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Cameroon: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Extension of Arrangement, Waiver of Performance Criterion, and Extension of Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cameroon

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility, and requests for extension of arrangement, waiver of performance criterion, and extension of interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the Fourth review under the three-year arrangement Under the Poverty Reduction and Growth Facility, and requests for extension of arrangement, waiver of performance criterion, and extension of interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **October 7, 2003,** with the officials of Cameroon on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on December 2, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of **December 10, 2003** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its December 17, 2003 discussion** of the staff report that completed the review.

- a statement by the Executive Director for Cameroon.

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

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

*May also be included in Staff Report

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

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CAMEROON

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Extension of Arrangement, Waiver of Performance Criterion, and Extension of Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Prepared by the African Department

(In collaboration with other departments)

Approved by Menachem Katz and Anthony Boote

December 2, 2003

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Key issues and challenges

- **Key institutional reforms and continued efforts to improve governance, alongside sustained fiscal management, are critical in ensuring lasting success in reducing economic vulnerabilities and in fighting poverty.**

Recent economic developments and program implementation

- **The generally good record of macroeconomic performance continued in 2002 and the first half of 2003,** with real GDP growth estimated at 4.2 percent in 2002 and projected at the same pace for 2003. Average inflation was less than 2 percent to June 2003, and international reserves continued to increase.

- **Fiscal policies remained broadly on track**, with the primary and overall fiscal surpluses exceeding the program targets. **Moreover, progress continued in public expenditure management and financial sector reforms**, although the implementation pace of other structural reforms was slower than expected.

- **Discussions on the fourth review under the PRGF arrangement were protracted, reflecting some slippages in policy and structural reform implementation and complications in reconciling government financial operations.** With non-oil revenue lower than programmed, the fiscal targets were met at the expense of public investment expenditure, which was compressed. The financial position of some public companies, including the national airline, deteriorated rapidly during the first half of 2003, owing partly to the accumulation of unpaid bills by the government. Difficulties in reconciling budgetary data occurred.

- **These slippages, reflecting a weakening in program monitoring, are being addressed.** With the current three-year PRGF arrangement ending in December 2003, an extension is being requested to encompass the third annual program (July 2003-June 2004).

Policies under the third annual program of the PRGF arrangement

- **The third annual program under the PRGF arrangement aims at consolidating the macroeconomic gains to date and maintaining fiscal sustainability, in line with the PRSP goals.** It embodies (i) a further mobilization of non-oil revenue; (ii) measures to strengthen public expenditure and resource management; (iii) initial steps to address the weak financial position of major utilities and the national airline; (iv) continued efforts to improve governance; and (v) an acceleration of efficiency-enhancing structural reforms.

- **Macroeconomic prospects for 2003 and 2004 remain favorable**, as economic activity should benefit from stepped-up use of HIPC Initiative resources, which would contribute to enhancing public investment. GDP growth is projected to increase to 4.7 percent in 2004, with inflation at about 2 percent and a reduction in the external current account deficit to 2.7 percent of GDP.

Issues highlighted in the staff appraisal

- **Close program monitoring, strengthened coordination, and enhanced, concerted government action will be crucial to reach the program targets and the HIPC Initiative completion point in 2004.**

- **The fiscal policy stance under the third annual program is prudent.** However, the authorities will need to sustain their efforts to (i) implement effectively the measures envisaged for 2004 in order to maintain non-oil revenue on the path targeted in the PRSP, which is critical for fiscal sustainability; (ii) keep a tight control on non-HIPC Initiative current spending; and (iii) continue to focus on improving public expenditure management.

- **The government expenditure program takes into account the need for higher spending in the priority social sectors and investment in basic infrastructure.** Priority should also be given to the payment of current bills to utilities and public transport companies, as a first step to restructure these entities, and the action plan on the future of the national airline should be formulated without delay. Moreover, other public spending, including plans for the purchase of a presidential aircraft, should be carefully assessed.

- **Structural reforms need to be accelerated and governance strengthened in the real sectors in order to improve the business climate.**

- **The staff recommends that the Executive Board grant a waiver for the nonobservance of the end-September 2002 performance criterion on net bank credit to the government, complete the fourth review, and extend the Fund arrangement and the Fund HIPC Initiative interim assistance through December 20, 2004.**

I. Introduction

1. The Executive Board approved a new three-year Poverty Reduction and Growth Facility (PRGF) Arrangement (October 1, 2000–September 30, 2003) on December 21, 2000, in an amount equivalent to SDR 111.42 million (60 percent of quota) (EBS/00/255, 12/6/00). Four disbursements totaling SDR 63.68 million have been made, and SDR 15.9 million will become available at the completion of the fourth review (Table 1). Discussions on the fourth review were held in Yaoundé during November 11–25, 2002, February 28–March 20, 2003, and September 1–13, 2003, in Paris (September 14–18, 2003), and at headquarters (September 24–October 7, 2003).[1]

2. **The Executive Board concluded the last Article IV consultation with Cameroon[2] and the third review in September 2002.** Directors stressed the importance of (i) enhancing non-oil revenue mobilization by reinforcing the tax and customs administration and limiting tax exemptions; (ii) containing government spending on the wage bill, transfers and subsidies, reducing expenditure in nonpriority areas, and increasing spending in social sectors, including expenditure financed through HIPC resources; (iii) fully implementing the action plan to improve public expenditure management; and (iv) intensifying efforts to improve governance and to speed up the planned structural reforms, with emphasis on the privatization program and the reforms in the forestry, transport, and petroleum sectors.

3. **Cameroon's macroeconomic performance remains broadly in line with the program, but some temporary slippages have delayed the completion of the review and**

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[1] The mission teams included Mr. Maciejewski (head), Mr. Randriamaholy, Mr. Cossé, Mr. Ndiaye, and Mr. Rother (all AFR), Mr. Keller (Resident Representative), Ms. Ribakova (FAD), and Mr. Loko and Mr. Hilaire (PDR). The teams were assisted by parallel FAD tax and public expenditure management missions headed by Mr. Benon and Mr. Bouley, respectively, and worked closely with parallel World Bank teams. Messrs. Nyambal, Guetat, Menye, and Kudiwu, Advisors to the Executive Director for Cameroon, participated in the policy meetings. Discussions were held with the Minister of Finance and Budget; the Minister of Economic Affairs, Programming, and Regional Development; the Minister-Delegate for the Budget; the Minister-Delegate for Economic Programs; and other senior government officials. The mission also met with the Prime Minister; the Minister of State, General Secretary at the Presidency; the Governor and the National Director of the regional central bank (BEAC); and representatives of the business and donor communities. Relations with the Fund and the World Bank are summarized in Appendices III and IV.

[2] Cameroon has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

have required renewed efforts to strengthen program monitoring. GDP growth remained robust in 2002 and 2003, while inflation was contained. Excluding the effects of the construction of the Chad-Cameroon pipeline, the current account deficit was in line with program projections, reflecting a good performance of exports. The budget was broadly on track in 2002 and in the first half of 2003. However, non-oil revenue mobilization was weaker than targeted, and capital outlays in priority sectors lower than projected. Moreover, the performance criterion on net bank credit to the government at end-September 2002 was missed, mainly on account of unanticipated payments of securitized wage arrears. Budgetary data reconciliation issues, as well as the accumulation of unpaid bills by the government to utilities and the national airline company, also raised some concerns.

4. **The supplementary letter of intent (LOI) to the Managing Director dated December 2, 2003 and the attached memorandum of economic and financial policies (MEFP) (Appendix I) reflect the determination of the Cameroonian authorities to address the recent slippages and to keep their policies consistent with the initial objectives of the PRGF arrangement.** The objectives and policies for the third annual program are also consistent with the poverty reduction strategy paper (PRSP)[3] and will contribute to achieving the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) completion point triggers. The authorities request (i) a waiver for the nonobservance of the end-September 2002 quantitative performance criterion on net bank credit to the central government; (ii) an extension of the PRGF arrangement to allow for the disbursement of rephased amounts (Table 2); and (iii) additional interim assistance under the HIPC Initiative through December 20, 2004.[4] Given the strength of the measures set forth in the MEFP, reflecting the government's ownership of the program, staff considers the requests for the waiver and the completion of the review as warranted. Staff also supports the authorities' request to extend the arrangement, which would allow sufficient time to monitor the implementation of the program, beginning July 1, 2003 and ending June 30, 2004 (last date for performance criteria), and complete the sixth and final review.

5. **The authorities' priority is to reach the completion point under the HIPC Initiative, which they consider as a critical step to enable them to meet the objectives set forth in the PRSP.** The government stressed that coordination had been stepped up to

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[3] The PRSP (IMF Country Report No. 03/249) was submitted to the staffs of the IMF and the World Bank on April 9, 2003 and considered by the Executive Boards of the two institutions on July 28 and July 31, 2003, respectively.

[4] The additional interim assistance will amount to SDR 3.019 million to cover 18.1 percent of each principal repayment obligation falling due from December 21, 2003 to December 20, 2004. When added to the interim HIPC assistance already disbursed, total interim assistance to December 20, 2004 would represent 19.5 percent of total HIPC assistance committed by the Fund.

achieve the completion point triggers, including the successful implementation of the PRGF arrangement, and that the closeness of the upcoming presidential elections [5] will not affect their determination. They noted with satisfaction that the PRSP had received large public support, reflecting a broad-based consensus on its main components.

