensure that the required resources are included in the budget laws for the full investment project implementation period. On this issue, the government undertakes to integrate the medium-term expenditure framework (MTEF) module into the PROBMIS application.

33. Public-private partnerships (PPPs) provide an option to accelerate public investment program execution, considering the sometimes limited implementation capacity of the public authorities. In order to optimize the potential of PPPs, while limiting the risks of contingent liabilities, the government will limit the use of these to cost-effective projects for which the private sector is in a position to offer better service at lower cost. The assessment and monitoring of these projects will be enhanced and public bidding procedures will be systematically used. Contingent liabilities relating to PPPs will be analyzed and presented in an annex to the annual budget laws on fiscal risks, together with the analysis of risks stemming from public enterprises (structural benchmark).

Improving cash management

34. The gradual expansion of the scope of application of the treasury single account (CUT) will help to facilitate cash management by maximizing the use of the available resources and avoiding borrowing costs. Specifically, we plan to (i) conduct an inventory of the accounts of public administrative establishments in commercial banks and limit the opening of new accounts (structural benchmark); (ii) prepare a strategy for the gradual expansion of the scope of the CUT (structural benchmark); and (iii) with the support of the Bank of Central African States, carry out the CUT implementation process. Effective cash management should also benefit substantially from the adoption of credible commitment plans based on the budget. It is also important to build the capacities of the players to master cash management mechanisms, and specifically projection techniques, the preparation and analysis of summary tables, origination of bond issuances, risk management, and the legal framework of cash management instruments. The reform objectives include the following:

a. Make the cash plan the priority tool for cash management. This plan should accompany the draft budget law. This is a CEMAC directive, which aims at demonstrating the sustainability of the initial draft budget law submitted to Parliament, and we will formalize this directive in the budget calendar. For that purpose, we will establish a working group coordinated by the Directorate General of Treasury, Financial, and Monetary Cooperation (Treasury Directorate) comprising counterparts in the key data producing administrations (Economic Affairs Directorate, Directorate General of Budget, Directorate General of Taxes, Directorate General of Customs, Caisse Autonome d'Amortissement, and the Ministry of Economy, Planning, and Regional Development/Directorate General of Economy and Public Investment Programming) for its preparation and validation. In this context, efforts will be made to improve the reliability of the budget and accounting forecasts with the production of expenditure commitment plans by the various administrations. This approach should also allow to implement the budget regulations to reduce the outstanding balances payable and improve payment lags. The cash plan's assessment should be carried out by the treasury committee.

b. Implement appropriate actions to significantly reduce the use of exceptional procedures (in particular, cash advances and revolving funds, which have a negative impact on the government's cash position) and payments in cash. To this end, the Government will ensure the effective implementation of the following measures (most of which are already provided for in current texts):

i. Limits applied to cash advances and decisions to release funds as there is a simplified procedure for undertaking expenditure commitments;

ii. Prohibition of credit safeguard mechanisms (beyond the current fiscal year);

iii. Observance of conventional practices in opening and managing revolving funds (*caisses d'avances*), including by limiting such advances to petty expenditures;

iv. Reduction of cash disbursements through systematic transfers of all expenditure items in excess of CFAF 100,000 directly into the beneficiary's account;

v. Use of the regular budget execution procedure for all capital expenditure items, including large projects;

vi. Subordination of any expenditure commitment except for discounting prior to the start of activities to the presentation of a detailed statement or invoice along with a certificate indicating that the service has been provided;

vii. Rejection of any decision to release funds to provision 420 and 450 accounts;

viii. Setting annual ceilings on resources to be allocated to certain organizations such as Crédit Foncier [property credit], the Fonds Routier [road fund], and the Fonds National de l'Emploi [national employment fund];

ix. Compliance with the annual budget principle in the execution of expenditure, and more specifically in the 420 accounts.

c. We will produce a monthly table designed to monitor correspondent accounts, showing cash inflows and outflows separately. As part of this effort, we will also clean up the 420 and 450 accounts and will make the transactions recorded under the 420 and 450 accounts more reliable by eliminating the unjustified transactions.

d. To establish mechanisms to manage cash balances in accordance with market conditions. Such actions should be carried out in coordination with the central bank and focus on reducing the costs of cash management (debt repurchases, placement of surpluses, coverage of the deficit with appropriate instruments, and risk management).

e. To ensure more effective control of the expenditure float and government arrears, we will carry out an audit (identification and validation) by end-September 2017 and, on this basis, we will prepare a gradual plan to clear these amounts, to be included in the budget beginning with the 2018 budget law. We will also prepare quarterly monitoring reports taking stock of the residual balances pending payment and other amounts owed beginning in December 2017 (structural benchmarks).

F. Debt Policy

35. Our debt policy will aim to avoid the risks of over-indebtedness and place public debt on a sustainable path. The external debt ceiling is set at CFAF 1,700 billion and the ceiling for securities issues on the regional market at CFAF 300 billion. However, to change the trend in public debt (as a percent of GDP), our debt plan for 2017 (and subsequent years) will focus on priority projects with substantial growth potential, on concessional terms. In particular, we expect the package of new concessional loans signed in 2017 to remain below CFAF 100 billion and for non-concessional loans to remain at CFAF 100 billion, taking into account the large number of loan agreements signed between January and May 2017 (Text tables 1 and 2). In addition, disbursements on non-concessional loans that have already been signed will be subject to a ceiling of CFAF 540 billion. For 2018–19, the non-concessional debt ceilings will be set to reflect the execution rate from the three previous years, the volume of projects considered to be mature, and the disbursements envisaged on the committed but non-disbursed balances (“soldes engages non-décaissés” -SENDs).

36. The large stock of committed but non-disbursed balances reflects the problem of the maturation of projects, and is the subject of various remedial measures. In particular, we are committed to conducting a careful review of the stock of SENDs to promote priority, growth-oriented projects with concessional financing. Moreover, the CNDP is in the process of coordinating the work on identification of projects having SENDs exceeding four years and to eliminate those that are no longer justified. This should enable a substantial reduction in the total stock of SENDs at end-December 2017. We will also ensure gradual disbursement of these funds, in accordance with the schedules shown in Table 1.

Text Table 1. Cameroon: Concessional and Non-Concessional Loans Contracted, January-May, 2017

Project	Lender	Sector	Amounts (FCFA billions)	Terms: Interest rate (percent)	Terms: Grace period (years)	Terms: Maturity (years)	Type
Project to supply drinking water to the cities of Meyomessala, Nkongsamba, Loum and Melong	GIEK (*Norwegian Export Credit Guarantee Agency*) et *Export Credit Norway*	Water	37.7	1.1%	2	8.5	Commercial
Construction of electricty transmission lines between Nkongsamba-Bafoussam and Ydé-Abong Mbang, and related infrastructure	EXIM India	Energy	57.0	6M Libor + 1.75%	5	10	Commercial
Drinking water project for 8 regions	Islamic Development Bank	Water	16.3	Libor + 1.3%	4	15	Semi-concessionnal
			2.5	Libor + 1.3%	5	15	
Electricity transmission lines for the Memve'ele hydroelectric dam	EXIM China	Energy	88.0	6M Libor + 3.2%	3	12	Commercial
Social housing project in Yaoundé	INTESA SANPAOLO	Housing	101.0	CIRR + 0.7%	3	10	Commercial
			14.1	IRS + 5.1%	3	4	
Kribi Port, phase II	EXIM China	Transport	322.4				
			89.0	2%	7	13	Semi concessionnal
Project for transport sector development	IBRD (World Bank)	Transport	113.1	6M Euribor + 1.5%	7	23	Semi-concessionnal
Integrated Rural Development Project (IRDP) Chari Logone (Phase II)	Islamic Development Bank	Agriculture	2.2	Administrative fee 1.5%	7	25	
			15.6	6M Libor + 1.55%	5	15	Semi-concessionnal
Project for the development of livestock commericialization and livestock breeding infrastructure	Islamic Development Bank	Livestock	2.9	Administrative fee 1.5%	7	25	
			2.8	6M Libor + 1.55%	5	15	
			19.3	6M Libor + 1.55%	5	15	Semi-concessionnal
Development of the Yde -Brazzaville international corridor phase II (Mintom lélé)	JICA	Transport	33.1	0.3%	10	40	Concessionnal
Livestock development project	World Bank (IDA)	Livestock	61.0	1.3%	5	25	Semi-concessionnal
Rebuilding transport networks and reform (SONATREL Project)	World Bank (IBRD)	Energy	202.3	6M Euribor+ 1.5%	7	30	Semi-concessionnal
Support to the transport sector, Phase II: rehabilitation of the Yaoundé -Baffoussam-Babadjou road; Development of roads Grand Zambi-Kribi and Maroua-Bogo-Pouss, section Bogo-Pouss	African Development Bank	Roads	177.0	Variable	4.5	20.5	Semi-concessionnal
			11.0		5	25	Semi-concessionnal
Total			**1,368.3**				
Commercial			297.9				
Semi-concessionnal			1070.4				
Concessionnel			33.1				

Source: Cameroonian authorities.

Text Table 2. Cameroon: Borrowing Plan (Preliminary), 2017

Project	Lender	Sector	Amounts (FCFA billions)	Terms: Interest rate (percent)	Terms: Grace period	Terms: Maturity (years)	Type
Project to support the improvement of the efficiency of public spending	African Development Bank	Governance	9.3	Variable	8	25	Semi-concessionnal
			9.3	1%	5	30	Concessionnal
Project to strengthen the national blood transfusion system	Islamic Development Bank	Health	3.7	Administrative fee 1.5%	7	25	
			4.1	6M Libor + 1.55%	5	12	
			9.5	0.0%	3	12	Concessional
Capacity building project for mining sector	World Bank (IBRD)	Mines	12.8	1.3%			
			3.6	1.1%			Concessional
Project to strengthen and stabilize electricity transmission systems in the city of Douala	SG Paris/Deutsche Bank	Energy	16.8	6M Euribor + 2.45%	0.75	5	Commercial
			91.9	6M Euribor + 1.80%	3	13	Commercial
Total			**160.9**				
Commercial			108.7				
Semi concessionnal			9.3				
Concessionnal			43.0				

Source: Cameroonian authorities

37. The government will continue to work to improve public debt management. The scope of the CNDP now extends to all commitments undertaken by the government and public enterprises regarding debt. To ensure that the use of external borrowing is consistent with our development program, all loan agreements on the government's account or on-lent to public enterprises will be subject to prior approval from the CNDP. In addition, we will take regulatory measures to ensure that public enterprises can no longer take on debt without prior opinion from the CNDP (prior action). Accordingly, the following matters are brought before the Committee:

- Requests and offers of financing of interest to the government and its bodies;
- Domestic and external public loans or those guaranteed by the government;
- The proposal of annual debt ceilings;
- Public debt restructuring, conversion, or on-lending operations.

38. We will undertake a review to improve the viability, efficiency, and competitiveness of public enterprises and agencies. In the short term, the government will strengthen the monitoring of fiscal risks generated by these enterprises through the presentation and analysis of their consolidated financial situation in the annex to future budget laws (structural benchmark). The government is also committed to strengthen the management of public enterprises in order to reduce and gradually eliminate the subsidies that are currently allocated to these enterprises.

G. Consistency with Regional Monetary Policy

39. The government undertakes to implement policies consistent with maintaining the stability of the monetary arrangement, which involves the stabilization and restoration of the BEAC's reserves. Implementation of a tighter regional monetary policy will support fiscal consolidation efforts and aims to limit direct and indirect monetary financing to countries to address the causes of the fall in reserves. In terms of government financing mechanisms, the government agrees to comply with the commitments made at the regional level involving the freeze of the ceiling on statutory advances at the level established based on 2014 budget revenue. As Cameroon's budget situation is not as tight as it is in other CEMAC countries, the country has already demonstrated prudence in its use of statutory advances and is committed to continue in this direction. The government also intends to promote the development of the financial market while refraining from any new direct financing from the banking system, except in exceptional circumstances, and at rates less than or equal to that of the most recent bond issues having the same maturity, including commissions and other fees. In the long term, all of the government's bank financing should be configured as government securities issues.

H. Maintaining the Stability of the Financial Sector and Expanding Access to Financial Services

40. Despite its overall resilience, the financial sector, which is already characterized by the structural burden of overdue claims and the concentration of banking portfolios, is showing several signs of vulnerability. While the banking system as a whole continues to show acceptable solvency, liquidity, and profitability ratios, this situation must not detract, on the one hand, from the accentuation of certain areas of weakness, in particular credit risk, in light of the loss rates and from the level of concentration in the portfolios, and on the other hand, the emergence of new risk factors (liquidity, foreign exchange, and interest rates).

41. To make financial sector more resilient and to enable it to contribute more effectively to the financing of the economy, we will adopt a program based on the elimination of the legacy from the past, and on the establishment of an environment that is consistent with best practices for the future. The first component of our program will have two objectives: the clearance of overdue claims and the rapid resolution of individual situations of banks in difficulty. The second component will involve the establishment of a legal, regulatory, and operational environment that will enable the financial sector to select, monitor, and actively manage its risks (including credit risk) according to best practices. Our program will also support the efforts of the regional authorities to strengthen the surveillance of other risks and financial safety nets (mechanisms for the resolution of credit institutions and deposit insurance).

42. Under the first component, it is an absolute priority to clear claims that are already overdue, under the supervision of the COBAC, by September 2017 (structural benchmark). We will support the assignment by that authority of operational targets to banks, with deadlines for addressing these claims, involving restructuring of claims for potentially solvent debtors, and compulsory collection for others. The oldest claims subject to full provisioning may be written off, or the authorities may consider using the Société de Recouvrement des Créances du Cameroun (SRC) loan recovery company after the claims have been sold to the government, in compliance with the principles of good governance as described below. We will also strengthen the legal environment to facilitate the recovery of claims, both through judiciary and extra-judiciary channels. We will introduce greater flexibility into the tax treatment of these resolution procedures (restructuring or write-offs).

43. Another essential part of the first component will be a plan for the resolution of banks in difficulty, developed in consultation with Fund staff and submitted to the COBAC by August 2017 (structural benchmark). Our activities will be based on two essential factors: preserving financial stability while avoiding the moral hazard, and privileging the use of private shareholder support in order to reduce budgetary costs. On that basis, until the resolution and deposit insurance mechanisms have been reinforced, and in coordination with the COBAC, we undertake to accelerate the negotiations in progress aimed at the recapitalization of institutions in difficulty by the shareholders. Otherwise, their resolution (if possible, through the transfer of sound assets and deposits to an outside institution followed by the liquidation of the residual assets and liabilities) will be implemented as soon as possible, based on the current CEMAC Regulation 02–14 and in compliance with the above-mentioned requirements, particularly at the lowest fiscal cost. Under this constraint, the State could only repurchase overdue claims based on a fair price valuation using an internationally-accepted methodology, and with a recovery strategy designed to maximize the net present value of the claims. Compliance with these requirements will be consistent with a review of the overall governance of SRC, if applicable, with the support of technical assistance from the IMF.

44. The second component of our program will focus on the establishment of a framework conducive to a more selective approach to the distribution of credit, stronger continuous monitoring of this risk by the banks, and more proactive risk management, with the following objectives:

a. A more selective approach to granting credit, and more responsive monitoring through enhanced financial transparency on debtors: more specifically, the widespread use of the Payment Incident Reporting Center – National Banking Register of Enterprises – Framework for Analysis and Monitoring of Microenterprises (CIP-FIBANE-CASEMF) platform for category one microfinance establishments (structural benchmark);

b. More effective coverage of risk through more reliable collateralization mechanisms, computerization of the property registry and of the registry of movable collateral (structural benchmark), and a more reliable registry of property collateral;

c. More effective use of execution mechanisms through the establishment of chambers specializing in financial matters within the courts (or through the creation of commercial courts), framework for procedural delays, and development of extra-judiciary arbitration mechanisms.