II. Recent Economic Developments and Program Implementation

6. **Macroeconomic stability has been maintained in 2002 and in 2003.** Notwithstanding declining oil output, real GDP growth has remained buoyant (Table 3 and Figure 1), although at 4.2 percent in 2002 it was below the annual average rate of the past five years (4.8 percent). Economic growth has been partly driven by the spillover effects of the construction of the Chad-Cameroon oil pipeline, but it has been constrained by power shortages. The inflation rate has stabilized in the second half of 2002 and in 2003, reflecting improved foodstuff supplies, after a flare-up in the first half of 2002 caused by a surge in domestic demand associated with the construction of the pipeline. Excluding the impact of the pipeline construction, the external current account has remained within sustainable limits,[6] partly reflecting the good performance of traditional agricultural exports. With continued macroeconomic stability, confidence has increased, as evidenced by a sharp increase in Cameroon's contribution to the net foreign assets of the regional central bank, the Bank of Central African States (BEAC).[7]

7. **These achievements have resulted from efforts to maintain a prudent fiscal stance[8] (Figure 2) and to pursue a number of key reforms in recent years.** The primary and overall fiscal surpluses have been above program targets, reflecting a tight control on expenditures (including current expenditures) (paras. 8–11 of the MEFP, and Tables 4, 5, and 6).[9] Measures to improve transparency in public expenditure management (PEM) have

[5] The current President's 7-year term will end in October 2004.

[6] The external current account deficit widened to 7.0 percent of GDP in 2002 as a result of the onetime increase in imports for the construction of the Cameroon-Chad pipeline, which was fully financed through external funds.

[7] Cameroon's contribution to the net foreign assets of the BEAC increased in 2002 by CFAF 136 billion (2 percent of GDP), as capital was repatriated when it appeared that uncertainties associated with the introduction of new currency notes in early 2002 in the euro area were not justified. It remained stable in the first half of 2003.

[8] Fiscal policy is the only macroeconomic tool available to the Cameroonian authorities, as monetary and independent exchange rate policies are constrained by Cameroon's membership in the Central African Economic and Monetary Community (CEMAC).

[9] The performance criterion on the primary balance for the second annual program that ended on September 30, 2002 was met (Table 7).

been implemented broadly as programmed.[10] Initial steps have been taken to promote good governance, including accountability in public administration through an improved public procurement system; also, efforts to reform the transport sector have continued.

8. **Cameroon's medium-term objectives and policies are now embodied in a full-fledged PRSP.** This document was prepared over a period of two years, with inputs derived from a broad-based participatory process; it includes an extensive survey of the root causes of poverty (Box 1) and an analysis of the country's economic growth potential.

9. **Notwithstanding these achievements, discussions on the fourth review under the PRGF arrangement were protracted, on account of some slippages in policy and structural reform implementation and complications that arose in reconciling government financial operations.** The quantitative performance criterion for end-September 2002 on net bank credit to the central government was missed, owing to a weak monitoring of the repayments of domestic public debt (including unanticipated payments of securitized wage arrears). Subsequently, the non-oil revenue performance weakened, particularly because of low receipts from the value-added tax (VAT) in the first quarter of 2003, while several of the tax measures envisaged in the 2003 Budget Appropriations Act were not implemented. On the expenditure side, the implementation of the public investment program, including the HIPC Initiative-funded component, remained substantially below target, mainly owing to organizational deficiencies in project management. While favorable oil prices helped to bolster the fiscal position, the weakness of non-oil revenue and the investment compression have been causes for concern. Major problems in reconciling fiscal data were identified in November 2002, partly involving inconsistent treatment of a substantial amount (0.4 percent of GDP) of uncashed checks received from taxpayers.[11]

10. **New challenges have also emerged.** There has been a rapid accumulation of unpaid bills by the government to several large public utility and transport companies.[12] As a result,

[10] The structural performance criterion for end-September 2002 on the new expenditure management system and one out of the five structural benchmarks for end-September 2002 were implemented as scheduled. The other missed structural benchmarks were in place by late 2002 (Table 8).

[11] Checks received from taxpayers and not cashed on a timely basis piled up in 2002, reflecting a relaxation in the supervision and monitoring by the Treasury. The outstanding amount of these checks was inappropriately accounted for as actual revenue at end-September 2002.

[12] Excluding CAMAIR, at end-June 2003, payments for the water, electricity, and fixed telephone bills amounted to only 12 percent of the budgetary allocations.

the financial situation of several public utility companies has weakened, and that of the national airline company (CAMAIR) became precarious by June 2003.[13]

11. **The implementation pace of structural reforms in several areas has been much slower than expected** (paras. 12–16 of the MEFP), including some of the measures to be undertaken under the World Bank's third structural adjustment credit (SAC III). In particular, delays were incurred in key areas of governance (e.g., finalization of the technical audit on the judiciary system and progress in establishing a Constitutional Council). As regards real sector reforms, those in the forestry sector (e.g. establishment of a restructured national regulatory agency and effective implementation of sanctions for noncompliance with rules and regulations regarding logging) experienced serious setbacks, while the privatization process (e.g. water and telecommunication sectors) lost some of its momentum.

12. **The authorities attributed these slippages to two temporary factors** (paras. 1 and 2 of the MEFP). First, they indicated that technical obstacles related to the change in the expenditure control and reporting system had complicated the monitoring of the program. Second, difficulties related to the shift from the fiscal year (July-June) to the calendar year (effective January 1, 2003), for which they were insufficiently prepared, slowed the start of the budgetary execution. The authorities have been responsive to staff urging them to forcefully address the institutional deficiencies that had surfaced, while the MEFP incorporates specific measures to improve budget management and control.

13. **Some corrective measures are already in train.** Coordination of government work has benefited from a more direct involvement of the presidency and the Prime Minister's Office. Non-oil revenue collection improved in the second quarter of 2003, mainly on account of stepped-up recovery of tax arrears. Delays in the encashment of checks have been addressed through a reorganization of the relevant divisions of the Treasury Department. Problems in reconciling budgetary data were resolved in July-August 2003, thanks to better data computation of the now computerized Treasury monthly balance. A preliminary audit of the outstanding stock of domestic debt as of end-2002 was carried out, which will help strengthen the monitoring of domestic public debt payments. The execution rate for capital projects, including HIPC Initiative-funded projects, has picked up somewhat, reflecting the operationalization of the HIPC consultative committee that has been established to speed up the allocation of HIPC resources. A plan has also been drawn up to meet government payment obligations to utilities.

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[13] CAMAIR was unable to meet its current obligations at end-June 2003, and was bailed out by the government through a cash payment (of 0.1 percent of GDP) in early July 2003 that allowed it to resume its operations. The latter were again temporarily suspended in early November 2003.

14. **The authorities have stressed their continued commitment to intensify fiscal consolidation and accelerate governance and structural reforms, which are prerequisites for a robust economic growth driven by private investment.** As detailed in the MEFP, they intend to give priority under the third annual program to strengthening non-oil revenue and public expenditure and resource management, including the appropriate use of HIPC Initiative resources for quality programs. More resources will be devoted to the social sectors and basic infrastructure, and the weak financial position of public enterprises will be swiftly addressed. On the structural front, the authorities plan to intensify efforts to improve governance and tackle entrenched corruption through the early completion of reforms in the public procurement and judicial systems. They also have started to take action to improve the power supply and to accelerate real sector reforms. Finally, with the banking system back on a sound footing, they will turn their attention to financial deepening, including microfinance, to help promote the development of small and medium-sized enterprises, as well as the rural sector. The authorities are confident that these renewed and sustained efforts will pave the way to the achievement of the HIPC Initiative completion point triggers and the PRSP goals.

III. Policies Under the Third Annual Program (July 1, 2003–June 30, 2004)

A. Poverty Reduction Strategy Paper (PRSP) and PRGF-Supported Economic Program

15. **The medium-term macroeconomic framework for 2003–06 is consistent with the initial baseline scenario and underpins the priority policy areas of the PRSP.** Notwithstanding an assumed average annual decline of oil output of 5.5 percent over 2003–06, real GDP growth is projected to accelerate from 4.2 percent in 2003 to 5.7 percent by 2006. The acceleration of growth is expected to be driven notably by a substantial increase in government expenditure financed through HIPC Initiative resources, including a rise in capital outlays from 2.5 percent of GDP in 2003 to 4.0 percent in 2006 (Box 2).

B. Macroeconomic and Balance of Payments Outlook for 2003–04

16. **The program assumes stable GDP growth in 2003 but a significant acceleration in 2004,** influenced by the following: (i) increased HIPC Initiative-financed public spending; (ii) stronger economic activity in telecommunications, domestic transportation, and domestic trade; and (iii) improved electricity supply. The annual average inflation rate is projected to reach 1.2 percent in 2003, assuming that foodstuff supplies remain steady in the short run, and to increase to 2.0 percent in 2004, owing to an expected higher demand for foodstuffs from neighboring countries where oil production will rise.