45. To promote an environment less vulnerable to financial shocks, we also undertake to support and accompany the adjustment of the prudential regulations. In this regard, we will expand the scope of our surveillance to include other types of risk, such as foreign exchange risk, interest rate risk in the banks' portfolio, and operational risk. We will support the regional plans to upgrade the safety nets (bank resolution and deposit guarantee mechanisms), particularly to ensure that these mechanisms are legally sound and that their operational capacity is effective, reflecting international best practices.

46. In order to increase public access to financial services, we will focus as a priority on strengthening the stability of the microfinance sector and facilitating the development of mobile banking as part of the implementation of the national strategy for inclusive finance adopted in 2014. This strategy is based on a number of priority areas, including: (i) regulatory reforms to the microfinance institutions (MFI) sector; (ii) strengthening social performance of MFIs, and specifically governance, resources, and financial and technical support; and (iii) capacity development among the parties involved, such as senior managers, corporate decision-making bodies, etc. In order to ensure the stability of the microfinance sector, we will also support the COBAC's efforts to finalize the new regulation on microfinance, as well as to help strengthen the supervision of this sector and the monitoring of contagion risks enabling the spread of risks between banks and MFIs. We will also contribute to the strengthening of the supervision of mobile banking operations, and, when required, we will support the review by the COBAC of the regulations governing such operations. Finally, where access to credit is concerned, we plan to complete in 2017 various ongoing reforms.

I. Competitiveness and development of the private sector

47. The government is committed to accelerate the implementation of measures to support private sector development and economic diversification. The main obstacles to greater competitiveness of the economy are, among others, the lack of infrastructures, the narrow private sector's access to financial services, and the unfavorable business environment. The completion of the large infrastructure projects, notably in energy and transport, ought to boost productivity and allow the private sector to take over from public investment as the engine of growth. Broader access to financial services, according to the financial inclusion strategy defined earlier, ought to support this process.

48. Improvement in the business climate is essential for the development of the private sector with the aim of long-term, sustainable, job-creating growth. The government is working together with other technical and financial partners to address key obstacles to private sector development, including the IFC on the business environment. In that context, approximately 10 areas of action have been identified. Several reforms, including some in coordination with the regional authorities, are under way to boost the competitiveness and attractiveness of Cameroon's economy to foreign direct investment and trade. These include:

a. Modernizing the legislative framework through the revision of the CEMAC Customs Code and implementation of the CEMAC customs tariff according to the 2017 version of the Harmonized System as part of the reform projects undertaken in connection with the regional program.

b. Finalizing, in 2017, the digitized cadastral plan of the cities of Douala, Yaoundé, Garoua, Maroua, as well as those at the national level;

c. Computerizing the commerce registry and the registry of equipment loans;

d. Establishing an escrow account earmarked specifically for the reimbursement of VAT credits and setting up an interactive system to monitor VAT credit reimbursement files online;

e. Implementing an electronic payment points will be established in the division tax centers;

f. Reducing processing lags for government invoices between the commitment and coverage by the treasury in order to reduce liquidity constraints of service providers (structural benchmark).

IV. PROGRAM ARRANGEMENTS

49. The government will take all necessary steps to achieve the objectives and criteria, as presented in Tables 1 and 2 of this Memorandum. The program will be subject to semiannual reviews and performance criteria, indicative targets and structural benchmarks, as set out in Tables 1 and 2 of this Memorandum and in the attached Technical Memorandum of Understanding (which also sets out the requirements for reporting the data to Fund staff). The first review will be based on end-June 2017 targets and is expected to be completed by December 15, 2017 and the second review will be based on end-December 2017 targets and is expected to be completed by June 30, 2018.

Table 1. Cameroon: Quantitative Performance Criteria and Indicative Targets (June 2017–June 2018)

(in billions of CFAF, cumulative for each fiscal year unless otherwise specified)

	2017				2018	
	End-Mar (preliminary)	End-Jun PC	End-Sep IT	End-Dec PC	End-March IT	End-June IT
A. Quantitative performance criteria and indicative targets [1]						
Floor on the non-oil primary fiscal balance (commitment basis)	**-61**	-392	-708	-974	-37	-348
Ceiling on the net domestic financing of the central government excluding IMF financing [2]	**-73**	-18	78	-200	-21	-5
Ceiling on the disbursement of non-concessional external debt contracted as of the date of program approval		280	540	540	315	315
Ceiling on net borrowing of the central government from the Central Bank excluding IMF financing (stock)	**-35**	0	85	-253	-286	-241
B. Continuous quantitative performance criteria [3]						
Ceiling on the accumulation of new external payments arrears		0	0	0	0	0
Ceiling on new non-concessional external debt contracted or guaranteed by the government [4; 5; 6]		100	100	100	500	500
C. Indicative Targets						
Floor on non-oil revenue	**599**	1,185	1,811	2,457	642	1,308
Ceiling on the net accumulation of domestic payment arrears	**-115**	0	0	-57	0	0
Floor on social spending		253	406	624	262	422
Ceiling on direct interventions of SNH		168	168	168		
Memorandum items:						
1. Cumulative external budget support, excluding IMF (earliest disbursement)	**0**	0	44	337	0	0
2. New concessional external debt contracted or guaranteed by the government [7]	**3**	100	100	100	152	152

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

Note: The terms in this table are defined in the TMU.

[1] Program indicators under A are performance criteria at end-December and end-June; indicative targets otherwise.

[2] The ceiling on net domestic financing (excluding payment of arrears) of the budget will be adjusted if the amount of disbursements of external budgetary assistance excluding IMF financing, falls short of or exceeds program forecasts. If disbursements are less (higher) than the programmed amounts, the ceiling will be raised (reduced) pro tanto, up to a maximum of CFAF 70 billion at the end of each quarter of 2017.

[3] The targets are set from the time of program approval.

[4] Excluding ordinary credit for imports and debt relief obtained in the form of rescheduling or refinancing.

[5] This criterion applies from the date of approval of the program. As of April 30, the Government has signed CFAF 851.6 billion of non-concessional borrowing in 2017.

[6] The ceiling will be adjusted upwards by the amount of non-concessional budget support excluding IMF financing for debt management purposes, up to the amounts specified in memorandum item No. 1 below.

[7] On a contracting basis in accordance with the IMF's debt limits policy: http://www.imf.org/external/np/pp/eng/2014/111414.pdf.

Table 2. Cameroon: Prior Actions and Structural benchmarks, 2017–18

Action	Timeframe	Macroeconomic objective	Indicator
Fiscal policy and revenue collection			
Adopt a budget calendar to facilitate alignment of the medium-term budget framework (MTBF) with the annual budgets as well as alignment of the preparation of the capital budget with that of the recurrent budget.	Prior action	Improve short- and medium-term budget planning	Circular
Publish quarterly budget execution reports.	Prior action (and quarterly structural benchmarks from end-June 2017)	Improve fiscal transparency	Report published in newspapers and online
Submit a draft law transposing the CEMAC Directive on Budget Laws into national law to the CEMAC commission.	September 2017	Align fiscal policy with regional regulations	Submission of the revised draft law to the CEMAC Commission
Improve collection of the property tax by linking it to the electricity distribution system, and share the revenue from the tax between the central government and the decentralized units of government.	December 2017	Increase mobilization of nonpetroleum revenue	2018 budget law
Strengthen information sharing between the Directorate General of Taxes (DGI) and the Directorate General of Customs (DGD). The two administrations will jointly prepare quarterly reports identifying, inter alia, results in terms of the identification of fraud and additional revenue collected.	Quarterly beginning June 2017	Increase mobilization of nonpetroleum revenue	Report submitted to IMF staff
Publish the petroleum product price structure on a monthly basis.	Monthly beginning in June 2017	Increase mobilization of revenue and reduce subsidies	Publication online and in newspapers
Prepare a strategy aiming at ensuring the sustainability of the petroleum products' price structure and the financial viability of the SONARA.	December 2017	Increase mobilization of revenue and reduce subsidies	Strategy document submitted to IMF staff.
Complete implementation of biometric taxpayer registration.	June 2018	Increase mobilization of revenue	System of operation
Prepare a report (i) evaluating the efficacy of the new VAT escrow account funding and (ii) proposing, in cooperation with the Directorate General of Treasury, a plan to clear the stock of appropriations identified at December 31, 2016.	December 2017	Increase mobilization of revenue and improve the business environment	Report submitted to IMF staff.
Public Financial Management and Debt Management			
Include the total petroleum receipts of national oil company SNH and direct interventions in the table of government financial operations (TOFE).	Prior action (and monthly structural benchmark from end-June)	Strengthen public financial management	Monthly TOFE
Issue a directive signed by the Minister of Finance stating that the National Public Debt Committee (CNDP) must issue a prior opinion for any external indebtedness on the part of public enterprises (other than debts arising from normal commercial transactions).	Prior action	Strengthen control of public borrowing by public enterprises	MINFI directive

Table 2. Cameroon: Prior Actions and Structural benchmarks, 2017–18 (Continued)			
Action	**Timeframe**	**Macroeconomic objective**	**Indicator**
Take stock of and confirm balances outstanding and arrears from prior fiscal years.	September 2017	Clear domestic arrears	Audit report submitted to IMF staff
Adopt a plan to gradually clear balances outstanding and arrears from previous fiscal years.	December 2017	Clear domestic arrears	Report submitted to IMF staff
Produce a quarterly report on balances outstanding and arrears from prior fiscal years.	Quarterly beginning April 2018 (reporting on end-2017 balances)	Clear domestic arrears	Report submitted to IMF staff
Disclose the type and volume of contingent liabilities in an annex to the budget law, including the firm and contingent liabilities of all existing public-private partnerships (PPPs).	Annual beginning October 2017	Take stock of contingent liabilities	Annexed to the budget law
Prepare an inventory of all accounts of public administrative establishments with commercial banks, and strictly limit the opening of new bank accounts.	June 2017	Improve and rationalize cash flow management	Inventory submitted to IMF staff
Adopt a strategy to gradually expand the coverage of the Treasury single account.	September 2017	Improve and rationalize cash management	Strategy submitted to IMF staff
Increase Social Spending and the Quality and Efficiency of Public Investment			
Develop a national social protection strategy (or policy) to be implemented starting with the 2018 budget law.	December 2017	Protect vulnerable segments of the population	Consultant report
Update and implement the guide to the project maturity process.	December 2017	Improve the selection of investment projects	Circular signed by the Prime Minister
Financial Sector Stability and Growth Driven by the Private Sector			
Adopt and submit to the Central African Banking Commission (COBAC) a strategy to clear the commercial banks' overdue claims.	September 2017	Stimulate credit to the private sector	Strategy forwarded by the Minister of Finance to COBAC
Adopt a resolution plan for banks in difficulty to be submitted to the COBAC.	August 2017	Maintain the stability of the financial sector	Plan forwarded by the Minister of Finance to COBAC
Expand access to creditor databases to all credit and microfinance institutions.	March 2018	Facilitate access to credit, especially for small and medium-scale enterprises (SMEs)	Database available
Computerize the movable collateral registry.	March 2018	Facilitate access to credit, particularly for SMEs	Registry available online
Reduce processing lags for invoices from the time they are committed till they are covered by treasury to two months.	March 2018	Reduce working capital requirements for SMEs	Report by the Director General of the Treasury

Attachment II. Technical Memorandum of Understanding

Provisions of the Extended Credit Facility (ECF)

1. **This Technical Memorandum of Understanding (TMU)** defines the quantitative performance criteria and indicative objectives that will be used to assess performance in connection with Cameroon's program supported by the Extended Credit Facility (ECF) in 2017. The ECF establishes the framework and deadlines for reporting data to be used by IMF staff to assess program implementation.

Conditionality

2. **The quantitative performance criteria and indicative objectives for end-June and end-December 2017** are provided in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent. The structural benchmarks defined in the program are provided in detail in Table 2 of the MEFP.

Definitions

3. **The Government**: Unless otherwise noted, "government" is defined as the central government of the Republic of Cameroon, which includes all implementing agencies, institutions, and any organizations receiving special public funds, whose powers are included in the definition of central government under the 2*001 Government Finance Statistics Manual (GFSM 2001,* paragraphs 2.48–50). This definition does not include local governments, the central bank, and any other public entity belonging to the government that has autonomous legal status and whose operations are not included in the government financial operations table (TOFE).

4. **A public enterprise is a commercial or industrial unit fully or partially owned by the government or its bodies, that sells goods and services to the public on a large scale.**

Revenue

5. **Total government resources** are comprised of tax and nontax budget revenue (as defined under Chapter 5 of *GFSM 2001*) and grants. Revenue is recorded in the accounting system on a cash basis. Proceeds from the sale of assets and privatization revenue (defined in paragraph 8) are not considered government revenue.

6. **Oil revenue** is defined as the total transferable balance of the SNH [*Société nationale des hydrocarbures*], the national hydrocarbons company, and income tax on petroleum companies and gas operators. The authorities will notify IMF staff of any changes in the tax systems that may occur that would lead to changes in revenue flows. Oil revenue is recorded in the accounting system on a cash basis.

7. **Non-oil revenue** includes all the government's (tax and nontax) revenue, with the exception of oil revenue as defined under paragraph 6. Value-added tax (VAT) is recorded net of VAT reimbursements. Pipeline fees paid by Cameroon Oil Transportation Company (COTCO) are recorded under nontax revenue.

8. **Privatization revenue** includes all funds paid to the government in connection with the sale or transfer of the management of a public enterprise (concession), agency, or facility to one or more private enterprises (including enterprises fully controlled by one or more foreign governments), one or more private entities, or one or more individuals. The proceeds from privatizations also include, inter alia, all funds deriving from the sale of shares held by the government in private companies or public enterprises. All privatization revenue must be recorded on a gross basis. Any costs that may be involved in the sale or concession must be recorded separately under expenditure.

Expenditure

9. **Total government expenditure and net lending** include are all wage and salary expenditure for civil servants, goods and services, transfers (including subsidies, grants, social security benefits, and other expenditure), interest payments, and capital expenditure, all of which are recorded in the accounting system on a payment authorization basis, unless otherwise indicated, and net lending (defined in *GFSM 2001*). Total government expenditure also includes expenditure items executed without prior authorization that are pending regularization.

10. **Spending advances [*interventions directes*] by SNH** (National Hydrocarbon Society) are part of government expenditure, and include emergency payments made by SNH on behalf of the government, substantially to cover exceptional security and sovereignty outlays.

11. **Social expenditure** includes public expenditure recorded in the government budget in connection with priority programs to accelerate attainment of the government's social development objectives. This item includes (i) for the education sector, total (current and capital) expenditure of the Ministries of Elementary Education, Secondary Education, and Employment and Professional Training; (ii) for the health sector, current expenditure of the Ministry of Public Health; and (iii) for the other social sectors, current expenditure of the Ministries of Labor and Social Security, Youth and Citizenship Education, Social Affairs, and Promotion of Women and the Family.

Balance and financing

12. **Primary balance**: The primary balance is defined as the difference between total government revenue (defined in paragraph 5) and total government expenditure and net lending (defined in paragraph 9) not including interest payments in connection with external and domestic debt.

13. **Debt:** The definition of "debt" is set out in paragraph 8 (a) of the Guidelines on Public Debt Conditionality in Fund Arrangement attached to the Executive Board Decision 15688–(14/107), but also includes commitments contracted or guaranteed, for which value has not been received. For purposes of these guidelines, "**debt”** is understood to mean a direct, i.e., non-contingent, liability, created under

a contractual arrangement through the provision of value in the form of assets (including monetary assets) or services, and under which the debtor to is also required to undertake to make one or more payments in the form of assets (including monetary assets) or services, according to an established schedule. These payments will discharge the debtor of the principal and/or interest liabilities undertaken in connection with the contractual arrangement. In accordance with the foregoing definition of debt, any penalties or damages awarded by a court as a result of the nonpayment of a contractual obligation that constitutes debt are debt.