17. **The projected improvement in the external current account in 2003 and 2004 mostly reflects a lowering of imports consequent upon the completion of the Chad-Cameroon pipeline.** However, other imports would be pushed up as the implementation of HIPC Initiative-financed programs gathers steam. The performance of traditional agricultural export crops, which is estimated to be good in 2003 (particularly for cocoa and bananas), is

expected to remain relatively strong in 2004. Aluminum exports are projected to rise in line with improved electricity supply. On this basis, the current account deficit (including grants) should narrow from 7.0 percent of GDP in 2002 to 3.1 percent in 2003 and further to 2.7 percent in 2004 (Table 10 and Figure 4).

C. Fiscal Policies

18. **Strengthening non-oil revenue and improving the overall quality of the tax system are two key policy objectives for 2004 and the medium term** (Box 3 and paras. 24–27 and Tables 2 and 3 of the MEFP). The authorities intend to make up in 2004 for part of the setback experienced in non-oil revenue in 2003. They argued, however, that, in order to achieve a non-oil revenue mobilization effort fully commensurate with their initial PRSP target for 2004 (16.8 percent of non-oil GDP, versus a revised target of 16.6 percent), they would have had to propose to parliament additional tax policy measures, which, however, would have been difficult to implement in a presidential election year.

19. **Noninterest current expenditure will be significantly reduced in 2004, and renewed attention will be given to the payment of unpaid bills to the public utility and transport companies.** Consistent with this approach, the authorities agreed to adhere to a quarterly schedule of cash payments to utilities (quantitative benchmark). As these cash payments will not be sufficient to address the solvency problem of some of these companies, the authorities intend to include a provision of CFAF 10 billion (0.15 percent of GDP) in the 2004 budget to cope with the most pressing restructuring needs (para. 30 of the MEFP). In response to the authorities' proposal to embark on a process of offsetting cross liabilities between the government and the utilities and CAMAIR, the staff urged them not to resort to such offsets until an audit of outstanding cross liabilities had been completed.

20. **The authorities indicated their intention to purchase a presidential aircraft for sovereign and security reasons.** The staff cautioned that such an operation could have adverse implications for the fiscal position in the current program period, as it might require offsetting measures elsewhere. In this respect, the authorities have made a commitment to proceed with this purchase in a manner that would not affect fiscal sustainability or breach the PRGF-supported program's prohibition on nonconcessional borrowing, and to keep the staff informed (para. 30 of the MEFP) on progress in the transaction.[14]

21. **The government has been making progress in improving the transparency and effective management of domestic public debt** (para. 34 of the MEFP). The preliminary evaluation of the stock of outstanding debt as of end-2002 and of the scheduled payments in

[14] The staff will be able to make a determination of the possible implications of the aircraft purchase only when more detailed information on the financing of the whole operation becomes available.

2003–04 constitutes a useful vehicle for monitoring domestic debt flows under the third annual program. The ongoing comprehensive update by an independent auditor of the outstanding stock as of end-June 2003, including the cross liabilities between the government and the utilities, will provide a more detailed assessment; moreover, the action plan based on the audit of the debt agency's activity should establish the basis for strengthening the transparency of the agency's operations.

22. **The government stated its resolve to give priority to the implementation of the HIPC Initiative-financed programs endorsed by the consultative committee established to follow up on the use of HIPC resources.** The staff underscored the importance of early and full implementation of the streamlined administrative and monitoring procedures already taken to improve the committee's operations (para. 35 of the MEFP). This is particularly critical, given continuing concerns expressed by civil society and the donors about repeated delays.

23. **Overall, the measures envisaged in the program will strengthen the fiscal position and contribute to meet the fiscal targets**. The staff is of the view that (i) the clear formulation of a repayment schedule plan in 2003-04 to strengthen the monitoring and transparency of domestic debt operations; and (ii) measures to underpin the envisaged fiscal program for 2004[15] are sufficiently strong to support the authorities' request for a waiver for the non-observed ceiling on net bank credit to the government.

D. Monetary and Financial Sector Issues

24. **The design of the monetary program for July 2003–June 2004 takes into account the likely fiscal outcome for 2003, the fiscal objectives for 2004, and the monetary policy objectives of the BEAC** (para. 36 and Table 1 of the MEFP, and Table 11 and Figure 5).

25. **The authorities have made good progress in implementing the recommendations of the May 2000 Financial Sector Assessment Program.** As several banks further consolidated their financial position in 2002 and in the first half of 2003, Cameroon's commercial banking system is broadly sound. The staff observed, however, that efforts were needed for some of the commercial banks to comply with the risk concentration ratio and to strengthen their internal controls, in line with regional regulations. The staff also expressed concern about the growing size of the stock of nonperforming loans at the government-owned housing bank.[16] The authorities responded that they intended to present to the regional banking supervision agency (COBAC) a plan to address the managerial and financial

[15] The draft budget law for 2004 is expected to be submitted to the National Assembly in early December and to be consistent with program objectives.

[16] The interest rates on these loans are subsidized through the receipts of a direct tax on salaries.

deficiencies of the bank. The staff also encouraged the authorities to proceed swiftly with the reform of the Postal Savings Bank, in line with the plan formulated with the assistance of the World Bank (para. 44 of the MEFP).

26. **The authorities reiterated their commitment to promote the microfinance sector and to strengthen its supervision consistent with regional regulations** (para. 45 of the MEFP). Moreover, in order to increase companies' access to long-term private financing, a national stock exchange was established in Douala, beginning its operations in March 2003. The staff encouraged the authorities to initiate the preparatory work for the issuance of government bonds to gradually replace the BEAC's statutory advances to the government, with a view to contributing to the development of a primary bond market in Cameroon.

27. **The authorities have started to be involved in anti-money laundering and combating the financing of terrorism (AML/CFT) initiatives.** The staff welcomed the adoption of a common regional regulatory framework by the CEMAC in April 2003 to ensure the coordination of AML/CFT efforts. The staff encouraged the authorities to implement the provisions of the banking secrecy law adopted by the National Assembly in March 2003 in a manner consistent with the requirements of this new regional regulation.

E. Fiscal Transparency and Governance

28. **The government has reiterated its commitment to pursue the implementation of its ongoing program to increase transparency and efficiency in budgetary resource allocation** (para. 32 of the MEFP). The completion of the implementation of the integrated information and management system (IFMS) of government revenue and expenditure launched in late December 2001 (prior action) will be in this respect a key achievement. This should ensure that all central government financial operations at end-December 2003 would be processed on this basis and under the new budget classification system (structural performance criterion). To maintain the momentum in improving fiscal transparency and the quality of the expenditure program, the government also intends to (i) complete the ongoing audit of the treasury; and (ii) enhance its efforts to track poverty reduction-related outlays.

29. **The authorities have agreed to implement a number of additional significant actions to further enhance the transparency of central government financial operations and optimize the cash treasury operations.** These include, first, the consolidation of the corrective actions taken to prevent the recurrence of the problem of uncashed taxpayers' checks (prior action). Second, the government will transform into regular treasury accounts, by end-December 2003, the accounts opened by ministries and other government entities at commercial banks outside those held by the treasury (structural performance criterion). Such a practice has been inconsistent with the principle of the unified system of budgetary operations introduced in 1998, and has also become a concern about the possibility of extra-budgetary operations.

30. **The staff underscored that the various measures envisaged by the government to improve governance** (Table 4 and para. 38 of the MEFP) **and combat corruption need to**

be prioritized. Among these, they encouraged the authorities to focus their immediate attention on those measures that would translate quickly into concrete results to improve business confidence. These include (i) the early adoption of a new public procurement code; and (ii) the continued implementation of actions to curb the abusive recourse to *saisie-attribution,*[17] including the signature of the *accord de siège* of the BEAC that will allow for an extension to the national branches of the BEAC of the immunity from national judiciary decisions currently enjoyed by the BEAC headquarters only. The staff also underlined that, in line with the World Bank's recommendations, the implementation of the key HIPC Initiative completion point triggers on consolidating the legal and judiciary system should also be a priority.[18]

F. Real Sector Reforms

31. **Intensified and sustained efforts are needed to accelerate the implementation of structural reforms under the World Bank's SAC III** (Table 4 and paras. 39–41 and 43 of the MEFP). Understandings have recently been reached between the World Bank and the authorities on the next steps toward achieving the privatization goals and reforming the port sector. Early and tangible results in this area will enhance the prospects for increased productivity and diversification of the non-oil economy. This applies also to the forestry sector, where governance concerns are particularly important and reforms could help to improve revenue collection. Beyond the SAC III reforms, the staff urged the authorities to formulate an action plan that will truly address the structural, managerial and financial deficiencies of CAMAIR and assess all possible options for its future. Given that the operations of the company were suspended again in November 2003 and a new management was subsequently appointed, it is essential to finalize the action plan as scheduled by end-2003.

32. **The government has directed its attention to reforming the energy sector, while resuming efforts in the petroleum sector** (para. 47 of the MEFP). It has started work on the formulation of a comprehensive strategy and a well-defined action plan for the energy sector, with a view to increasing power supply, with assistance from the World Bank and other

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[17] This term refers to the execution of a judiciary order under which a person's monetary assets in possession or under control of another entity (e.g., a bank) are applied to the payment of debt owed to a third party, along with the imposition of excessive penalties (*astreintes*) and limited recourse to appeal.