14. **External debt,** in the assessment of the relevant criteria, is defined as any borrowing or debt service in a currency other than the CFA franc. This definition also applies to debt between countries of the Central African Economic and Monetary Community (CEMAC). The relevant performance criteria apply to external debt of the government, public enterprises that receive transfers from the government and other public entities in which the government holds more than 50 percent of the capital, or any other private debt for which the government has offered a guarantee that should be considered to constitute a contingent liability. **Guaranteed debt** refers to any explicit legal obligation incumbent on the government to reimburse a debt in the event of payment default by the debtor (whether the payments must be made in cash or in kind).

15. **Concessional external debt**: External debt is considered concessional if it comprises a grant component of at least 35 percent.[1] The grant component is the difference between the face value of the loan and its present value expressed as a percentage of the face value. The present value of debt at the date on which it is contractually arranged is calculated by discounting to present value of the debt service payments at the date on which the debt was arranged.[2] A discount rate of 5 percent is used for that purpose.

16. **Domestic debt** is defined as all of the government's debts and obligations in CFA francs. This item includes unreimbursed balances, advances from the Bank of Central African States (BEAC), Treasury bills and bonds, structured debt, nonstructured debt, domestic payment arrears, and debt to SONARAs suppliers.

- **Structured debt** is defined as debt that has been subject to a formal agreement [*convention*] or securitization [*titrisation*]. Under the program, structured bank debt is included in net bank credit and structured nonbank debt is reflected in nonbank financing.

    ii. ***Structured bank debt*** is defined as all claims of local banks on the government, with the exception of treasury bills and bonds. This item involves securitized bank debt, the

[1]The link to the IMF website below refers to an instrument used to calculate the grant component for a broad range of financial arrangements: http://www.imf.org/external/np/pdr/conc/calculator.

[2]The calculation of concessionality reflects all aspects of the loan agreement, including the maturity, grace period, schedule of maturities, commitment fees, and management fees. The calculation of the concessionality of Islamic Development Bank (IsDB) loans will reflect the existing agreement between the IsDB and the IMF.

outstanding balance of which at end-2016 was CFAF 86.36 billion, plus direct advance arrangements.

iii. ***Structured nonbank debt*** is defined as all of the government's balances payable in connection with local nonbank institutions or individuals or the CEMAC, that have been securitized of subject to a formal reimbursement agreement according to a clearly defined schedule.

- **Nonstructured debt** is defined as all balances payable transferred to the national amortization fund [*Caisse Autonome d'Amortissement*] *(*CAA) that have not been subject to a formal reimbursement agreement or securitization arrangement. The outstanding balance of nonstructured debt was CFAF 113.96 billion at end-2016. In connection with the program, the stock of nonstructured debt is part of the stock of domestic payment arrears. Accordingly, any payments in connection with nonstructured debt will be deducted from the stock of domestic payment arrears and will therefore have an impact on the primarily balance on a cash basis.

17. Net domestic financing of the government: is defined as the sum of (i) net bank credit to the government; and (ii) net nonbank financing.

- Net bank credit to the government is equal to the change in the balance between government's liabilities and assets with the national banking system. These assets include (i) cash resources on hand with the treasury; (ii) treasury deposits with the central bank, not including the Heavily Indebted Poor Counties (HIPC) account and the Debt Reduction and Development Contract (C2D) account; and (iii) the credit balance of the accounts of the *Caisse Autonome d'Amortissement* with commercial banks earmarked for reimbursement of the government's debt obligations. The government's outstanding balances include (i) financing from the central bank, and specifically statutory advances; net IMF financing (disbursements net of reimbursements), refinancing of guaranteed bonds, and treasury paper held by the central bank; and (ii) financing from commercial banks, and specifically direct advances and loans, securities, and bills and bonds of the treasury held by local banks. Net bank credit to the government is calculated based on the data provided by the BEAC. These data should be subject to monthly reconciliations between the treasury and the BEAC.

- Net nonbank financing of the government includes (i) the change in the outstanding balance of government securities (treasury bills and bonds) issued in CFA francs on the regional financial market and not held by the local banking system; (ii) the change in the outstanding balance of structured nonbank domestic debt (defined in paragraph 16); (iii) privatization revenue (defined in paragraph 8); (iv) the change in the balance of correspondent bank accounts (including Account 42) and consignment accounts; and (v) the change in the balance of outstanding claims on the government abandoned by the private sector. The government's net nonbank financing is calculated by the public treasury.

18. Domestic payment arrears are the sum (i) of *payment arrears on expenditure and (ii) payment arrears on domestic debt:*

- **Payment arrears on expenditure** are defined as "balances payable" for which the payment lag exceeds the regulatory period of 90 days. **Balances payable** reflect the government's unpaid obligations. They are defined as expenditure items for which the normal expenditure execution procedures (commitment, validation, and authorization) has been followed until they were undertaken by the public treasury, but that are still pending payment. These obligations also include invoices due and not paid with public and private enterprises, but they exclude domestic financial debt service (principal and interest). Balances payable under 90 days represent **payments in progress.** Information used to determine the amount of balances payable is provided in Table 3 of the management indicators (TABORD). The treasury will monitor this information on a monthly basis to identify expenditure arrears in the stock of balances payable.
- **Payment arrears on domestic debt** are defined as the difference between the amount due under a domestic debt arrangement (defined in paragraph 11) or the reimbursement of treasury securities, bills, or bonds matured and the amount effectively paid after the payment deadline indicated in the agreement or after the maturity date of the treasury securities, bills, or bonds.

19. **External payment arrears** are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

I. QUANTITATIVE PROGRAM OBJECTIVES

20. **The quantitative objectives (QO)** listed below are as specified in Table 1 of the MEFP. Unless otherwise noted, all quantitative objectives will be assessed on a cumulative basis from the beginning of the calendar year to which the quantitative objectives apply. The quantitative objectives and details for their assessment are provided below.

A. Non-oil primary balance

Performance criteria

21. **A floor for the non-oil primary balance is defined as a quantitative objective in Table 1 of the MEFP**. The non-oil primary balance is defined as the difference between the primary balance defined in paragraph 12 and oil revenue defined in paragraph 6.

22. **To ensure consistency among data** from different sources used to prepare the government financial operations table (TOFE), and particularly between the data on budget operations reported by the treasury and data on financing reported by the BEAC, the CAA, and the treasury, the cumulative level of miscellaneous expenditure not otherwise classified (including errors and omissions in the TOFE) for a given month should not exceed 5 percent of the cumulative expenditure for that month, in absolute value. Should this limit be exceeded, a comprehensive reconciliation exercise for all TOFE source data will be undertaken in consultation with IMF staff.

Cutoff dates for reporting information

23. The detailed data on government financial operations indicating the primary balance, oil revenue, and the level of miscellaneous expenditure not otherwise classified will be transmitted on a monthly basis within six weeks from the end of the month.

B. Net domestic financing of the government excluding net financing from the IMF

Performance criteria

24. A ceiling on net domestic financing of the government excluding net financing from the IMF is defined as a quantitative objective in Table 1 of the MEFP. For program requirements, net domestic financing of the government excluding net IMF financing will be net domestic financing of the government defined in paragraph 17, not including net IMF financing.

Adjustment

25. The ceiling on net domestic financing of the government excluding net financing from the IMF will be adjusted if the disbursements in connection with external budget support net of external debt service and the payment of external arrears are below the programmed levels.

26. If, at the end of each quarter during 2017, disbursements of external budget support net of external debt service and the payment of external arrears are below (above) the programmed amounts, the relevant quarterly ceilings will be adjusted upward (downward) commensurately, within the limit of CFAF 70 billion. This ceiling may be revised to reflect the rate of budget aid disbursements during the year.

Cutoff dates for reporting information

27. The detailed data on net domestic financing of the government (bank and nonbank) and the status of budget support disbursements, reimbursement of external debt service, and the status of external arrears (to be monitored continuously) will be submitted on a monthly basis within six weeks after the end of the month.

C. Disbursement of non-concessional external loans signed before the date the program was approved

Performance criteria

28. A ceiling on disbursements of non-concessional external debt contracted before the date the program was approved is defined as a quantitative objective in Table 1 of the MEFP. This performance criterion is applicable to contractual debt arranged but not disbursed at the date the program is approved. This performance criterion is based on external debt as defined in paragraph 14 and uses the concept of concessionality as defined in paragraph 15 of this Memorandum.

Cutoff dates for reporting information

29. **Detailed information on disbursements of external debts contracted by the government** must be reported within six weeks after the end of the month, indicating the date the loans were signed and making the distinction between concessional and non-concessional loans.

D. Net borrowing of the central government from the Central Bank

Performance criteria

30. **A ceiling on net borrowing of the central government from the BEAC is defined as a quantitative objective in Table 1 of the MEFP.** This criterion is defined as the difference between, on the one hand, the Central Bank's claims on the government, excluding IMF financing, in particular: unpaid balances of statutory advanced (capped at CFAF 300 billion), refinancing of guaranteed bonds, and treasury securities held by the Central bank, and on the other hand deposits of the Treasury with the Central Bank and cash balances.

Cutoff dates for reporting information

31. **The detailed information on all financing from the BEAC to the government must be reported within six weeks after the end of the month.**

E. Non-accumulation of external payment arrears

Performance criteria

32. **A ceiling of zero on the accumulation of external payment arrears** is defined as an continuous quantitative objective in Table 1 of the MEFP. This performance criterion applies to the accumulation of new external arrears as defined in paragraph 19 of this Memorandum. In connection with the program, the government undertakes not to accumulate any new external payment arrears on its debt, with the exception of arrears subject to rescheduling. The government's non-accumulation of arrears is a performance criterion to be observed on a continuous basis. This PC would be measured on a cumulative basis from the time of approval of the program.

Cutoff dates for reporting information

33. **The data on balances, accumulation, and reimbursement of external arrears will be reported within six weeks after the end of each month.** This PC is monitored continuously by the authorities and any occurrence of new external arrears should be immediately report to the Fund.

F. New non-concessional external debt contracted or guaranteed by the government

Performance criteria

34. A ceiling on new non-concessional external debt contracted or guaranteed by the government is defined as a continuous quantitative objective in Table 1 of the MEFP. The government undertakes on an ongoing basis not to contract or to guarantee any non-concessional external debt above the ceiling indicated in Table 1 of the MEFP. This performance criterion is applicable to external debt as defined in paragraph 14 of this Memorandum. It uses the concept of concessionality as defined in paragraph 15 of this Memorandum. This performance criterion is also applicable to any debt guaranteed by the government that constitutes a contingent liability as defined in paragraphs 14 and 15 of this Memorandum. Moreover, this criterion is applicable to public enterprises defined in paragraph 4 that receive transfers from the government, to municipalities, and other entities of the public sector (including agencies of general government and professional, scientific and technical organizations). However, this performance criterion is not applicable to borrowing arranged in CFA francs, treasury bills and bonds issued in CFA francs on the CEMAC regional market, regular short-term loans from suppliers, regular import credits, or to loans from the IMF, and debt relief obtained in the form of rescheduling or refinancing. This commitment is a performance criterion to be met on an ongoing basis. It is measured on a cumulative basis from the date on which the IMF Executive Board approves the extended credit facility, and will not be subject to any adjustment factors.

Adjustment

35. The ceiling on new non-concessional external debt contracted or guaranteed by the government will be adjusted upwards to accommodate budget support from the World Bank, the AFDB and France for debt management purposes, up to the amounts indicated in memorandum item Nr. 1 of MEFP Table 1.

Cutoff dates for reporting information

36. The monthly situation of on all loans (conditions and creditors) contracted by the government must be reported within six weeks after the end of the month. The same obligation is applicable to guarantees issued by the government. This PC is monitored continuously by the authorities and any contracting or guaranteeing of debt should be immediately reported to the Fund.

II. OTHER INDICATIVE QUANTITAVE OBJECTIVES

G. Non-oil revenue

37. A floor on non-oil revenue as defined in paragraph 7 is defined as an indicative objective in Table 1 of the MEFP.

H. Net accumulations of domestic payment arrears

38. A ceiling on net accumulations of domestic payment arrears is defined as an indicative objective in Table 1 of the MEFP. Domestic payment arrears are defined in paragraph 18.

I. Social expenditure

39. A floor on social expenditure as defined in paragraph 11 is defined as an indicative objective in Table 1 of the MEFP. This expenditure is monitored regularly in connection with program implementation.

Cutoff dates for reporting information

40. The data on the government's financial position as presented in the government financial operations table, the detailed listing of revenue highlighting oil revenue, domestic payment arrears, and the status of social expenditure execution must be reported within six weeks after the end of the month.

III. DATA SUBMISSION REQUIREMENTS

41. The quantitative data on the government's quantitative and indicative objectives will be reported to IMF staff with the periodicity described in Table 1 below. Moreover, all data revisions will be reported immediately to IMF staff. The authorities undertake to report to IMF staff any information or data not specifically addressed in this TMU, but required for program implementation, and to keep IMF staff abreast of the situation in terms of achieving the program objectives.

Table 1. Summary of Data Reporting Requirements			
Information	**Responsible institution**	**Frequency of the data**	**Reporting Lag**
Government finances The government financial operations table (TOFE) and customary annex tables; (data on execution of investments financed with external grants and loans must be available in a timely manner so that the quantitative objectives of the program can be determined as scheduled. If information on physical execution of externally financed projects is not available, the information on requests to withdraw funds from the donors will be used).	Ministry of Finance (MINFI)	Monthly	6 weeks
Domestic budget financing (net bank credit to the government, stock of treasury bills and bonds pending reimbursement, domestic debt reimbursement status, privatization revenue, and abandoned claims)	MINFI/BEAC	Monthly	6 weeks
Implementation status of social expenditure defined in Paragraph 11	MINFI	Monthly	6 weeks
Status of balances payable for the current fiscal year (orders unpaid) making the distinction between those over 90 days and those under 90 days	MINFI	Monthly	6 weeks
Domestic debt reimbursement status	MINFI/BEAC	Monthly	6 weeks
Statistics on external debt contracted and guaranteed (detailed listing of external debt service matured/paid, list of new loans specifying the financial conditions, loans guaranteed and external arrears, and list of arrangements in the process of negotiation)	MINFI/CAA	Monthly	6 weeks/ The contracting or guaranteeing of external debt, and the occurrence of external arrears should be immediately reported
A quarterly report on the consistency of (i) monetary statistics reflecting the net treasury positon with data from the TOFE on net domestic financing from the banking system and (ii) data on external debt produced by the CAA and on net external financing from the TOFE	MINFI/BEAC	Quarterly	8 weeks

Information	Responsible institution	Frequency of the data	Reporting Lag
Data on implementation of the public investment program, including a detailed listing of financing sources	MINFI/ Ministry of Economy, Planning and Regional Development (MINEPAT)/CAA	Quarterly	6 weeks
Prices, consumption, and taxation of petroleum products, including: (i) the current price structure for the month in question; (ii) the detailed calculation of the price structure based on the free on board price (or the ex refinery price from SONARA) to obtain the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONARA), with the distinction between retail sales and sales to industries; and (iv) a breakdown of tax revenue on petroleum products—customs duty, excise tax on petroleum products (TSPP), and value-added tax (VAT)—and unpaid subsidies	MINFI	Monthly	4 weeks
Monthly statement of the correspondent accounts (including Account 42) and consignment deposits with the treasury broken down into major categories (administrative services, public enterprises, public administration enterprises, international organizations, private depositors, and other)	MINFI	Monthly	6 weeks
Provide revenue forecasts for the Directorate General of Taxes; Directorate General of Customs; and Directorate General of Treasury, Financial, and Monetary Cooperation by type of tax on an annual basis and on a monthly basis, and outturn as compared with forecasts	DGI, DGD, DGTCFM	Monthly	6 weeks
VAT reimbursement balance (requests for reimbursement, payments made, and status of the VAT reimbursement account)	MINFI/DGI	Monthly	6 weeks
Status of the SNH, including volumes exported, prices, exchange rates, operating costs, spending advances, commitments to the government, and the balance transferable to the Treasury	MINFI	Monthly	6 weeks

Information	Responsible institution	Frequency of the data	Reporting Lag
Status of payment of invoices from the government to public enterprises. The status of payments of any subsidies and tax liabilities of these enterprises	MINFI	Quarterly	6 weeks
Monetary sector Consolidated balance sheet of monetary institutions	BEAC	Monthly	6 weeks
Provisional data on the comprehensive monetary survey	BEAC	Monthly	6 weeks
Final data on the comprehensive monetary survey	BEAC	Monthly	10 weeks
Government net position	BEAC	Monthly	6 weeks
Intervention rate and borrowing and lending interest rates	BEAC	Monthly	6 weeks
Balance of Payments Preliminary annual balance of payments data	MINFI	Annual	9 months
Foreign trade statistics	MINFI/National Statistics Institute (INS)	Monthly	3 months
Any revision of the balance of payments data (including services, private transfers, official transfers, and capital transactions)	BEAC/MINFI	On revision	2 weeks
Real sector Provisional national accounts and any revision of the national accounts	INS	Annual	7 months after year-end
Quarterly national accounts	INS	Quarterly	3 months
Disaggregated consumer price indices (Yaoundé and Douala)	INS	Monthly	2 weeks
Quarterly inflation note	INS	Quarterly	3 months
Structural reforms and other data Any official report or study devoted to Cameroon's economy, from its date of publication or finalization	MINEPAT		2 weeks
Any decision, decree, law, order, or circular having economic or financial implications, from its publication date or effective date.	MINFI/MINEPAT		2 weeks

INTERNATIONAL MONETARY FUND

CAMEROON

June 16, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By | African Department

CONTENTS

RELATIONS WITH THE FUND

A. Financial Relations

As of April 30, 2017

Membership Status: Joined: July 10, 1963; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	276.00	100.00
Fund holdings of currency	274.97	99.62
Reserve Tranche Position	1.03	0.37

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	177.27	100.00
Holdings	15.55	8.77

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ESF RAC Loan	46.43	16.82
ECF Arrangements	2.66	0.96

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1]	Oct 24, 2005	Jan 31, 2009	18.57	18.57
ECF [1]	Dec 21, 2000	Dec 20, 2004	111.42	79.59
ECF [1]	Aug 20, 1997	Dec 20, 2000	162.12	162.12

[1] Formerly PRGF.

Projected Payments to Fund:[1]

(SDR millions; based on existing use of resources and present holdings of SDRs)

	Forthcoming		
	2017	2018	2019
Principal	10.35	19.9	18.84
Charges/Interest	0.53	0.77	0.78
Total	10.88	20.66	19.62

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	Framework
Decision point date	Oct-00
Assistance committed by all creditors (US$ Million) [1]	1,267.00
Of which: IMF assistance (US$ million)	37.04
(SDR equivalent in millions)	28.62
Completion point date	Apr-06
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	28.62
Interim assistance	11.25
Completion point balance	17.37
Additional disbursement of interest income [2]	5.05
Total disbursements	33.67

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1]	173.26
Financed by: MDRI Trust	149.17
Remaining HIPC resources	24.09

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
April 2006	N/A	173.26	173.26

[1] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessments:

The Banque des États d'Afrique Centrale (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). Under the IMF safeguards policy, regional central banks are normally subject to a safeguards assessment every four years. For the BEAC, the last quadrennial assessment was completed in 2013.It occurred against the backdrop of governance challenges and control failures that emerged in 2009, and led to close engagement subsequently through annual IMF monitoring of safeguards "rolling measures" in the context of new program requests and reviews for the Central African Economic and Monetary Community (CEMAC) countries. As such, a safeguards staff visit to the BEAC conducted in April 2016 found that although the BEAC's own Reform and Modernization Plan was nearing completion, the Fund's two priority recommendations on governance-focused law reform and the transition to an internationally recognized financial reporting framework (IFRS) were outstanding. However, following the April visit, the BEAC Board mandated that the institution take steps to initiate work on the priority recommendations and the road map for implementation was revised with an envisaged conclusion of the law reform in early 2017 and adoption of IFRS beginning with the financial statements for 2018 to strengthen transparency of financial reporting. At end-March 2017 the BEAC Board of Directors and CEMAC Ministerial Committee successfully adopted the amendments to the BEAC Charter, and the adoption of these amendments was finalized in early June 2017. In addition, major advances have been made for the BEAC's full transition to IFRS. An update safeguards assessment of the BEAC started in June 2017.

B. Nonfinancial Relations

Exchange Arrangements:

Cameroon participates in a currency union with five other members of the CEMAC and has no separate legal tender. 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 836.6=SDR 1, as of December 31, 2016. Effective January 1, 2007, the exchange arrangement of the CEMAC countries was reclassified as a “conventional pegged arrangement” and not anymore as an “exchange arrangement with no separate legal tender.” The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

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 IMF pursuant to Executive Board decision 144 152/51.

Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on November 18, 2015.

FSAP Participation and ROSCs:

A Financial System Stability Assessment (FSSA) report was issued in May 2000. An update of the FSSA was completed in February 2009, based on the work of a joint IMF-World Bank mission that visited Cameroon as part of the Financial Sector Assessment Program (FSAP) in June 2007, itself building upon the CEMAC regional FSAP that was conducted in 2006. A CEMAC regional FSAP update was conducted in 2015.

The first Report on the Observance of Standards and Codes (ROSC) on fiscal transparency and transparency of monetary and financial policies for Cameroon was issued in June 2000.

A fiscal ROSC reassessment mission visited Yaoundé, Cameroon, during May 6–18, 2009. Its report was issued in June 2010.

Technical Assistance:

2017

April 2017	TADAT mission
April 2017	FAD mission on PFM
April 2017	AFRITAC-Central training on PFM
April 2017	FAD/AFC tax administration STX visit
April 2017	AFRITAC-Central mission on government finance statistics
March 2017	FAD short term expert mission on payroll management
February 2017	FAD JSA-funded mission on strengthening customs administration
February 2017	STA mission on the compilation of quarterly national statistics
February 2017	MCM mission on monetary policy design and implementation
January 2017	STA/AFC mission on national accounts
January 2017	MCM/AFC Public debt management
January 2017	FAD/AFW seminar on GDP

January 2017	AFRITAC-Central mission and workshop on PFM
January 2017	AFRITAC-West workshop on program budgeting

2016

November 2016	STA JSA funded mission on improving external sector statistics
November 2016	FAD/JSA mission to strengthen customs administration for EPA
November 2016	STA/AFC mission on Government finance statistics
November 2016	AFRITAC-Central mission on revenue administration
October 2016	AFRITAC-Central mission on 2008 System of National Accounts
October 2016	FAD follow-up mission on mining, oil and gas resource taxation
July 2016	FAD/AFC mission on tax administration
May 2016	STA mission for AfDB OpenData Initiative for Data Collection
May 2016	AFRITAC-Central training mission on PFM
April 2016	STA mission on e-GDDS
April 2016	FAD mission on budget preparation
March 2016	STA/AFRITAC-Central mission on national accounts
March 2016	STA mission on e-GDDS
March 2016	FAD mission on RA-GAP follow up
March 2016	FAD mission on accrual accounting
February 2016	STA workshop on monetary and financial statistics
February 2016	FAD mission on budget execution
February 2016	FAD/AFC mission on PFM
January 2016	FAD mission on PFM reform follow up

2015

December 2015	STA/AFC mission on national accounts
November 2015:	FAD missions on extractive industries
November 2015:	FAD mission on budget execution training
November 2015:	MCM/AFC mission on liability management
November 2015	MCM/AFC mission on public debt management
October 2015	STA mission on GDDS/NSDP development
September 2015	AFRITAC-Central government financial statistics
September 2015	FAD/AFC mission on tax administration
September 2015	FAD mission on customs administration
September 2015	MCM/AFC mission on liability management
August 2015	AFRITAC-Central mission on national accounts
July 2015	FAD/AFC mission on PFM
July 2015	AFRITAC-Central CEMAC Commission regional seminar
July 2015	FAD mission on resource taxation follow-up
July 2015	STA/AFC mission on government financial statistics
June 2015	FAD diagnostic mission on resource
May 2015:	FAD Customs Administration follow-up visit
May 2015:	FAD mission on expense targeting

May 2015:	MCM mission on medium-term management strategy follow-up
May 2015:	FAD mission to support reforms to budget preparation
May 2015	STA AfDB Open Data inititative mission
April 2015:	FAD mission on revenue administration
March 2015:	STA mission on production and producer price statistics
March 2015:	FAD mission on budgetary accounting
February 2015:	MCM mission on Medium-term Management Strategy
February 2015:	FAD visit on budget execution and fiscal reporting

2014

December 2014:	STA mission on national accounts statistics
November 2014:	STA mission on monetary statistics
October 2014:	FAD mission on Revenue Administration
August 2014:	MCM mission on to strengthen the CCA
May 2014:	FAD on Customs Administration
April 2014:	FAD Customs Administration follow-up visit
April 2014:	AFRITAC-Central mission for training on financial risk management
April 2014:	AFRITAC-Central mission to strengthen opening balances
March 2014:	FAD mission on strengthening fiscal reporting and budget execution
March 2014:	FAD mission on budget documents
March 2014:	FAD mission on general tax system
February 2014:	AFRITAC-Central seminar on the adjustment of IT systems to PFM reforms
February 2014:	FAD mission on fiscal reporting stocktaking
January 2014:AFRITAC-Central mission to strengthen public debt management	
January 2014:	FAD mission on the public wage bill

Resident Representative:

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. The current Resident Representative, Mr. Kadima Kalonji, has been stationed in the field since September 1, 2015.

JOINT IMF-WORLD BANK WORK PROGRAM, 2017–18

Products	Mission Timing	Expected Delivery
A. Mutual Information on Relevant Work Programs		
IMF Work Program		
Strategy: In the context of an IMF-supported program with Cameroon the Fund's 2017-18 capacity building strategy builds on prior TA and focuses on ongoing support in the areas of PFM and tax policy. These critical areas for TA are aimed to provide assistance and support as Cameroon re-focuses investment spending towards a more efficient and effective strategy, increase non-oil revenue, and impose greater discipline in budget preparation and implementation.		
Staff visit to Cameroon	February/March 2017	Board meeting May 12 2017
Authorities' visit to Fund headquarters	April 2017	ECF program negotiations and IMF/WB Spring Meetings.
Staff visit to Cameroon	Summer 2017	Staff will observe budget discussions and preparations
2017 Article IV consultation	Fall 2017	Board discussion in Fall 2017
Technical assistance on public finance to be offered by FAD or AFRITAC-Central		
Technical assistance on statistics to be offered by STA or AFRITAC-Central		
Technical assistance on debt management to be offered by MCM or AFRITAC-Central		

World Bank Work Program

Strategy: The new Country Partnership Framework (CPF) draws on a comprehensive Systematic Country Diagnostic (SCD) completed during FY16, which identified constraints to achieving the Bank's Twin Goals of eliminating poverty and fostering shared prosperity in a socially and environmentally sustainable way. The CPF also benefited from other pieces of analytical work, including a gender assessment and a fragility assessment carried out in 2015. The SCD points to three main areas of constraints - and opportunities - to achieving Cameroon's development objectives: (i) low rural productivity, particularly in northern regions; (ii) a non-conducive business environment for the formal and informal private sector; and (iii) fragility and poor governance of the private and public sectors.

The FY17–21 CPF has been developed jointly with IFC and MIGA, and its approach derives from three selectivity filters. These filters are: (i) the priorities identified by the SCD to help Cameroon reduce poverty and boost shared prosperity; (ii) the Bank Group's comparative advantage, as understood from the lessons of our past experience and from client feedback (i.e., the CLR and the Country Opinion Survey); and (iii) effective alignment with the Government's own development program and requests for WGB support.
The CPF is structured around three pillars: (i) addressing Multiple Poverty Traps in Rural Areas (with focus on northern regions), (ii) Fostering Infrastructure and Private Sector Development and (iii) Improving Governance.

Products	Mission Timing	Expected Delivery
Systematic Country Diagnostic	Completed	February 2016
Country Partnership Framework	Ongoing	Submission to the Board on March 28, 2017
Country Economic Memorandum	Completed	FY 2017
Public Expenditure Review	Ongoing	October 2017
Policy note on reforms in the Electricity Sector	Ongoing	FY17
Social Protection Public Expenditure Review	Ongoing	FY18
Development Policy Operation	Ongoing	FY18
Hydropower Development on the Sanaga River (TA)	Ongoing	FY17
PFM for Service Delivery Reform Project	Ongoing	FY18
Inclusive Cities Project	Ongoing	FY18
ICT Reform Project	Ongoing	FY18
Civil Service Assessment		FY18
Increasing the Competitiveness of the Transport Sector		FY 18
Feasibility Assessment for PBF in Basic Education		FY18
Recovery and Peace Building Assessment	Ongoing	FY18
Climate Smart Agriculture and Livestock Production in the Norther Regions		FY 18
Urban Sector Review and Poverty Assessment		FY18

B. Requests for work program inputs

IMF request to World Bank

- Periodic update on the World Bank program in Cameroon.
- Periodic economic updates.

World Bank request to IMF

- Periodic updates on the macroeconomic framework.

C. Agreement on joint products and missions

New DSA	Ongoing	FY 17

AFRICAN DEVELOPMENT BANK WORK PROGRAM

African Development Bank Work Program

Strategy: The Country Strategy Paper (CSP) for 2015–20 was approved by the AfDB's Administrative Council July 2015 after a process that included participation by the government, private sector, civil society and technical and financial partners (TFP). Building on the results achieved from 2010–14 in infrastructure (to open up production basins) and governance, the CSP for 2015–10 focuses on diversifying the economy. To this end, the two pillars of the 2015–20 CSP aim to:

- Pillar 1: Strengthen infrastructure for inclusive and sustainable growth; and,
- Pillar 2: Strengthen sectoral governance for investment effectiveness and sustainability

This strategy, aligned with the government's Growth and Employment Strategy Paper (GESP), is the baseline for the selection of operations and sectors to be financed by the AfDB Group. Economic diversification will be achieved through the development of agriculture value chains in order to make growth more robust and inclusive than it has been up to now. Emphasis will be also be placed on social inclusion policies, youth employment, and gender in a cross-cutting way. The Bank will strengthen its position as a Knowledge Bank, through analytical and sectoral studies.

We will therefore contribute to (i) strengthening the structural infrastructure for development of agriculture supply and its transformation, (ii) opening up production basins and increasing access to markets, (iii) strengthening governance, particularly in the energy and transport sectors, and (iv) adaptation to climate change. This strategy will be implemented through the following main sectors: agriculture, transport/ICT, energy and governance.

A mid-way review of the CSP and country portfolio performance will take place in 2018 to assess interim results, consolidate and/or reorient the Bank's strategy over the remaining period (2018–20). A CSP completion report will be produced in 2020. Cameroon was upgraded by the Bank to mixed country status (ADF and AFDB windows) in 2014, and thus eligible for more ADB counter resources which are less concessional than those of the ADF, a closer monitoring of the country's economic policy and more specifically the implications for the budget, both fiscal and debt sustainability. This requires greater collaboration and exchange of macroeconomic and sectoral information with the IMF and the World Bank, who are responsible for conducting the debt sustainability analysis (DSA).

Products	Mission Timing	Expected Delivery
Report on economic perspectives 2017 in Africa: Cameroon	Report in progress	Publication May 2017
Dissemination of two expenditure review studies in the energy and transport sectors	Date of workshop to be defined	May 2017
Dissemination of a study on the analysis public investment management framework for Cameroon	Date of workshop to be defined	May 2017

Requests for contributions to the program of work

Request IMF to AfDB

- Periodic update on the AfDB program in Cameroon.