[18] These are (i) finalization of the action plan to reform the judicial system, based on a recently completed audit; (ii) implementation of the provisions of the law specifying the responsibilities, organization, and functioning of the external control audit body for state finances of Cameroon's Supreme Court; and (iii) finalization of the draft law to establish the Constitutional Council.

development partners. The staff stressed the importance of speedy action in this area to enhance the prospects for achieving the growth targets for 2004 and the medium term. They also encouraged the authorities to quickly resume the reform process in the petroleum sector, which has been lagging for more than two years, in order to enhance efficiency and limit the scope for the diversion of petroleum supplies.

G. Social and Poverty Reduction Policies

33. **The government will endeavor to rely on growth-oriented and pro-poor program budgets to implement its social and poverty reduction policies**, including timely and full implementation of the HIPC Initiative-financed programs, as set forth in the PRSP. The authorities were encouraged in this respect by the outcome of the household survey (ECAM II) included in the PRSP, which indicated a reduction of the level of poverty by 13 percentage points between 1996 and 2001. The increased availability of funds is expected to facilitate the implementation of the HIPC Initiative completion point triggers in the education and health sectors, including the fight against HIV/AIDS.

34. **The authorities consider that, to attain the PRSP's objectives, it will also be critical to improve the efficiency of expenditure allocation targeting the poor and vulnerable groups.** In particular, efforts need to be intensified as regards the provision of public services in the priority social sectors. To this end, the authorities have entrusted the National Institute of Statistics, in cooperation with the Ministries of Finance and Budget, Education, and Health and with World Bank assistance, to conduct a survey on budget tracking and a beneficiary assessment of public services delivery in health and education.

H. External Sector Policies

35. **While Cameroon has maintained a large part of the competitiveness gains that resulted from the 1994 devaluation of the CFA franc, the appreciation of the real effective exchange rate since 2002 might have contributed to some erosion of competitiveness, especially in the manufacturing sector.** The real effective exchange rate appreciated by 8.3 percent between end-2001 and June 2003 (Figure 6), reflecting, notably, the nominal appreciation of the euro vis-à-vis the U.S. dollar. The authorities expressed the view that, given the fixed peg of the CFA franc to the euro, continued implementation of prudent financial policies, combined with the expected effects of the improved public investment program and the envisaged efficiency-enhancing reforms, would help increase productivity gains.

36. **The authorities have reiterated their support for regional trade integration.** They are committed to (i) implementing the regional foreign exchange regulations by end-

December 2003 (structural performance criterion)[19]; and (ii) completing a review of nontrade barriers by end-March 2004 (para. 48 of the MEFP). The staff stressed the need for the authorities to play a more proactive role in regional integration efforts, including on tariff reforms, given the beneficial impact that the maintenance of regional standards could have on the overall business climate and transparency in Cameroon.

37. **The authorities are working to improve debt management and maintain a prudent borrowing stance** (Figure 7). Updated estimates and projections indicate that the net present value (NPV) of debt-to-export ratios is likely to remain below 150 percent from 2004 onward, broadly in line with the projections prepared at the time of the HIPC Initiative decision point. The debt service-to-exports ratio after debt relief is projected to stabilize at 12.7 percent on average during 2003–06 (Table 2 and Appendix II). Following the January 2001 Paris Club rescheduling, the authorities signed bilateral agreements with all official creditors except Saudi Arabia (with which negotiations are under way). The repurchase agreement on bank and nonbank debt reached in May 2002 was completed in August 2003 with financial assistance provided by France, Norway, and the International Development Association, as well as Cameroon's own budgetary resources (para. 49 of the MEFP).[20]

38. **Cameroon has had a good record of servicing its debt to the Fund.** As suggested by the projected low levels of debt-service payments to the Fund relative to exports and government revenues, Cameroon is expected to continue to meet its future financial obligations to the Fund in a timely manner (Table 12).

I. Progress Toward the HIPC Initiative Completion Point

39. **Progress toward meeting the completion point gained momentum** with the establishment in October 2002 of an Interministerial Committee to monitor progress in completing and implementing the PRSP and attaining the HIPC completion point triggers. Overall, reasonably good progress has been made on the macroeconomic front and public expenditure management (Table 4 of the MEFP). Some progress has also been made on fiscal transparency and in the education and health sectors. However, intensified and sustained efforts will be needed to ensure the successful implementation of the other completion point triggers relating, in particular, to first-year implementation of the PRSP,

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[19] Cameroon is the only country in the CEMAC that does not effectively apply the harmonized regulations, which were adopted by the CEMAC Council of Ministers in April 2000 and constitute an important step to promote and to facilitate trade and capital transactions in the region.

[20] The agreement involved a repurchase of principal at 14.5 percent of face value with complete forgiveness of arrears on interest. Most (54) banks and nonbank creditors accepted this package, but several (22) have not agreed.

improved governance, the Bank's SAC III, and social services delivery. To help accelerate the process, in October 2003 the government established a technical committee to monitor the implementation of the PRSP.

J. Risks to the Program

40. **In the staff's view, there are four main risks to the third annual program.** First, a relaxation of coordination within the government and among key senior officials in the administration could weaken program implementation and monitoring, particularly as regards the tax reform and expenditure program and the HIPC Initiative completion point triggers. In particular, in the run-up to the presidential elections, it would be important to maintain the reform effort and the fiscal path. Institutional capacity limitations remain, and these have contributed to delays in the implementation of the public investment program and structural reforms since the inception of the PRGF-supported program. Second, real GDP growth is projected to increase over 2003–06 on account of the direct and indirect effects generated by a gradual increase in HIPC Initiative-financed and other government noninterest expenditures. The ability of the authorities to spend the available HIPC Initiative resources on quality programs to improve human and physical capital will be critical to attain the targeted growth rate projections over the medium term. Third, Cameroon's economy remains vulnerable to exogenous factors, particularly with regard to the fluctuations in the terms of trade. Fourth, a lack of determination to address the fragile financial position of some public utility and transport companies could be detrimental to economic activity, as well as to the budget and fiscal sustainability. It will also induce a further deterioration in the services supplied to the private sector, which could undermine other efforts to promote an environment conducive to investment.

IV. Staff Appraisal

41. **Overall, the program's macroeconomic targets have been broadly met,** notwithstanding the nonobservance of the end-September 2002 performance criterion on net bank credit to the government and slower-than-expected progress in structural reforms. This outcome is attributable to a prudent budgetary stance on noninterest current expenditure and some improvement in public expenditure management, which made possible to meet the targeted primary and overall fiscal surpluses. Reasonably good progress has also been made in implementing financial sector reforms. Against this backdrop, overall economic activity has remained sustained, although benefiting from the positive spillover effects of the construction of the Chad-Cameroon pipeline; inflation has declined; and Cameroon's contribution to the net foreign assets of the regional central bank has increased.

42. **However, while efforts continued in some areas, program monitoring and policy slippages emerged in late 2002 and the first half of 2003.** These included, notably, a relaxation in the procedures for the encashment of checks issued by taxpayers, a slower-than-expected non-oil revenue mobilization effort, the inability to implement several tax measures envisaged for 2003, and a continued slow implementation pace for the programmed measures in governance and the real sectors. To offset these slippages and ensure achievement of the

targeted primary and overall fiscal surpluses, the government had to compress substantially public investment outlays. Delays experienced in the management of HIPC Initiative programs also contributed to the slower execution pace of the public investment program. These slippages will have to be redressed to ensure achievement of the objectives and policy priorities of the PRSP and PRGF-supported program. There is no room for complacency if the PRGF-supported program is to be implemented in a timely fashion.

43. **The third annual program embodies a renewed emphasis on the non-oil revenue mobilization effort and continuation of a prudent expenditure stance.** The authorities will need to sustain their efforts to modernize tax administration through the establishment of the large taxpayers' unit, and broaden the tax base through the elimination of ad hoc customs and tax exemptions. Maintaining strict expenditure ceilings for the wage bill and transfers and subsidies will be critical to ensure that the targeted ceilings for noninterest current expenditure are respected.

44. **Reversing the deterioration of the financial operations of the public companies and the utilities will be critical.** Proper use of the budgeted appropriations for the timely payment of the government's utility bills and official travel expenses is required to stop the accumulation of unpaid bills. The staff supports the inclusion of a budgetary provision in the 2004 Budget Appropriation Act for restructuring public companies. The action plan on the future of CAMAIR should be formulated on a timely basis.

45. **The authorities' decision to speed up the implementation of the HIPC Initiative-financed programs in late 2003 and in 2004 is welcome.** It is hoped that the HIPC Initiative consultative committee will be functioning effectively, and that available HIPC Initiative resources will be disbursed on a timely basis, while the quality of the HIPC Initiative-financed outlays is safeguarded.

46. **The staff supports the authorities' key objective of strengthening fiscal transparency, including the completion of the implementation of the IFMS for all central government revenues and expenditures.** The authorities should be commended for their steady efforts to adhere to the agreed timetable and to implement this key measure substantively. In this context, it is hoped that the measures taken earlier this year and implemented by July-August 2003 will help prevent the recurrence of the problems in reconciling fiscal data identified in November 2002.