AfDB request to IMF

- Periodic updating of the macroeconomic framework
- Periodic updating of the country's risk of debt distress
- Update on timing of the IMF's follow-up missions to Cameroon and the mission for the Article IV and the sharing of related information (memorandum, aide-memoires, or staff reports …)
- Consideration of the AfDB's analysis and assessments in its sectors of concentration.

Agreement on joint products and mission

- • Programs and Reviews under Article IV.

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings, but is adequate for purposes. There should be improvements in quality, coverage, and timeliness in most macroeconomic datasets. In recent years, the authorities have taken initiative to improve the macroeconomic database, particularly the national accounts, this should continue and the process should be accelerated.

Real sector statistics: The *Institut National de la Statistique du Cameroun* (INS) has released in December 2013 a revised set of national accounts estimates including key features of the System of National Accounts 2008 (2008 SNA). Further improvements could be made in some areas, including the production index, which should be overhauled and integrated with the corresponding components of the annual national accounts; the selection of price indices for deflation of national accounts concepts; and information on employment. The STA missions in 2009, 2010, and 2011 supported the compilation of improved national accounts statistics, including quarterly national accounts statistics starting in 2012. A rebasing to 2005 of national accounts was completed, but has not yet been implemented.

Government finance statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. Monthly reports on the overall budget execution and the investment budget execution have been produced on a continuous basis. Despite this progress, there is a need for the dissemination of data based on the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Weaknesses in the fiscal data include: (i) incomplete compilation of budget implementation data on a commitment and, to some extent, on a cash basis; (ii) a lack of information on the financial information of local governments; (iii) poor monitoring of cross-liabilities in the public sector and of public enterprise debt; and (iv) lack of comprehensive and timely financial information on public enterprises.

The authorities plan to establish comprehensive fiscal accounts on a commitment basis, a functional classification of the budget and will strive to monitor the float (i.e., the difference between balances on a cash and on a commitment basis). Moreover, the ongoing audit of government domestic debt, which will cover cross-liabilities in the public sector and public enterprise external debt, is expected to strengthen debt data. Efforts to enhance transparency of financial operations in the oil sector should also improve overall fiscal reporting. Efforts are also underway to collect data on the operations of the largest 20 public enterprises.

Monetary and financial statistics: Monetary statistics are reported to the Fund by the *Banque des États de l'Afrique Centrale* (BEAC) on a monthly basis in the standardized report forms (SRFs), with delays of up to two months. A key shortcoming of monetary and financial statistics is the lack of data for interest rates offered by financial institutions to non-financial entities on deposits and loans. In addition, the depository corporation survey does not include data from deposit taking microfinance institutions, a fast growing sector in the country.

Balance of payments: Since the March 2006 STA technical assistance, the authorities have started to produce higher quality data, albeit with significant delays, partly due to delays in reporting financial and capital account data from BEAC. Since Nov 2016 STA (joint with JSA) has been providing technical assistant on the collection of external sector statistics. Balance of payments data are reported annually to STA albeit with some lags. The latest reported data refer to end-2016.
External debt: External debt data are broadly adequate for surveillance, but are comprehensive only for public and explicitly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissement* (CAA), which is responsible for servicing the government's external debt obligations. The CAA's database is fairly comprehensive, contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis. However, debt disbursement and position statements are not regularly received from some foreign creditors, which causes significant impairment to real-time and comprehensive debt monitoring.

B. Data Standards and Quality	
Cameroon commenced its participation in the General Data Dissemination System (GDDS) in 2001.	No ROSC data are available.

C. Reporting to STA
Cameroon does not report data for publication in the IMF Government Finance Statistics Yearbook or the government finance statistics section in International Financial Statistics. Data reporting for publication in the Fund's Balance of Payments Statistics publications has encountered delays.

Cameroon: Table of Common Indicators Required For Surveillance

(As of April 30, 2015)

	Date of latest observation	Date received	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates	March 2017	April 2017	M	M	M
International reserve assets and liabilities [2]	February 2017	April 2017	M	M	M
Reserve/Base money	February 2017	April 2017	M	M	M
Broad money	February 2017	April 2017	M	M	M
Central bank balance sheet	February 2017	April 2017	M	M	M
Consolidated balance sheet of the banking system	February 2017	April 2017	M	M	M
Interest rates [3]	March 2017	April 2017	M	M	M
Consumer price index (main cities)	Dec 2016	April 2017	M	M	M
Consumer price index (national)	Dec 2016	April 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [4] – General government [5]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[4] – Central government [5]	February 2017	April 2017	M	M	Partial data published monthly
Stocks of debt contracted or guaranteed by the central government[6]	December 2016	April 2017	M	M	M
External current account balance	December 2016	March 2017	A	A	NA
Exports and imports of goods and services [7]	February 2017	March 2017	M	M	NA
GDP/GNP	September 2016	March 2017	Q	Q	Q
Gross external debt	December 2016	February 2017	Q	Q	Q
International investment position	NA	NA	NA	NA	NA

[1] Monthly (M), Quarterly (Q), Annual (A), and Not Available (NA).
[2] Of the monetary authorities. Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Goods only, data on trade in services are not available.

INTERNATIONAL MONETARY FUND

CAMEROON

June 16, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Anne-Marie Gulde-Wolf and Bob Traa (IMF); and Paloma Anos-Casero (IDA)

The Debt Sustainability Analysis has been prepared jointly by IMF and World Bank staff, in consultation with the authorities, using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

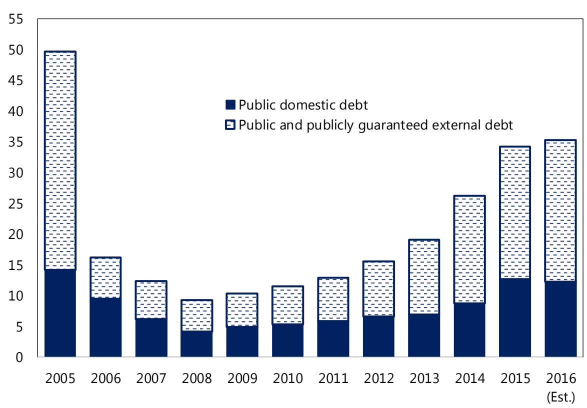
Cameroon's risk of external debt distress remains high. Nonetheless, fiscal consolidation along with the changes in the composition of the new debt and the reforms envisaged in the IMF-supported program would help improve the debt profile, thus mitigating concerns on public debt sustainability compared to the assessment of the 2015 Article IV consultation. Under the program scenario, the breach of the policy-dependent threshold for the present value of debt to exports in the baseline is now marginal and temporary, and the risk of debt distress could thus further diminish provided full implementation of program policies and projected behavior of externally-determined variables. Nonetheless, the standard stress tests show that, at present, Cameroon's external debt remains highly vulnerable to exogenous shocks. Mitigating risks to public debt thus requires a number of policy actions including: (i) a resolute and effective fiscal consolidation; (ii) a shift in the composition of new borrowing towards concessional loans; (iii) a closer scrutiny of debt developments, especially for externally-financed projects; (iv) implementation of policies to boost growth and non-oil exports; and (iv) a strengthening of public debt management as well as of the overall economic policy framework to improve the country's risk rating.[1]

[1] Cameroon's three-year average CPIA is 3.2, which yields a policy performance category of weak.

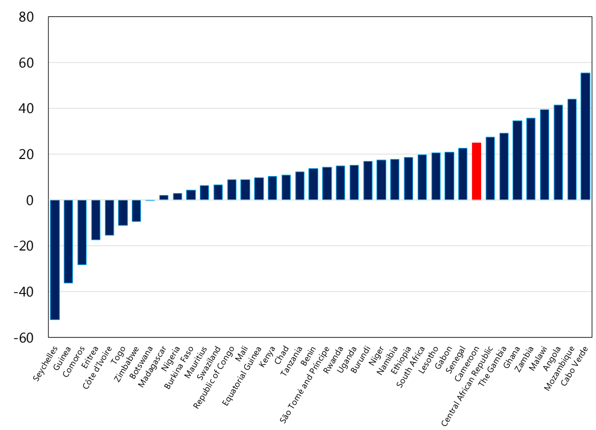
BACKGROUND AND RECENT DEVELOPMENTS

1. **Public debt in Cameroon has steadily increased since the debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI).** Total public sector debt (external plus domestic public debt) increased threefold since 2010 to 35.2 percent of GDP in 2016, with 70 percent of the increase driven by a surge in public and publicly guaranteed (PPG) external debt (Text Figure 1).[2] Although public debt still remains below the pre-HIPC period and relatively low compared to peers in sub-Saharan Africa (SSA), the pace of accumulation in recent years is a concern. The increase in public debt in Cameroon during 2009–15 (25 percentage points of GDP) was more than double the median for SSA countries (12 percentage points of GDP) (Text Figure 2).

Text Figure 1. Cameroon: Trends in Gross Public Debt (percent of GDP), 2005–16



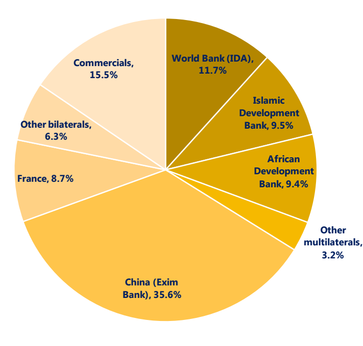
Text Figure 2. Change in Public Debt to GDP Ratio in SSA Countries, 2009–15



Sources: Cameroonian authorities: and IMF World Economic Outlook.

2. **The large size of contracted external debt, but not yet disbursed, (CFAF 3.617 trillion or 20.8 percent of GDP), raises further risks to the debt outlook (Figure 3).** The largest share in undisbursed loans (36 percent) is owed to China, which is larger than the share of all multilateral institutions combined (34 percent). Among the multilaterals, the World Bank, the African Development Bank and the Islamic Development Bank dominate. Non-concessional loans account for 15.5 percent of the undisbursed amount. The loans are typically tied to infrastructure projects, but as some of these projects are not mature yet and counterpart funds have not materialized, disbursements are significantly behind schedule. About a quarter of these loan obligations have been signed over 4 years ago but disbursements have not yet started.

Text Figure 3. Cameroon: Total Undisbursed Loans by Creditor, 2016



Sources: Cameroonian authorities.

[2] External debt is defined as debt owed to non-residents and issued in a foreign currency.

3. In this DSA, the coverage of public debt has been broadened to include domestic arrears, as well as contingent liabilities at high risk of materializing (external claims on state-owned enterprises and debt of the public oil refinery SONARA, Text Table 1). In particular, the DSA adds to the authorities' estimate of the debt stock, other government liabilities and contingent liabilities. These include:

- the stock of domestic arrears (expenditure float) of 3.5 percent of GDP at end-2016.[3]
- Additional domestic arrears of 0.5 percent of GDP arising from the government not fully compensating oil marketers for the loss incurred from selling fuels below cost recovery levels.

Text Table 1. Cameroon: Public and Publicly-Guaranteed Debt, 2016

	2016	
	(billions FCFA)	(percent of GDP)
Public and publicly guaranteed debt (Authorities' estimate)	**5,152**	**29.6**
External debt	3,877	22.3
Domestic debt	973	5.6
BEAC statutory advance	231	1.3
Publicly guaranteed debt	71	0.4
Expenditure float	**615**	**3.5**
Debt to oil marketers	**82**	**0.5**
External claims on SOEs	**10**	**0.1**
SONARA debt	**268**	**1.5**
o/w external	30	0.2
Public and publicly guaranteed debt (IMF staff estimate)	**6,127**	**35.2**
Domestic	2,139	12.3
External	3,989	22.9
o/w Publicly guaranteed debt	71	0.4

Sources: Cameroonian authorities; and IMF staff calculations.

- The debt stock of the oil refinery, SONARA, estimated at 1.5 percent of GDP at end-2016.[4]
- Contingent liabilities of 0.1 percent of GDP related to external claims on two SOEs.[5]

4. Although, public external debt remains mostly concessional, commercial debt and debt to non-Paris Club creditors (NPCC) are on the rise. At end-2016, about 30 percent of public external debt was owed to multilateral institutions, whereas debt to NPC creditors amounted to about 26 percent of total external debt, up from 15½ percent in 2012. China accounted for 95 percent of NPC external debt. Similarly, the share of government borrowing from commercial sources rose from 6 percent of the external debt stock at end-2012 to about 21 percent at end-2016 with the issuance of a $750m Eurobond in 2015.

[3] Arrears to suppliers are defined as overdue payment obligations that have not been fulfilled before the standard 90-day settlement period for such obligations.

[4] The authorities estimated that part of this debt (1.1 percent of GDP) is associated with SONARA own commercial operations, and not as a result of government fuel pricing policies. This amount explains the difference between the debt reported in the fiscal tables and MEFP and the figure reported in the DSA.

[5] These include an amount of Euro 8.9m related to a supplier credit to a SOE, and a compensation claim of Euro 6.2m on a SOE for termination of contract. Given the high likelihood that these contingent liabilities materialize, they are included in the coverage of the debt stock under the DSA.

5. **Domestic public debt remained broadly stable in 2016 at about 12½ percent of GDP**. Domestic debt remains dominated by medium and long-term instruments. Treasury bills represented about 20 percent of central government domestic debt, while treasury bonds, carrying an average maturity term of 4.8 years, accounted for about 40 percent. The stock of domestic debt remained broadly stable in 2016 relative to 2015 as the authorities used part of the proceeds of the 2015 Eurobond to retire SONARA debts and the windfall from low international prices improved SONARA's financial position.

6. **Contingent liabilities from SOEs appear contained.** Gross debt held by the main state-owned enterprises (excluding SONARA) accounted for 2.8 percent of GDP in 2015. At the same time, cross-liabilities between SOEs and the state remain significant.[6] SOEs' gross unpaid tax liabilities to the central government stood at 2.2 percent of GDP, but after netting out unpaid subsidies, this figure drops to 0.7 percent of GDP on a net basis in 2015, although the net position of individual SOE may vary significantly. In addition, cross-debts between SOEs exist, particularly regarding public utility companies, but have proven more difficult to track quantitatively.

7. **Cameroon's debt management capacity ought to be further strengthened.** IMF and World Bank technical assistance has focused on strengthening debt management strategy formulation, and rationalizing debt management functions to ensure clearer roles and responsibilities. Although a National Public Debt Committee (CNDP), chaired by the Minister of Finance, has started reviewing externally-financed project proposals, the contracting of external debt is still undertaken by both the Ministry of Finance and the Ministry of Economy, Planning, and Regional Development. In addition, public enterprises can contract external debts without preliminary authorization by the CNDP. At the same time, the timely tracking of loan disbursements is inadequate (in particular for project loans), often leading to significant revisions in external debt data.

ASSUMPTIONS

8. **Compared to the 2015 DSA, the macroeconomic framework reflects the recent economic developments in the CEMAC region and the policy commitments under the IMF-supported program**. A noticeable change from the 2015 DSA is that the former assessed the debt dynamics under an unchanged policies scenario including a rapid accumulation of non-concessional debt, whereas the current DSA incorporates the parameters of policies aiming at ensuring macroeconomic stability in the context of the IMF-supported program. This involves a fiscal consolidation achieved by boosting revenue mobilization while rationalizing expenditure, notably by better prioritizing capital spending in line with absorption capacity. The program also seeks to promote economic diversification by supporting policies aimed at improving the business environment and financial inclusion. These developments would result in the medium term in a more benign growth outlook followed by a recovery in the long run, higher export bases, stronger revenue mobilization and a larger share of concessional loans in the overall debt stock (Text Table 2 and Box 1).

[6] The figure of 2.8 percent of GDP in 2015 excludes the cross-liabilities to the central government, but not the cross-liabilities among SOEs due lack of data.