47. **Notwithstanding recent progress in governance, intensified efforts are needed to create a business climate that is truly conducive to private investment.** Timely implementation of several key actions programmed in this area will be crucial to help achieve this goal. These are the following: the forthcoming issuance of the new public procurement code, which will represent a major step toward establishing clear accountability on the part of the government and improving governance more generally; the effective entry into force of the new CEMAC foreign exchange regulations; the full implementation of the measures taken in the area of *saisie-attribution,* including the signature of the *accord de siège* of the

BEAC; and actual reform of the judicial system, based on the recommendations of the recently completed technical audit of the system.

48. **The staff welcomes the authorities' commitment to move forward with the implementation of structural reforms in the real and financial sectors.** Their timely and full implementation will be critical to achieve the private investment and growth objectives and also to reach the HIPC Initiative completion point, particularly in light of the substantial delays in structural reforms to date. The staff supports the authorities' intention to formulate a strategy and an action plan to increase power supply, with a view to enhancing the prospects for higher growth and improved living standards. Progress is also expected with the structural reforms in the petroleum sector, which is important given the long-term decline in oil output. The intention to deepen the financial sector reforms, including, in particular, with respect to microfinance, and actions taken to strengthen anti-money laundering are welcome.

49. **Close and sustained monitoring, and enhanced coordination within the government, will be critical to the successful implementation of the third annual program and the first year of the PRSP.** Improved macroeconomic performance and progress in implementing structural reforms have proved to contribute to poverty reduction, as indicated by the 2001 household survey.

50. **Notwithstanding the substantial delays in reaching understandings on the third annual program, these demonstrate the authorities' renewed commitment to carry out the fiscal consolidation and to implement the policy and reform priorities of the PRSP and the PRGF-supported program.** With this resolve, the authorities are likely to be better prepared to cope with possible external shocks during the third annual program and thereafter. In light of these considerations, the corrective measures taken by the authorities to strengthen fiscal operations in response to the nonobservance of quantitative performance criteria, Cameroon's overall good record of macroeconomic performance, and the strength of the proposed third annual program, **the staff recommends that the Executive Board approve the request for a waiver, complete the fourth review under the PRGF arrangement, and extend the PRGF arrangement and HIPC Initiative interim assistance through December 20, 2004.**

Box 1. Poverty Profile and Main Outcome of the 2001 Household Survey (ECAM II)

Poverty is a multidimensional phenomenon, generally defined in terms of both income and nonincome indicators, such as the lack of education, skills, and shelter, poor health and access to water and sanitation, and malnutrition. **A first household survey was completed in 1996 (ECAM I) and a second one in 2001 (ECAM II).**

Income poverty. The results suggest a significant decline in the level of poverty between 1996 and 2001. In 2001, some 6.2 million people, or about 40.2 percent of the Cameroonian population, were poor;[1] this compares with 53.3 percent in 1996. The depth of poverty (defined as the difference between the average income of poor households and the poverty line) was reduced from 19.1 percent in 1996 to 14.1 percent in 2001. The improvement reflects mainly a better macroeconomic performance and progress made in implementing key structural reforms since 1999. There was, however, little change in the inequality in the nationwide distribution of income. The Gini coefficient remained unchanged between 1996 and 2001. Moreover, poverty still varies significantly by region and socioeconomic group.

Poverty Profile Indicators

	1996	2001
Incidence of poverty (in percent)		
Urban	41.4	22.1
Rural	59.6	49.9
Overall	53.3	40.2
Poverty depth (in percent)		
Urban	14.7	6.3
Rural	21.5	18.3
Overall	19.1	14.1

The 2001 survey shows that poverty affects almost half of the population in rural areas, compared with about 22 percent in urban areas. Poverty is inversely related to the educational level, and increases with the size of the household and the age of the head of household. From the gender standpoint, the two main surveys conducted in Cameroon shows that the proportion of poor men (40.6 percent) exceeds slightly that of poor women (38.7 percent).

Nonincome indicators. Some social indicators improved between 1996 and 2001. The net school enrollment rate rose from 76.3 percent in 1996 to 78.8 percent in 2001. The literacy rate increased from 61.5 percent to 67.9 percent between the same two years. However, the quality of education deteriorated, especially in terms of dropout rates. Official statistics show that health indicators deteriorated between 1991 and 1998, with the infant mortality rate and the malnutrition rate rising between 1991 and 1998, from 65 percent to 77 percent and 32 percent to 44 percent. Maternal mortality during the same period remained stable at 430 per 100,000 births.

Poverty and social impact analysis. The results of the two household surveys show that the reduction in poverty between 1996 and 2001 is mainly due to GDP growth; the improvement in the distribution of income had a very limited impact. In line with the PRSP, a major focus of the PRGF-supported program for 2003 and 2004 is on the continuation of public expenditure reforms, with a view to improving public resource management and the composition of public spending and thus providing for improved access of the poor to social services and basic economic infrastructure. Other pro-poor measures include tax exemptions granted in support of HIV/AIDS programs and the implementation of the personal income tax reform, which includes a higher tax threshold on personal income tax.

1/ The poverty line was set at CFAF 185,490 per person per year.

Box 2. Sources of Growth—Sectoral Contribution and Other Contributing Factors, 2003–06

Real GDP growth for 2003–06 is projected to be close to the average real growth since the devaluation of the CFA franc in January 1994. During 1994/95–2001/02 (July-June), average real GDP growth reached 4.8 percent, while GDP growth is projected to average 4.9 percent annually during 2003–06. Oil volume, which declined on average by 1 percent during 1994/95–2001/02, is assumed to decline by 5.5 percent on average during 2003–06. However, non-oil GDP is expected to grow at an average annual rate of 5.3 percent during 2003–06, versus a rate of 4.9 percent during 1994/95-2001/02. **The acceleration of non-oil growth reflects, in part, the incremental effect stemming from a gradual increase in government spending related to the implementation of the HIPC Initiative and its spillover effects on economic activity.**

Noninterest budgetary expenditure is projected to rise by 1.2 percentage points of GDP (cumulatively) during 2003-06 (from 14.8 percent of GDP to 16.0 percent of GDP), with a projected cumulative decline of 0.6 percent of GDP in noninterest current expenditure (excluding the HIPC Initiative-financed spending) offset by increases in current HIPC spending of 0.3 percent of GDP and in capital outlays of 1.5 percent point of GDP.

The increase in government noninterest expenditure will be funded by the savings from the debt relief under the HIPC Initiative. HIPC Initiative-financed spending is targeted to grow from 0.7 percent of GDP in 2003 to 2.2 percent of GDP in 2006. This assumes that the HIPC Initiative completion point will be reached in 2004, upon which additional bilateral financing resulting from the cancellation of post-cut-off debt due to France will be available at an average annual amount of CFAF 75 billion as of 2005 (0.9 percent of GDP). Most of the spending is to be directed to capital outlays, thereby contributing largely to the projected rise of total domestic investment from 17.3 percent of GDP in 2003 to 18.7 percent of GDP in 2006 (Table 9 and Figure 3). As indicated in the table below, the incremental effect on GDP growth is essentially based on the assumption that HIPC Initiative savings, albeit technically available, will be disbursed gradually. The progressive use of HIPC Initiative savings reflects the need to (i) keep the macroeconomic framework within sustainable limits; and (ii) raise only gradually the rate of absorption of available resources in line with the building up of administrative capacities.

HIPC Assistance and Disbursements: Contribution to Growth, 2001-10

(In billions of CFA francs, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assumed HIPC debt relief (annual flow) (I) 1/	58	68	61	49	45	43	46	46	40	37
French additional cancellation (C2D) (II)	0	0	0	32	75	75	75	75	75	75
Absorption rate (in percent) (III)	0	2	27	42	60	90	100	100	100	100
Disbursements (IV=(I+II)*III)	0	1	17	34	72	105	121	121	115	112
Unspent HIPC resources (V=VII in n+1)	0	58	124	134	125	97	23	0	0	0
Additional disbursements (VI= V*III)	0	1	34	56	75	87	23	0	0	0
HIPC net funds (VII=I+II-IV+V-VI)	58	124	134	125	97	23	0	0	0	0
Total budgetary spending (VIII=IV+VI) 1/	0	2	51	90	148	192	143	121	115	112
Current expenditures 1/	0	1	25	20	36	51	36	24	23	22
Capital expenditures 1/	0	1	26	70	112	141	107	97	92	89
Total budgetary spending (in percent of GDP)	0.0	0.0	0.7	1.2	1.8	2.2	1.5	1.2	1.1	0.9
Incremental growth (IX= VIII-VIII in n-1)	0	2	48	39	58	44	-49	-23	-6	-3
Incremental spending (in percent of GDP)	0.0	0.0	0.7	0.5	0.7	0.5	-0.5	-0.2	-0.1	0.0

Source: Staff estimates and projections.

1/ As reported in the table on central government financial operations.