- *Real GDP growth is projected to be slightly lower than in the previous DSA in the medium-term due to the projected decline in oil production and the partial impact of the fiscal consolidation*. The international efforts to stabilize the CEMAC region, the coming on stream of large infrastructure projects in the energy and transport sectors, associated with strong activity in agriculture are expected to support growth going forward.

Text Table 2. Cameroon: Key Macroeconomic Assumptions, 2015-36

	2015-16[1]	2017-21[2]	2022-36[3]
Real GDP growth (percent)			
DSA 2016	5.2	4.9	5.5
DSA 2015	5.9	5.2	4.8
DSA 2014	5.5	5.5	5.5
Total revenue excluding grants (percent of GDP)			
DSA 2016	16.9	17.1	18.1
DSA 2015	17.7	16.6	15.6
DSA 2014	18.3	17.7	16.4
Exports of goods and services (percent of GDP)			
DSA 2016	22.5	22.3	21.9
DSA 2015	25.6	21.7	15.8
DSA 2014	27.1	25.5	24.2
Oil price (US dollars per barrel)			
DSA 2016	46.8	54.6	55.2
DSA 2015	69.2	56.3	61.1
DSA 2014	108.0	93.3	91.7

Sources: Cameroonian authorities; and IMF staff estimates.

[1] 2014 DSA referred to 2013-14 and 2015 DSA referred to 2014-15.

[2] 2014 DSA referred to 2015-19 and 2015 DSA referred to 2016-20.

[3] 2014 DSA referred to 2020-34 and 2015 DSA referred to 2021-35.

- *Preliminary estimates suggest that the primary deficit in 2016 is lower than projected in the 2015 DSA, but represents a major deviation from the original budget.* Reflecting lower expenditure, the primary deficit projected for 2016 in the 2015 DSA, which stood at 6.7 percent of GDP, was revised downward to 5.7 percent of GDP, thus contributing to lower the public debt for 2016 debt relative to the 2015 DSA.[7] However, fiscal slippages compared to the original budget were sizeable, with the primary deficit outturn being 2½ percentage points larger than in the original budget. In the medium term, a tighter fiscal policy is expected to improve the debt outlook compared to the 2015 DSA. In the long term, a balanced budget is projected as opposed to a primary deficit in the 2015 DSA which is based on an unchanged policy scenario with a fiscal expansion assumed in the medium to long term.

- *Exports are expected to be slightly higher in the medium-term compared to the 2015 DSA, benefiting from further diversification and the signing of the EU Economic Agreement Partnership (EPA).* The oil exports are still expected to be affected by the decline in oil production, combined with subdued oil prices that slow down new investments in the sector. The non-oil exports are expected to be stronger, partly reflecting the signing of the EPA, in August 2016, which will allow duty- and quota- free access to Europe for Cameroon's exports. The ratio of exports to GDP is expected to decline in the long-run as oil reserves are being depleted, but will remain at a higher level than assumed in the previous DSA owing to Cameroon's efforts to improve the business climate and to diversify its economy.

[7] The issuance of the Eurobond in late 2015 also contributed to a lower public debt ratio in 2016 (compared to the 2015 DSA) as the proceeds were partly used to pay down domestic debt and clear domestic arrears. Conversely, the 2015 public debt ratio was revised upward with the issuance of the Eurobond. Given that staff cautioned against the issuance of the Eurobond because of concerns that this would further increase Cameroon's risk of external debt distress, it had not been included in the 2015 DSA.

- *The profile of external debt accumulation will be close to the one assumed in the 2015 DSA but the composition of the debt will be different (Text Table 3)*. In the previous DSA the new debt was mostly non-concessional commercial and bilateral loans aimed at accelerating the government large investment program. However, in the current DSA, the projected new debt will be dominated by loans with a greater concessionality element mainly from multilaterals creditors while maintaining key growth-enhancing and poverty-reducing investments.

Text Table 3. Cameroon: New External Commitments by Concessionality Level, 2017-35
(CFAF billlions unless otherwise stated)

	2015	2016	2017	2020	2025	2030	2034	2035	2036	Average 2017-21[1]	Average 2022-36[2]
New borrowing, 2014 DSA[3]	591	471	463	520	728	985	1,273			495	852
Concessional	171	190	211	234	321	423	538			201	370
Percent of total	29	40	46	45	44	43	42			41	43
Non-concessional	420	281	252	286	407	561	734			295	482
Percent of total	71	60	54	55	56	57	58			59	57
New borrowing, 2015 DSA[3]	768	898	898	728	871	1,126	1,417	1,505		830	1,053
Concessional	141	155	146	104	113	132	163	173		129	128
Percent of total	18	17	16	14	13	12	11	11		16	12
Non-concessional	627	743	753	624	758	994	1,255	1,333		701	924
Percent of total	82	83	84	86	87	88	89	89		84	88
New borrowing, 2017 DSA[3]	990	482	1,088	688	692	1,307	1,406	1,416	1,416	899	785
Concessional	182	83	283	300	348	657	707	712	712	350	395
Percent of total	18	17	26	44	50	50	50	50	50	39	50
Non-concessional	809	399	805	388	344	650	699	704	704	549	390
Percent of total	82	83	74	56	50	50	50	50	50	61	50

Sources: IMF staff estimates and projections.
[1] 2014 DSA referred to 2015-19 and 2015 DSA referred to 2016-20.
[2] 2014 DSA referred to 2020-34 and 2015 DSA referred to 2021-35.
[3] Includes external borrowing by public enterprises.

9. **The main financing assumptions remain broadly the same except for the changes in the composition of new external borrowing.** The discount rate is 5 percent, as approved by the IMF and World Bank Executive Boards in October 2013. The financing gap during 2017–19 is assumed to be fully covered by IMF financing and budget support from donors. Non-concessional external borrowing is projected to be lower in the current DSA compared to the 2015 DSA, reflecting the need for a prudent and sustainable debt accumulation. Consistent with this, the grant element of new borrowing is assumed to be higher and maintained at a relatively high level through the DSA horizon.

Box 1. Cameroon: Medium-Term Macroeconomic Assumptions[1]

Medium Term, 2017–21

Real GDP growth is projected to average 4.7 percent in the medium term, supported by increasingly strong growth in the non-oil sector after a small contraction in early years. Annual inflation is projected to increase from under 1 percent in 2016 to 2 percent in the medium term, returning historical trends and remaining below the CEMAC convergence criteria.

The revenue-to-GDP ratio is projected to rise from 16.9 in 2015–16 to 17.1 in the medium term. Oil prices are expected to stabilize at $US 54.0 in the medium term, but technology used to increase aging well production is more expensive and will reduce oil revenue in proportion. More efficient tax collection will increase non-oil revenue in the medium term.

The external current account deficit is projected to improve in the medium turn, reflecting both a rise in exports driven by growth in the non-oil sector and the recently signed EPA, and a slight decline in the import to GDP ratio as the public investment program slows down. The current account deficit is expected to be financed through an IMF-supported program, international donors, and other private capital inflows.

Long Term, 2022–36

Real GDP growth is projected to average 5.5 percent in the long term, as public investment slows and the private sector gains competitiveness and increases investment.

The revenue-to-GDP ratio is projected to rise slightly to 18.1 percent. This assumes a decline in oil revenue with the gradual depletion of oil reserves, while non-oil revenue improves on continued efficiency gains in revenue collection.

Exports are projected to remain stable in the long run at about 21.9 percent of GDP, reflecting falling oil production which is offset by growth in non-oil exports.

[1] The baseline scenario uses the latest IMF World Economic Outlook (WEO) assumptions (October 2016).

EXTERNAL DEBT SUSTAINABILITY

10. Cameroon is classified in the category of weak policy performers based on the World Bank Country Policy and Institutional Assessment (CPIA). With a three-year average CPIA score of 3.2 on a scale of 1 (low) to 6 (high), Cameroon falls within the range of 1 to 3.25 for weak policy performers. However, Cameroon fares better than the average of CEMAC countries (2.9) and its score is comparable to the SSA average. The policy-dependent thresholds applicable to this category are the following: (i) a present value (PV) of debt-to-exports ratio of 100 percent; (ii) a PV of the debt-to-revenue ratio of 200 percent; (iii) a PV of the debt service-to-exports ratio of 30 percent; (iv) a debt service-to-exports ratio of 15 percent; and (v) a debt service-to-revenue ratio of 18 percent.

11. DSA results indicate that the risk of debt distress would remain high. The debt service indicators (relative to exports and revenue) increase in the medium term before declining gradually, while remaining comfortably below their policy-dependent thresholds under the baseline. The PV of the debt ratio with respect to GDP and revenue follow a similar pattern and do not breach their thresholds. However, as in the 2015 DSA the PV of debt-to-exports ratio breaches its threshold, resulting in the categorization of risk of debt distress as "high." But, in sharp contrast with the 2015 DSA, the breach is smaller and of a temporary nature, reflecting the fiscal consolidation efforts underpinning the program, the focus on a prudent borrowing policy and structural reforms to improve competitiveness and achieve economic diversification. Although the breach occurring within a 5 percent band above the threshold would have allowed for using the probability approach,[8] the significant downside risks to public debt call for caution in assessing the risk of debt distress. At the same time, this result suggests that the risk rating of Cameroon's public debt stands a good chance to be upgraded to "moderate" should the country deliver on the economic program embedded in the IMF-supported program.

12. Standard stress tests result in the breach of the policy-dependent threshold for three indicators. The standardized export shock stress test brings forward the breach of the PV of the-debt-to-exports ratio to 2017 and result in an additional breach for the debt-service-to-exports ratio. This ratio is projected to exceed the 15 percent threshold by 2023, but will return below this threshold by the end of the DSA horizon. In the event of a one-time 30 percent depreciation in the nominal exchange rate, the PV of debt-to GDP ratio would also temporarily breach its threshold.[9]

13. Downside risks to the debt outlook remain. A less ambitious fiscal consolidation would result in a higher public debt and worsen the debt dynamic. Similarly, subdued global demand and slow progress in structural reforms could negatively affect non-oil exports, with adverse implications for public debt sustainability. Strengthening public debt management is key as inadequate checks and balances in the contracting of new debt, combined with difficulties in tracking disbursements, have led to consistently higher actual external debt disbursement figures than initially anticipated.

14. Although a high risk of debt distress rating typically calls for a zero limit on non-concessional debt, this may not be appropriate for Cameroon. While the DSA assumes a shift of new borrowing towards more concessional loans, it leaves some room for non-concessional loans for development and debt management purposes. With Cameroon's income being above the IDA's cutoff, access to concessional resources may be limited considering the large infrastructure gaps and the authorities' development plan to address these gaps. Moreover, the authorities' stated policy to direct non-concessional loans only to priority and high-return projects would support debt sustainability as the growth dividends from these projects would potentially generate resources for the servicing of the debt. In this regard, the authorities' current plan is to use the room for non-concessional borrowing in 2017 for high-priority projects, such as strengthening and stabilization of Douala's transmission system to ensure

[8] See staff guidance note on the DSA (http://www.imf.org/external/np/pp/eng/2013/110513.pdf)

[9] It should be noted that with the peg to the Euro, and a third of external debt being denominated in Euros, the shock to public debt resulting from a currency depreciation would be less pronounced than what the DSA results would suggest.

the reliability of power supply, which would help reduce power generation cost and boost private sector activities. Further, by prioritizing semi-concessional loans[10] from development partners for projects and budget support, debt sustainability would be preserved as long as the implementation of the fiscal consolidation program and structural reforms is on track.

PUBLIC SECTOR DEBT SUSTAINABILITY

15. Public debt is projected to be on a downward trajectory in the medium to long term. While external debt would increase temporarily in the medium term as the government relies on external concessional financing to rebuild reserves and support the adjustment, domestic borrowing will remain modest and declines steadily in line with the tighter regional monetary policy. Overall, in the baseline scenario, the PV of total public debt as a share of GDP is expected to decline gradually over time from 29 percent of GDP in 2016 to 20 percent of GDP in the long term, well below the DSF benchmark level of 38 percent of GDP associated with heightened public debt vulnerabilities for weak policy performers. A strengthening in revenue mobilization would also help bring downward the PV of total public debt as a share of revenue to around 110 percent in the long term, from 176 percent in 2016. The stress tests highlight the importance of an urgent fiscal consolidation as under the historical scenario (unchanged policy), the PV of public debt to GDP ratio would keep rising until breaching the threshold of 38 percent of GDP by 2019.

16. Cameroon has adequate capacity to effectively monitor and manage public debt for purposes of the IMF's debt limits policy. The *Caisse Autonome d'Amortissement* (CAA) is the government body in charge of debt management. It tracks the contracting and disbursement of new domestic and external loans, and disseminates comprehensive data on public debt statistics. It also receives resources from the treasury to service government debt. While the debt management capacity is overall adequate, the ability of the CAA to monitor wider public sector borrowing—notably SOEs' nonguaranteed external debt— and disbursement for project loans,[11] needs to be strengthened.

CONCLUSIONS

17. The implementation of a credible fiscal consolidation package to restore fiscal and external sustainability would help Cameroon mitigate the risk of debt distress, although it would retain its "high" risk rating. The breach of the policy-dependent threshold in the case of the PV of debt-to-exports ratio under the baseline scenario suggests that Cameroon faces a high risk of debt distress. However, unlike the sustained breach under the 2015 DSA, the breach in the current DSA is smaller and temporary in nature. Significant downside risks to public debt, however, remain as standard stress tests show that the Cameroon external debt remains highly vulnerable to exogenous shocks. This underscores

[10] Loans with a positive grant element but below the minimum threshold of 35 percent.

[11] The issue arises with external debts associated with direct payments by creditors to overseas companies.

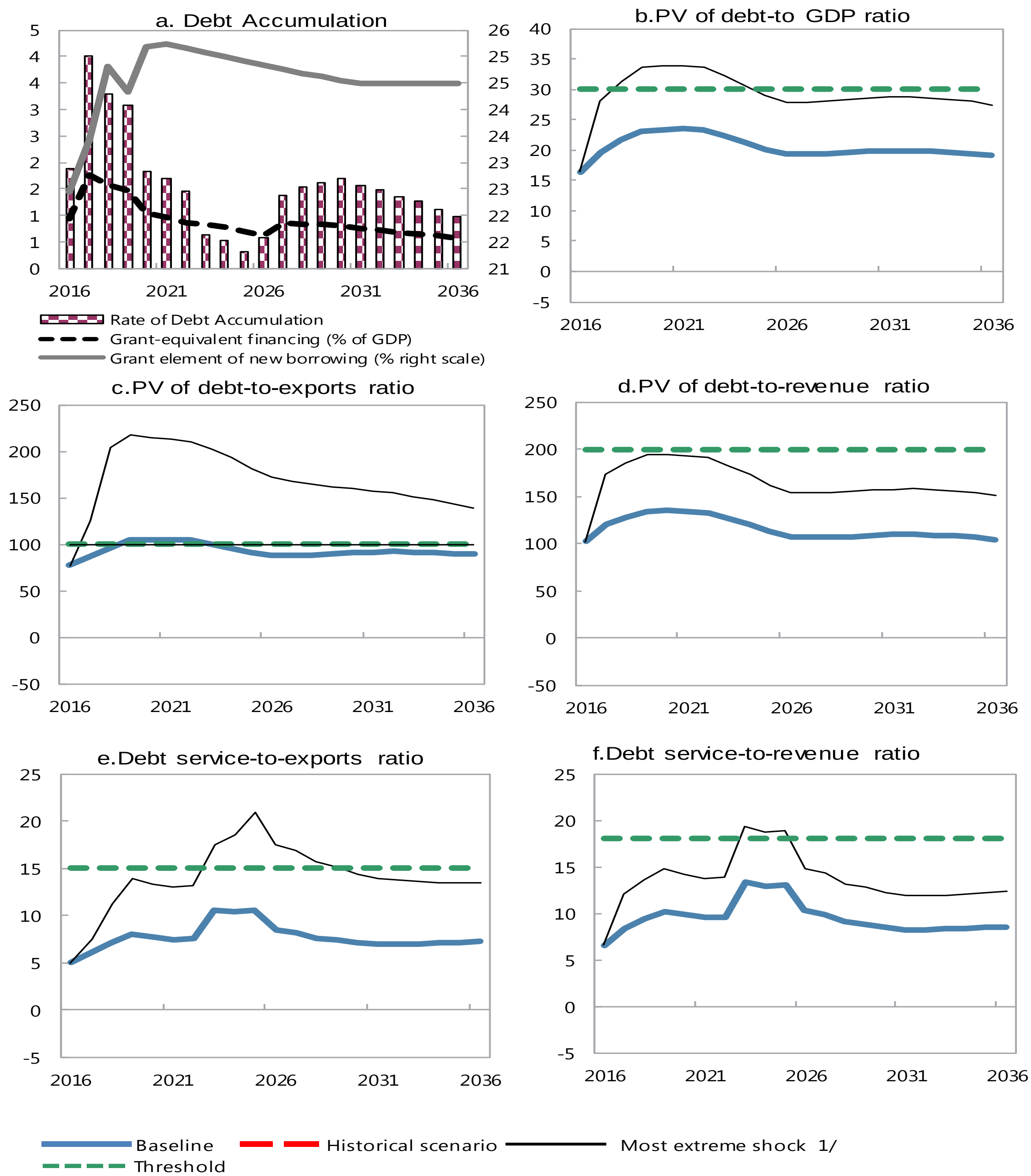
the need for prudent macroeconomic policies, notably a credible fiscal consolidation program to ensure fiscal and external sustainability.