Box 2. Sources of Growth—Sectoral Contribution and Other Contributing Factors, 2003–06 (concluded)

The growth projections assume that HIPC Initiative-related expenditures will also have some indirect effects on growth and competitiveness. First, increased public expenditures in education, health, and basic infrastructure could have spillover effects on domestic activity, particularly in construction and transportation, where new capacity investment is required. Second, with the modalities of HIPC Initiative-related spending closely monitored by the donors, more productive and efficient investment is expected, with consequent positive spillover effects on growth potential. Third, productivity gains resulting from high-quality HIPC Initiative-related public expenditure, combined with accelerated structural reforms, should help to offset the adverse effects of the recent real appreciation of the euro on the country's competitiveness, especially for manufactured products. Overall, these spillover effects are critical to sustain economic growth beyond 2006, when the additional injection of HIPC Initiative resources will subside and the private sector is expected to become the driving force.

Looking at the supply side, the sector of services, which represents some 35 percent of total GDP, is to contribute increasingly to economic growth, with a real growth rate projected to average annually 6.4 percent during 2003–06. This will mostly reflect expected buoyant activity in telecommunications, transportation, and domestic trade, as well as the direct and indirect effects of the gradual absorption of the current consumption component of HIPC Initiative-financed spending. Trade activity in Cameroon, the dominant economy of the CEMAC area, is assumed to continue to benefit from the recent pickup in regional demand for agricultural foodstuffs, owing in particular to the impact of rising income generated by increased oil production in Chad and Equatorial Guinea.

In the primary sector, the growth rate is projected at a level below the rates that were reached in the years immediately following the January 1994 devaluation of the CFA franc. These projections reflect two opposite prospective developments. On the one hand, a somewhat slower growth in volume of some traditional cash crops (such as coffee and bananas) is projected for 2004–06, reflecting prospective world prices in the international coffee market and the opening by the European Union of its banana market to new producer countries. On the other hand, the production of other traditional export commodities (such as cotton, hevea, and cocoa) is projected to rise following the restructuring/privatization of these sectors.

In the industrial sector, the restructuring of the forestry sector should continue to bolster the production of processed wood products, which represented 9 percent of Cameroon's total exports in 2002. Aluminum production, which declined by one-fourth in 2002 owing to a shortage in power supply, is expected to recover in line with the better output forecast in the electricity sector beginning in 2003, notably as a result of increasingly higher capacity and assuming good rainfalls.

The contribution from net external demand is projected to decline modestly, as the pressure from domestic demand, particularly from the public sector, on imports of investment and manufactured goods is not expected to be fully offset by a steady increase in the volume of traditional exports. As the policies toward diversification will only gradually reap their benefits, traditional agricultural exports will remain the mainstays in that sector.

Box 3. Main Tax Measures Under the Third Annual Program

The following tax measures are envisaged to raise the tax to non-oil GDP ratio by 0.4 percent of non-oil GDP to 16.6 percent.

Tax policy

- Removal of ad hoc exemptions to certain companies (effective January 1, 2004).
- Elimination of VAT exemptions on computers (in line with CEMAC regulations, effective January 1, 2004).
- Elimination of VAT exemptions on publicly procured contracts (introduced in 2003, fully in force in 2004).

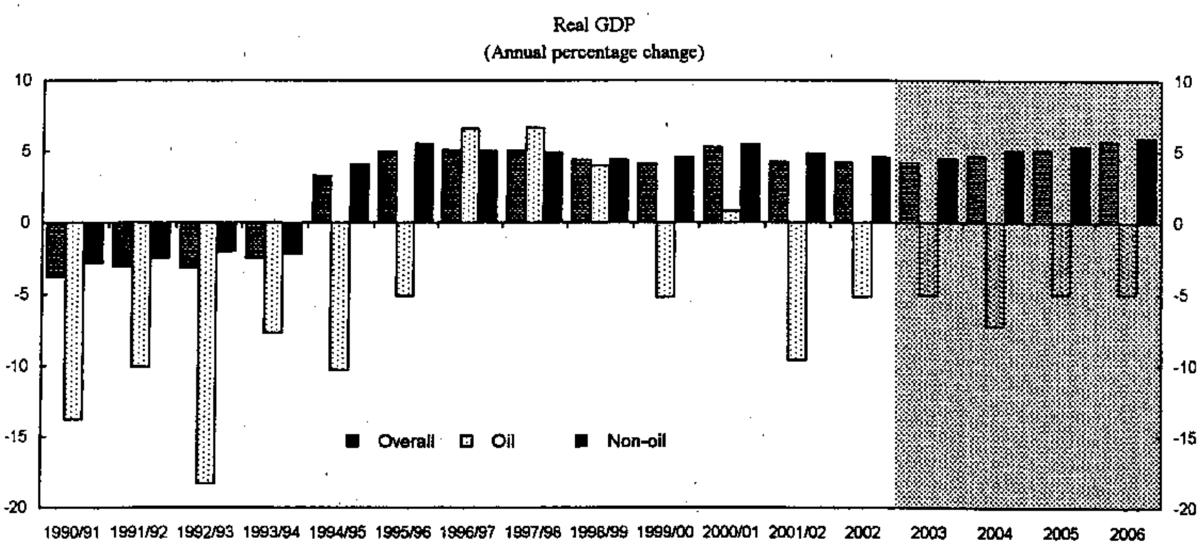
Tax administration

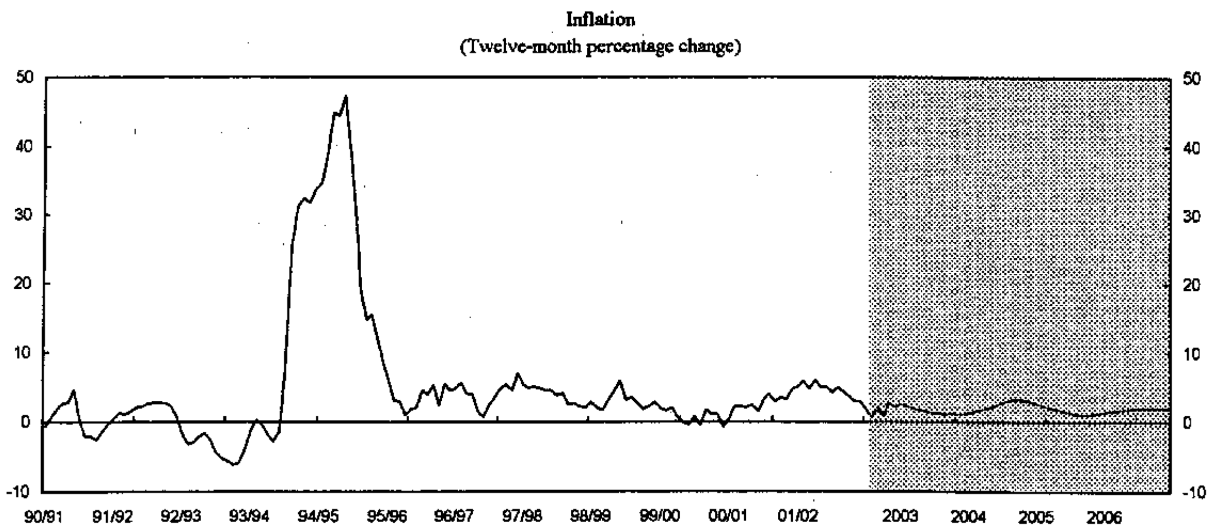
- Finalization of an action plan, in line with FAD's recommendations, to ensure the effective operationalization of the large taxpayers' unit (prior action); implementation of this action plan as of April 1, 2004 (structural performance criterion).

If these main tax measures do not appear to be sufficient to yield the projected outcome, the staff will discuss with the authorities supplementary measures in the area of excises and petroleum taxes.

The authorities will also implement a reform of the income tax for individual taxpayers on January 1, 2004, which will result in a tax relief for low-income individual taxpayers. The expected revenue loss will be offset by additional tax measures on some individual earnings (e.g., pension benefits, commercial and professional profits).

Figure 1. Cameroon: Developments in Output and Prices, 1990/91-2006 1/





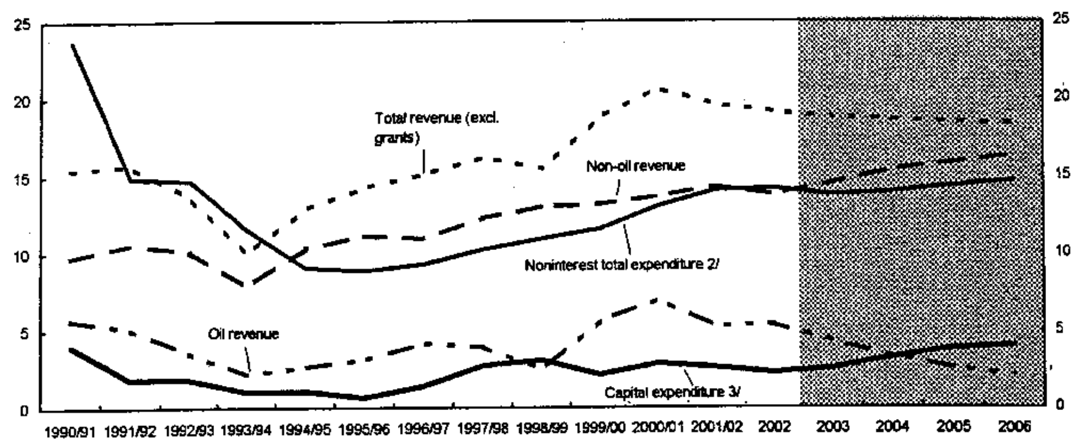
Sources: Cameroonian authorities; and staff estimates and projections.

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

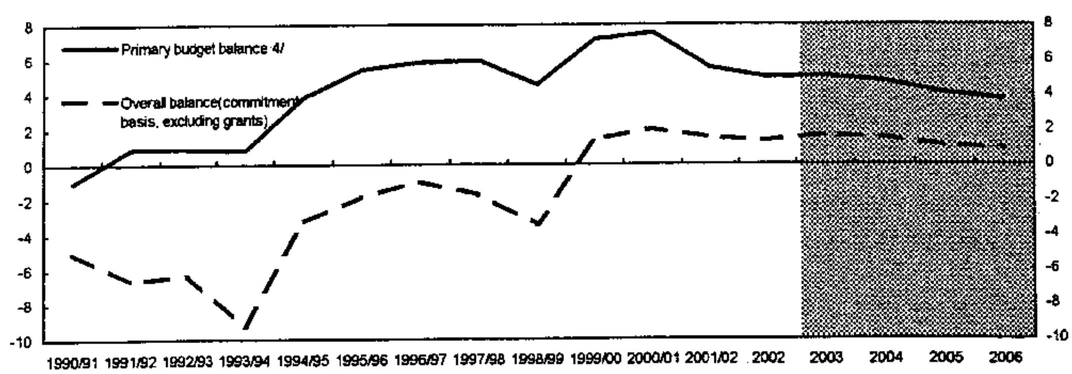
Figure 2. Cameroon: Fiscal Developments and Prospects, 1990/91-2006 1/

(In percent of GDP)

Government Revenue and Expenditure



Primary and Overall Fiscal Balances



Sources: Cameroonian authorities; and staff estimates and projections.

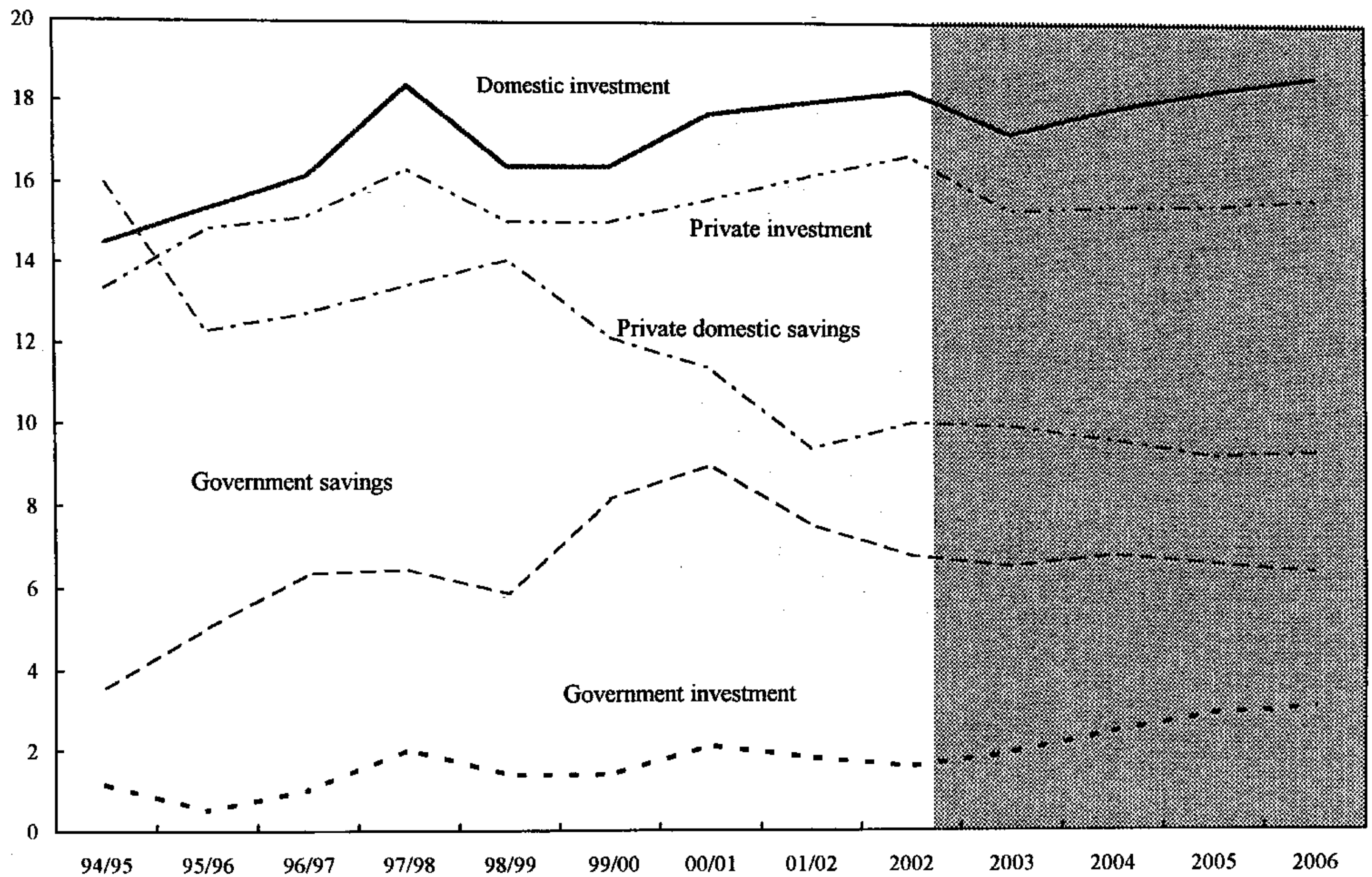
1/ Fiscal year begins in July. Starting in January 2003, the fiscal year corresponds to the calendar year. Shaded area indicates projections.

2/ Excluding foreign-financed investment and restructuring expenditure.

3/ Excluding restructuring expenditure.

4/ Defined as government revenue (excluding privatization proceeds) minus noninterest expenditure (excluding foreign-financed investment and restructuring expenditure).

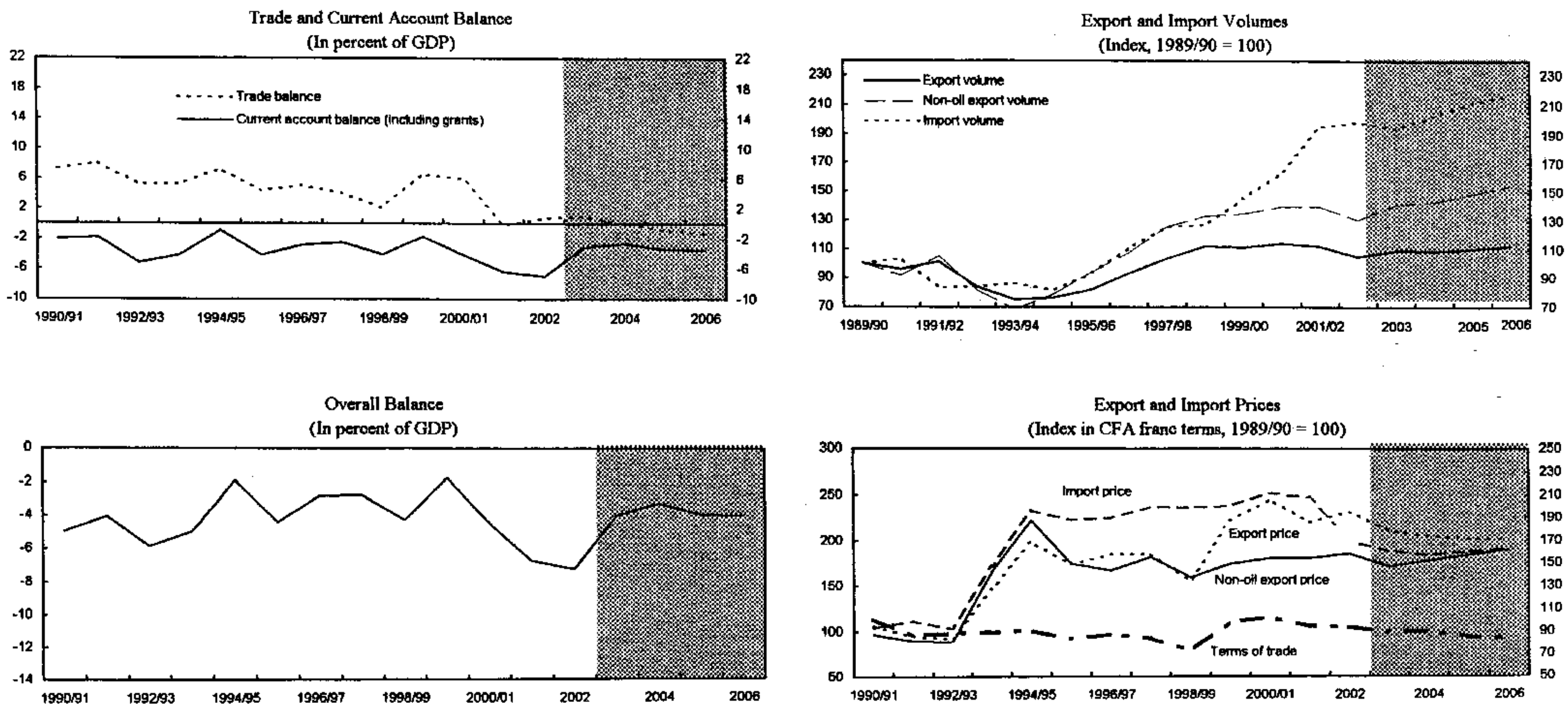
Figure 3. Cameroon: Savings and Investment Balance, 1994/95-2006 1/
(In percent of GDP)



Sources: Cameroonian authorities; and staff estimates and projections.