18. Recommendations to improve debt sustainability and to reduce the risk of debt distress include: (i) increasing non-oil revenue and streamlining public spending to achieve fiscal consolidation; (ii) making greater use of concessional borrowing; (iii) monitoring debt developments more closely, especially for externally-financed projects, notably by setting borrowing ceilings more in line with project implementation capacity to avoid the continued accumulation of non-disbursed loans; (iv) implementing policies to boost growth and exports of the non-oil economy; and (v) strengthen public debt management as well as the overall economic policy framework to improve the country's risk rating.

Authorities' Views

19. The authorities see room for improving debt management and monitoring, and agree that fiscal consolidation while protecting growth-enhancing investment would contribute to safeguard debt sustainability. They concur that closer scrutiny by the CNDP of all external borrowing including non-guaranteed borrowing by SOEs would be important, and that the ceilings on new non-concessional borrowing agreed in the context of the program were aligned with implementation capacity. However, they consider that concerns about risk of debt distress are mitigated by the current relatively low level of public debt, the focus of public spending on infrastructure projects, notably in the energy and transport sectors, that will pave the way for a stronger growth outlook than envisaged in the DSA, and continuous reforms in the business environment that will boost the export sector.

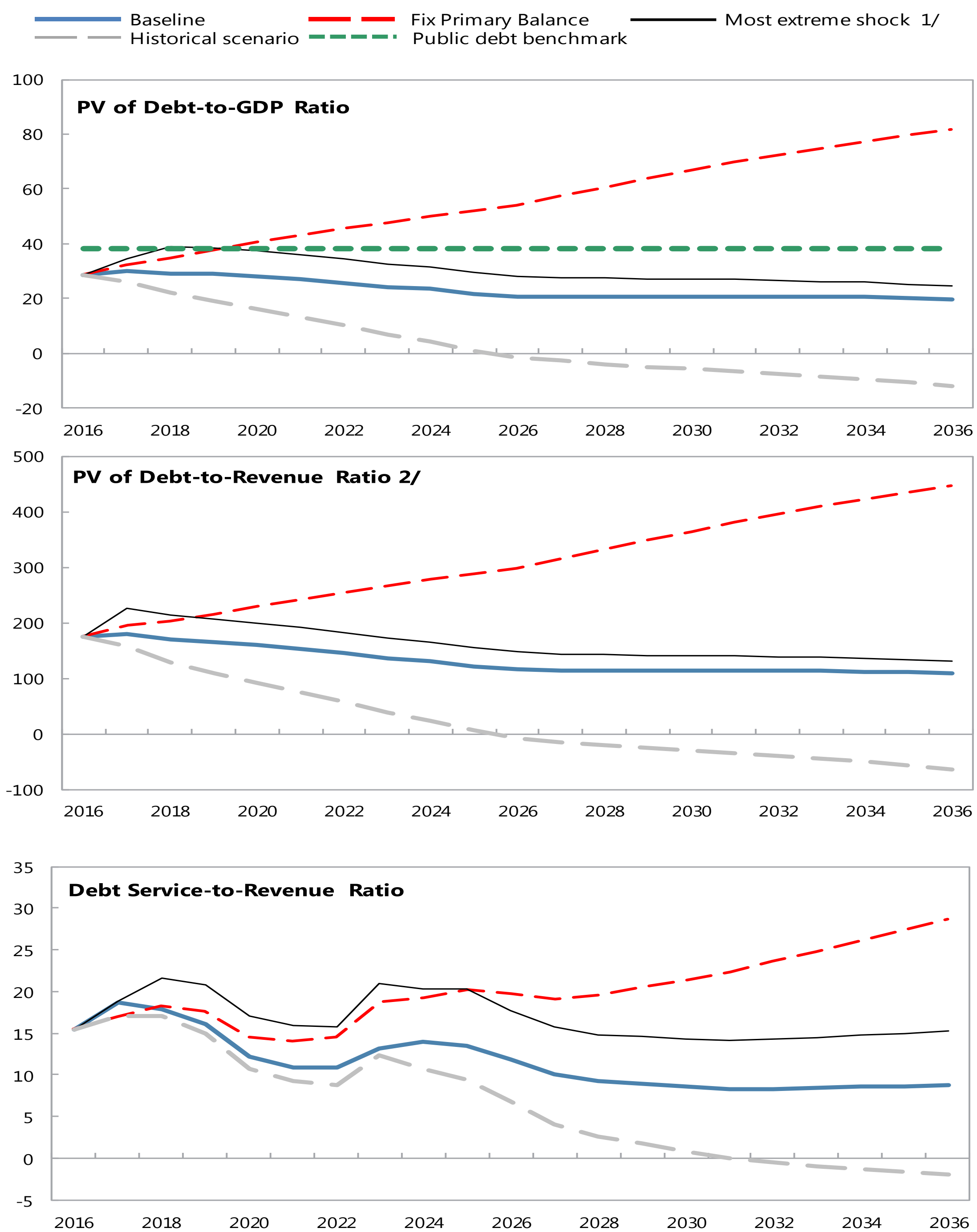
Figure 1. Cameroon: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios. 2016–36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2016–36 [1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1. Cameroon: Public Debt Sustainability, Baseline Scenario, 2013–36

(Percent of GDP unless otherwise stated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 4/	Standard Deviation 4/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt	19.0	27.5	34.2			35.2	37.3	37.2	37.1	36.0	34.7		26.8	25.4	
of which: foreign-currency denominated	12.0	18.9	21.5			22.9	26.8	29.4	31.3	31.3	31.1		25.3	24.6	
Change in public sector debt	3.5	8.6	6.7			1.0	2.1	-0.2	-0.1	-1.1	-1.4		-1.3	-0.5	
Identified debt-creating flows	2.1	3.9	3.1			5.7	1.5	0.6	-0.3	-0.7	-1.0		-1.2	-1.1	
Primary deficit	3.6	3.8	2.1	-2.7	11.1	5.7	2.5	1.7	1.1	0.8	0.5	2.1	0.1	-0.1	0.0
Revenue and grants	18.0	18.1	17.9			16.3	16.7	17.3	17.6	17.7	17.8		18.2	18.3	
of which: grants	0.3	0.3	0.1			0.3	0.4	0.3	0.3	0.3	0.2		0.1	0.1	
Primary (noninterest) expenditure	21.5	21.9	20.0			22.1	19.2	19.0	18.8	18.5	18.3		18.3	18.2	
Automatic debt dynamics	-1.6	0.1	1.0			0.0	-1.1	-1.1	-1.4	-1.6	-1.6		-1.3	-1.0	
Contribution from interest rate/growth differential	-0.9	-1.1	-1.4			-1.3	-1.2	-1.4	-1.6	-1.7	-1.8		-1.4	-1.1	
of which: contribution from average real interest rate	-0.1	0.0	0.1			0.2	0.2	0.2	0.2	0.2	0.1		0.1	0.2	
of which: contribution from real GDP growth	-0.8	-1.1	-1.5			-1.5	-1.4	-1.7	-1.8	-1.8	-1.9		-1.5	-1.3	
Contribution from real exchange rate depreciation	-0.7	1.2	2.4			1.3	0.1	0.3	0.2	0.1	0.2		...	...	
Other identified debt-creating flows	0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	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		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.3	4.7	3.6			-4.7	0.6	-0.8	0.2	-0.3	-0.3		-0.1	0.6	
Other Sustainability Indicators															
PV of public sector debt	14.5	18.7	27.2			28.7	30.0	29.3	29.0	28.1	27.0		20.8	19.8	
of which: foreign-currency denominated	7.6	10.0	14.5			16.4	19.5	21.6	23.2	23.4	23.5		19.3	19.0	
of which: external	7.6	10.0	14.5			16.4	19.5	21.6	23.2	23.4	23.5		19.3	19.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 1/	5.1	6.0	5.4			8.3	5.6	4.8	4.0	3.0	2.5		2.3	1.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	80.9	103.2	151.7			175.5	179.9	169.6	164.4	158.9	151.7		114.6	108.1	
PV of public sector debt-to-revenue ratio (in percent)	82.4	104.9	152.2			178.9	184.1	172.9	167.1	161.3	153.7		115.6	108.5	
of which: external 2/	43.0	56.2	81.0			102.1	119.6	127.4	133.7	134.4	133.7		106.9	104.4	
Debt service-to-revenue and grants ratio (in percent) 3/	8.4	9.2	18.5			15.5	18.6	17.8	16.1	12.2	11.0		11.9	8.7	
Debt service-to-revenue ratio (in percent) 3/	8.5	9.4	18.5			15.8	19.1	18.2	16.4	12.4	11.1		12.0	8.8	
Primary deficit that stabilizes the debt-to-GDP ratio	0.1	-4.8	-4.6			4.7	0.4	1.9	1.2	1.9	1.9		1.4	0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.2	6.0	5.8	4.0	1.3	4.7	4.0	4.6	5.0	5.1	5.5	4.8	5.5	5.2	5.5
Average nominal interest rate on forex debt (in percent)	3.2	1.6	2.4	2.0	0.7	1.3	2.2	2.3	2.2	2.1	2.1	2.0	2.1	2.8	2.5
Average real interest rate on domestic debt (in percent)	-4.4	-0.2	-0.1	-1.5	1.6	2.7	1.3	2.0	2.2	2.3	2.1	2.1	2.6	2.8	2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.7	10.9	13.3	0.1	9.1	6.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.3	1.9	1.8	3.1	1.5	-1.2	0.9	1.0	1.3	1.7	1.8	0.9	1.7	1.7	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	13.9	11.0	-7.0	1.9	6.0	15.3	-9.6	3.6	3.8	3.7	4.5	3.5	5.5	5.3	5.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	22.4	23.4	24.8	24.3	25.2	25.2	24.2	24.8	24.5	...

Sources: Country authorities; and staff estimates and projections.

1/ 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.

2/ Revenues excluding grants.

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

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

Table 2. Cameroon: Sensitivity Analysis for Key Indicators of Public Debt, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	29	30	29	29	28	27	21	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	26	22	19	16	13	-1	-12
A2. Primary balance is unchanged from 2016	29	33	35	38	41	43	54	82
A3. Permanently lower GDP growth 1/	29	30	30	29	29	28	23	28
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20:	29	31	31	31	30	30	25	27
B2. Primary balance is at historical average minus one standard deviations in 2017-201	29	35	39	38	37	36	28	25
B3. Combination of B1-B2 using one half standard deviation shocks	29	31	31	31	30	29	24	24
B4. One-time 30 percent real depreciation in 2017	29	36	35	34	33	32	25	23
B5. 10 percent of GDP increase in other debt-creating flows in 2017	29	38	37	36	35	34	27	24
PV of Debt-to-Revenue Ratio 2/								
Baseline	176	180	170	164	159	152	115	108
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	176	157	129	110	92	74	-8	-64
A2. Primary balance is unchanged from 2016	176	195	202	215	230	242	298	447
A3. Permanently lower GDP growth 1/	176	181	171	167	163	157	128	152
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20:	176	184	179	175	172	166	138	147
B2. Primary balance is at historical average minus one standard deviations in 2017-201	176	208	226	218	211	202	156	135
B3. Combination of B1-B2 using one half standard deviation shocks	176	183	180	175	171	165	132	133
B4. One-time 30 percent real depreciation in 2017	176	219	203	194	186	178	135	126
B5. 10 percent of GDP increase in other debt-creating flows in 2017	176	226	214	206	199	191	146	129
Debt Service-to-Revenue Ratio 2/								
Baseline	15	19	18	16	12	11	12	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	17	17	15	11	9	7	-2
A2. Primary balance is unchanged from 2016	15	17	18	18	15	14	20	29
A3. Permanently lower GDP growth 1/	15	17	18	17	13	12	13	11
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20:	15	17	18	17	13	12	13	11
B2. Primary balance is at historical average minus one standard deviations in 2017-201	15	17	19	19	15	13	15	11
B3. Combination of B1-B2 using one half standard deviation shocks	15	17	18	17	13	12	13	10
B4. One-time 30 percent real depreciation in 2017	15	19	22	21	17	16	18	15
B5. 10 percent of GDP increase in other debt-creating flows in 2017	15	17	19	18	14	13	15	11

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 3a. Cameroon: External Debt Sustainability Framework, Baseline Scenario, 2016–36

(Percent of GDP unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2016-2021			2022-2036
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average
External debt (nominal) 1/	**12.0**	**18.9**	**21.5**			**22.9**	**26.8**	**29.4**	**31.3**	**31.3**	**31.1**		**25.3**	**24.6**	
of which: public and publicly guaranteed (PPG)	12.0	18.9	21.5			22.9	26.8	29.4	31.3	31.3	31.1		25.3	24.6	
Change in external debt	3.2	6.8	2.7			1.4	3.9	2.6	1.9	0.0	-0.2		-1.2	-0.5	
Identified net debt-creating flows	2.1	2.2	7.3			1.1	1.5	1.0	0.6	0.4	0.3		0.2	0.8	
Non-interest current account deficit	**3.6**	**4.2**	**3.7**	**2.3**	**1.5**	**3.3**	**2.6**	**2.3**	**2.0**	**1.5**	**0.9**		**-0.7**	**-0.7**	-1.2
Deficit in balance of goods and services	2.8	3.4	3.7			2.6	2.3	2.2	2.3	1.4	1.1		-0.6	-3.6	
Exports	27.1	26.8	23.7			21.3	22.7	22.5	22.1	22.4	22.4		22.0	21.4	
Imports	29.9	30.2	27.4			23.9	25.0	24.8	24.5	23.8	23.5		21.4	17.8	
Net current transfers (negative = inflow)	-1.0	-1.1	-1.1	-1.5	0.6	-1.2	-1.2	-1.2	-1.2	-1.3	-1.2		-1.0	-0.7	-1.0
of which: official	-0.3	-0.3	-0.3			-0.3	-0.3	-0.2	-0.2	-0.2	-0.2		-0.2	0.0	
Other current account flows (negative = net inflow)	1.9	1.9	1.1			1.9	1.5	1.3	0.9	1.4	1.1		0.9	3.7	
Net FDI (negative = inflow)	**-0.6**	**-1.2**	**1.0**	**-3.1**	**8.0**	**-1.5**	**-0.7**	**-0.7**	**-0.7**	**-0.2**	**0.3**		**1.8**	**2.0**	2.4
Endogenous debt dynamics 2/	**-1.0**	**-0.7**	**2.6**			**-0.7**	**-0.4**	**-0.6**	**-0.8**	**-0.9**	**-1.0**		**-0.8**	**-0.6**	
Contribution from nominal interest rate	0.2	0.2	0.5			0.3	0.5	0.6	0.6	0.6	0.6		0.5	0.7	
Contribution from real GDP growth	-0.4	-0.7	-1.2			-1.0	-0.9	-1.2	-1.4	-1.5	-1.6		-1.4	-1.2	
Contribution from price and exchange rate changes	-0.8	-0.2	3.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.1**	**4.6**	**-4.6**			**0.3**	**2.4**	**1.6**	**1.3**	**-0.4**	**-0.5**		**-1.4**	**-1.3**	
of which: exceptional financing	-0.3	0.2	2.9			-4.7	0.8	0.7	0.5	0.6	0.6		0.0	0.0	
PV of external debt 4/	...	...	14.5			16.4	19.5	21.6	23.2	23.4	23.5		19.3	19.0	
In percent of exports	...	...	61.1			77.0	85.8	95.7	104.6	104.6	104.8		87.4	88.7	
PV of PPG external debt	**...**	**...**	**14.5**			**16.4**	**19.5**	**21.6**	**23.2**	**23.4**	**23.5**		**19.3**	**19.0**	
In percent of exports	**...**	**...**	**61.1**			**77.0**	**85.8**	**95.7**	**104.6**	**104.6**	**104.8**		**87.4**	**88.7**	
In percent of government revenues	**...**	**...**	**81.0**			**102.1**	**119.6**	**127.4**	**133.7**	**134.4**	**133.7**		**106.9**	**104.4**	
Debt service-to-exports ratio (in percent)	**1.8**	**2.5**	**5.1**			**5.0**	**6.0**	**7.1**	**8.0**	**7.6**	**7.4**		**8.4**	**7.3**	
PPG debt service-to-exports ratio (in percent)	**1.8**	**2.5**	**5.1**			**5.0**	**6.0**	**7.1**	**8.0**	**7.6**	**7.4**		**8.4**	**7.3**	
PPG debt service-to-revenue ratio (in percent)	**2.8**	**3.8**	**6.7**			**6.6**	**8.4**	**9.4**	**10.2**	**9.8**	**9.5**		**10.2**	**8.6**	
Total gross financing need (Billions of U.S. dollars)	1.0	1.4	1.7			0.8	1.0	1.0	1.0	1.1	1.1		1.6	3.2	
Non-interest current account deficit that stabilizes debt ratio	0.5	-2.7	1.0			1.9	-1.3	-0.3	0.1	1.5	1.2		0.5	-0.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.6	5.9	5.8	4.1	1.4	4.7	4.0	4.6	5.0	5.1	5.5	4.8	5.5	5.2	5.5
GDP deflator in US dollar terms (change in percent)	9.8	1.9	-15.0	2.2	8.4	-1.4	-3.2	0.7	1.3	1.8	1.6	0.1	1.7	1.7	1.7
Effective interest rate (percent) 5/	3.2	1.6	2.4	1.9	0.7	1.3	2.2	2.3	2.2	2.1	2.1	2.0	2.1	2.8	2.5
Growth of exports of G&S (US dollar terms, in percent)	8.6	7.2	-21.7	7.1	20.0	-7.4	7.6	4.6	4.5	8.1	7.2	4.1	6.6	6.5	7.0
Growth of imports of G&S (US dollar terms, in percent)	8.3	9.5	-19.5	7.3	17.4	-10.0	5.4	4.3	5.1	4.2	5.8	2.5	5.2	4.1	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	22.4	23.4	24.8	24.3	25.2	25.2	24.2	24.8	24.5	24.7
Government revenues (excluding grants, in percent of GDP)	17.8	18.1	17.9			16.0	16.3	16.9	17.3	17.4	17.5		18.0	18.2	18.1
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.3			0.2	0.3	0.3	0.3	0.3	0.3		0.2	0.3	
of which: Grants	0.1	0.1	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.3	0.3	0.3			0.1	0.2	0.2	0.2	0.2	0.2		0.1	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.9	1.8	1.6	1.5	1.1	1.0		0.6	0.6	0.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			30.3	28.0	29.4	28.6	31.0	31.0		30.1	26.9	28.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	29.6	32.1	28.4			29.3	29.5	31.1	33.1	35.5	38.0		54.0	109.4	
Nominal dollar GDP growth	11.7	8.5	-11.4			3.2	0.7	5.4	6.4	7.0	7.2	5.0	7.3	7.1	7.3
PV of PPG external debt (in Billions of US dollars)			4.0			4.6	5.7	6.7	7.7	8.3	8.9		10.4	20.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.9	4.0	3.3	3.1	1.8	1.7	2.6	0.6	1.0	1.2
Gross workers' remittances (Billions of US dollars)	0.4	0.5	0.5			0.5	0.5	0.6	0.6	0.6	0.6		0.8	1.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.2			16.1	19.1	21.2	22.8	23.0	23.1		19.0	18.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	57.1			71.2	79.5	88.8	96.9	97.0	97.5		82.0	84.1	
Debt service of PPG external debt (in percent of exports + remittance	...	...	4.7			4.6	5.6	6.5	7.4	7.1	6.9		7.9	6.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = 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 changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

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

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	16	19	22	23	23	23	**19**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	16	16	16	16	15	14	**5**	0
A2. New public sector loans on less favorable terms in 2016-2036 2	16	21	24	26	27	28	**26**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	16	20	22	24	24	24	**20**	20
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	16	23	31	32	32	32	**25**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	16	20	24	26	26	26	**21**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	16	24	31	32	32	32	**25**	20
B5. Combination of B1-B4 using one-half standard deviation shocks	16	22	30	31	31	31	**25**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	16	28	31	34	34	34	**28**	27
PV of debt-to-exports ratio								
Baseline	77	86	96	105	105	105	**87**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	77	72	73	74	67	61	**24**	-2
A2. New public sector loans on less favorable terms in 2016-2036 2	77	91	105	119	122	124	**117**	138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	77	86	96	105	104	104	**87**	88
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	77	125	204	217	214	213	**172**	139
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	77	86	96	105	104	104	**87**	88
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	77	106	137	146	144	143	**115**	93
B5. Combination of B1-B4 using one-half standard deviation shocks	77	110	153	163	162	161	**130**	110
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	77	86	96	105	104	104	**87**	88
PV of debt-to-revenue ratio								
Baseline	102	120	127	134	134	134	**107**	104
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	102	100	97	94	87	78	**30**	-3
A2. New public sector loans on less favorable terms in 2016-2036 2	102	126	140	152	156	159	**143**	162
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	102	121	131	138	138	138	**110**	107
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	102	141	182	186	185	183	**141**	110
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	102	123	141	148	148	147	**118**	115
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	102	148	183	187	185	183	**141**	110
B5. Combination of B1-B4 using one-half standard deviation shocks	102	137	176	180	180	177	**138**	112
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	102	173	184	194	194	193	**154**	151

Table 3b. Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
Debt service-to-exports+remittances ratio								
Baseline	5	6	7	7	7	7	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	5	5	6	6	6	6	**5**	0
A2. New public sector loans on less favorable terms in 2016-2036 2	5	6	6	7	7	7	**9**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	5	6	7	7	7	7	**8**	7
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	5	7	10	12	12	12	**16**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	5	6	7	7	7	7	**8**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	5	6	7	9	8	8	**11**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	8	10	9	9	**12**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	5	6	7	7	7	7	**8**	7
Debt service-to-revenue ratio								
Baseline	7	8	9	10	10	9	**10**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	7	8	8	9	8	8	**6**	0
A2. New public sector loans on less favorable terms in 2016-2036 2	7	8	9	10	10	10	**12**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	7	8	10	11	10	10	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	7	8	10	12	12	11	**14**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	7	9	10	11	11	11	**11**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	7	8	10	12	12	11	**14**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	10	12	12	11	**14**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	7	12	14	15	14	14	**15**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	20	20	20	20	20	20	**20**	20

Sources: Country authorities; and staff estimates and projections.

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 the interest rate on new borrowing is by 2 percentage points higher than in the baseline., 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.

Statement by Mr. Sembene, Executive Director for Cameroon and Mr. Bah, Senior Advisor to Executive Director for Cameroon June 26, 2017

I. Introduction

We thank staff for the constructive policy discussions held with the Cameroonian authorities in Yaoundé and Washington on an economic program that could be supported by a three-year arrangement under the Extended Credit Facility (ECF). We also welcome Management's close engagement with the authorities.

The Cameroonian economy has been severely hit in recent years by falling oil prices and increasing security threats in the Lake Chad basin. These shocks contributed to a substantial deterioration in the fiscal stance by reducing petroleum revenues and increasing expenditure related to security and humanitarian operations associated with refugees from neighboring countries and internally-displaced persons. Against this backdrop, Cameroon's external position also weakened, as demonstrated by the sharp drop in the country's reserve coverage.

To address the challenges facing the country and the region and restore fiscal and external stability, the Cameroonian authorities decided to take urgent actions in coordination with their CEMAC counterparts. In support of their policy and reform agenda, the Cameroonian authorities request a three-year ECF-supported program aimed at strengthening fiscal and external buffers, expanding non-oil revenues, improving the efficiency of public investment, boosting the financial sector's resilience and accelerating economic diversification. The implementation of their ECF-supported program will also contribute to improving reserve coverage.

II. Recent Economic Developments

Cameroon has maintained a solid economic growth in recent years thanks to greater economic diversification and the increase in oil production from new oilfields which offset the decline in prices. But in 2016, growth slowed down as oil production declined and non-oil output remained broadly unchanged. Inflation stood at 0.9 percent far below the CEMAC convergence criterion of 3 percent. The fiscal deficit widened to 6.5 percent of GDP due notably to significantly lower petroleum revenues and increased budget allocations related to the authorities' Emergency Plan, the fight against Boko Haram, assistance to refugees and displaced populations, and partial arrears clearance.

Public debt increased significantly, reaching about 34 percent of GDP in 2016. The rapid increase in public debt resulted largely from the issuance of the first international debt in Eurobonds in 2015, major infrastructure investments, the financing of the three-year emergency plan to accelerate growth (PLANUT), and the inclusion of domestic and external payment arrears.

The current account deficit narrowed to 3.6 percent of GDP in 2016 from 4.1 percent in 2015, as the decline in exports was less than the import compression stemming from slower economic activity and import substitution in the construction sector. However, the weak export revenue caused external reserves to fall to the equivalent of 3.7 months of imports.

III. Policies and Reforms Under the ECF-Program

The Cameroonian authorities are fully committed to the objectives of the ECF-supported program consistent with the regional approach outlined by the CEMAC summit held in Yaoundé in December 2016.

The implementation of the program will also help achieve the objectives of Cameroon's Growth and Employment Strategy Paper (GESP) to reduce poverty and unemployment while accelerating economic growth. The program rests on three main pillars, namely, (i) sustained fiscal adjustment to build up fiscal and external buffers; (ii) structural reforms to mobilize non-oil revenue, improve public financial management and the efficiency of public investment; and, (iii) structural reforms to accelerate private-sector led economic diversification and boost the resilience of the financial sector.

Fiscal Policy

The authorities are committed to sustaining their fiscal consolidation efforts. In 2017, they will focus their revenue mobilization efforts on further mobilizing non-oil revenue notably by increasing the excise tax on petroleum products, and enhancing efforts to broaden the tax base.

On the expenditure side, the authorities intend to strengthen both the structure and efficiency of current spending. At the same time, they are committed to protecting vulnerable segments of the population by increasing health and education spending and social protection. Care will be also taken to prioritize capital expenditure, while deferring lower-priority projects. Moreover, the authorities will implement the recommendations resulting from the Public Investment Management Assessment (PIMA). Improved public investment management will be served by the set of criteria developed to help align budgetary resources allocated to investment projects to existing implementation capacities.

Over the period 2018 and 2019, fiscal consolidation will be based on measures aimed at increasing revenue mobilization and enhancing the quality of expenditures. Planned tax policy measures actions to improve the efficiency of tax and customs administration will help boost non-oil revenues going forward. The gradual consolidation of expenditures will enable a reduction in fiscal outlays from 20.1 percent of GDP in 2017 to 19.6 percent in 2019, while preserving priority social expenditure.

The authorities are determined to pursue the ongoing fiscal reforms with a view to strengthening the credibility and transparency of the budget. This will ensure the effectiveness of public expenditures. In addition, the authorities will make greater use of Public-Private Partnerships (PPPs) in areas where the private sector could operate at lower costs. Contingent liabilities associated with PPPs will be analyzed and reported in the annual budget laws together with the analysis of risks stemming from public enterprises.

Debt Policy

The authorities' debt policy aims at keeping public debt on a sustainable path. In this regard, the borrowing plan for 2017 and subsequent years will focus on priority projects with high growth potential. Steps will be taken to set non-concessional debt ceilings in line with the capacity to prepare and execute projects. The authorities have taken necessary actions to strengthen the authority of the National Public Debt Committee (CNDP) and improve the capacity of the Caisse Autonome d'Amortissement (CAA) with a view to better monitoring external debt of public enterprises and avoiding arrears accumulation.

Monetary Policy

The authorities are mindful that policies to be implemented in the context of Cameroon's ECF-supported program will help maintain the stability of the regional monetary arrangement by contributing to stabilizing and restoring regional reserves. To address the causes of the fall in these reserves, the BEAC is implementing a tighter regional monetary policy to support its members' fiscal consolidation efforts and limit their direct and indirect monetary financing.

The Cameroonian authorities have agreed to comply with the commitments made at the regional level to freeze the ceiling on BEAC statutory advances at the level established based on the 2014 budget revenues. In march 2017, the central bank increased its key lending rate to 2.95 percent. The framework and instruments of its monetary policy will be modernized to improving its transmission mechanism. With Fund's TA, the BEAC will also introduce an emergency liquidity support instrument to assist solvent banks facing liquidity problems.

Stability of the Financial Sector

Despite its overall resilience, the financial sector of Cameroon is showing signs of vulnerabilities due notably to the concentration of banking portfolios and the burden of overdue claims. To enable the sector to be more resilient and increase its contribution to the financing of the economy, the authorities will implement a program aimed at the clearance of overdue claims and the rapid resolution of banks in difficulty. The program will also facilitate the establishment of a legal and regulatory framework enabling the financial sector to select, monitor and actively manage its risks based on best practices.

In addition, the authorities are cognizant of the need to further increase public access to financial services. They will focus their efforts on strengthening the stability of microfinance institutions and will facilitate the development of mobile banking as part of the implementation of the national strategy for inclusive finance.

Competitiveness and Development of the Private Sector

The Cameroonian authorities are committed to implementing the needed reforms to increase the competitiveness of their economy, support the development of the private sector and foster economic diversification. In this regard, they will implement, in coordination with CEMAC institutions, the required reforms to improve the business environment, address the lack of infrastructures in energy and transport while encouraging the private sector' access to financial services. This effort will help boost the competitiveness and attractiveness of Cameroonian economy. Moreover, the authorities have support for enhanced coordination of tax policies and harmonization of customs procedures at the regional level.

IV. Conclusion

The Cameroonian authorities are determined to steadfastly implement the ECF-supported program to address the daunting challenges facing their economy and the region. The authorities are mindful that restoring macroeconomic and external stability requires sustaining fiscal consolidation efforts and advancing structural reforms. In this regard, the ECF-supported program will anchor their policies and reforms and help lay the ground for inclusive and sustainable growth while strengthening CEMAC's macroeconomic and external stability.

In this light, we would appreciate Directors' support to the authorities' request for an ECF-supported program.