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

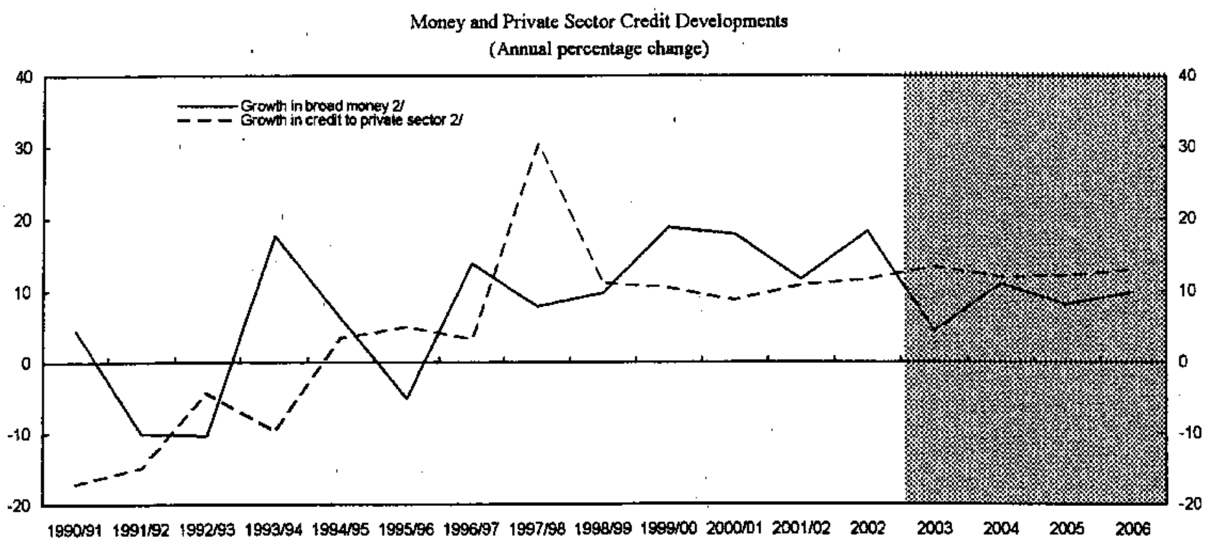
Figure 4. Cameroon: External Sector Developments and Prospects, 1990/91-2006 1/

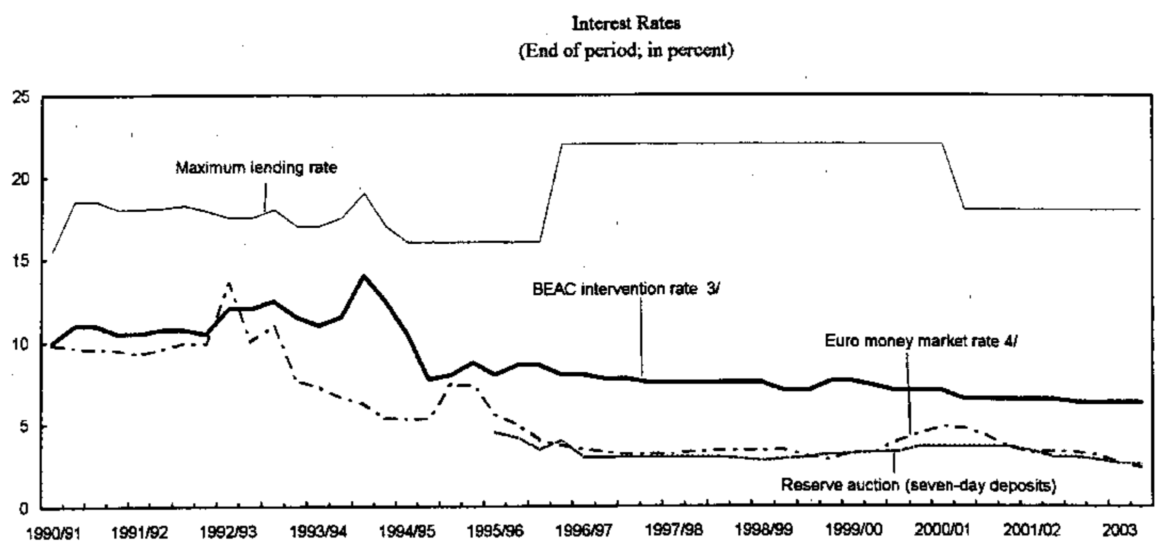


Sources: Cameroonian authorities; and staff estimates and projections.

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

Figure 5. Cameroon: Monetary Developments and Prospects, 1990/91-2006 1/





Sources: Cameroonian authorities; and staff estimates and projections.

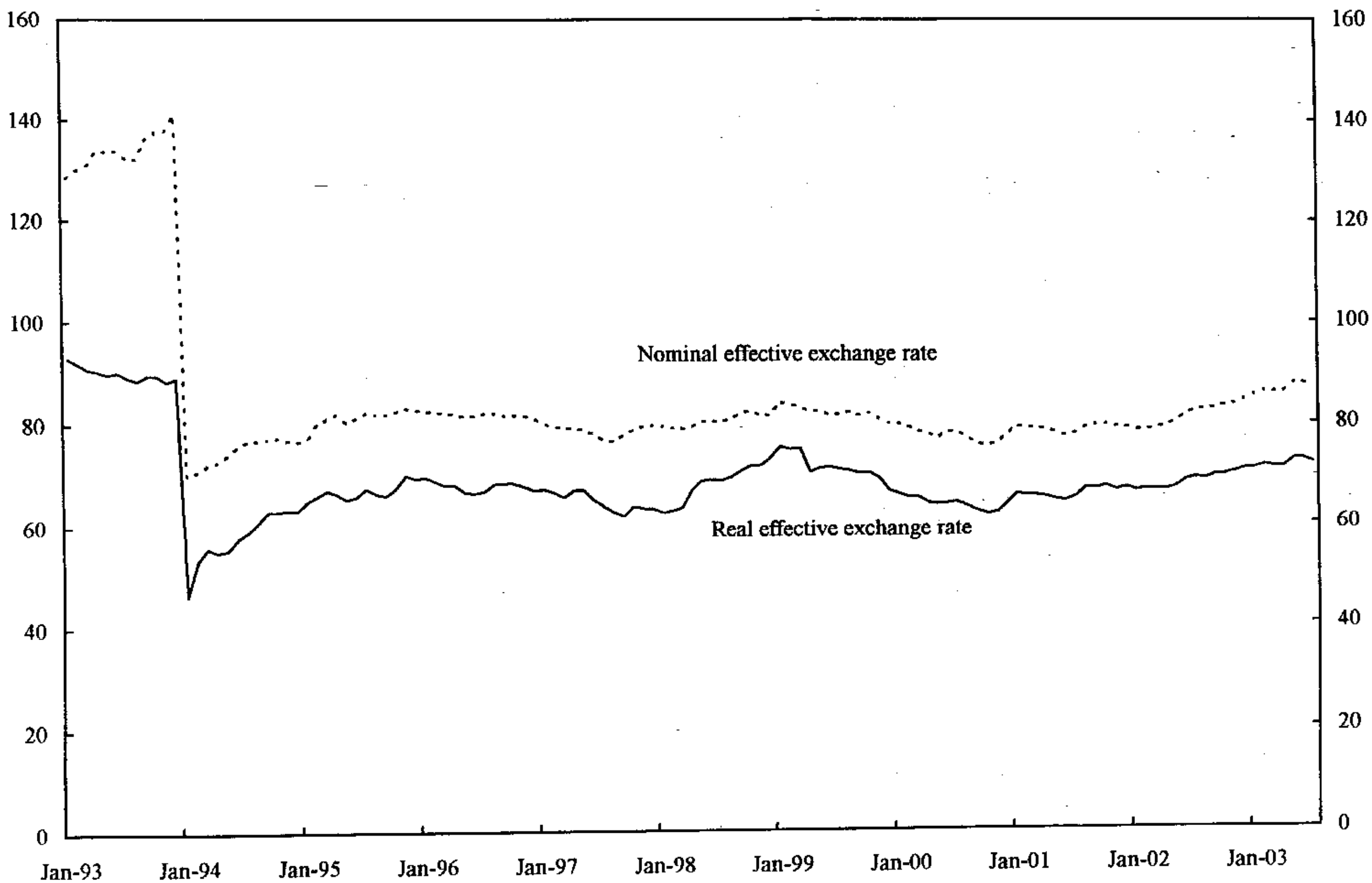
1/ Fiscal year begins in July. Starting in January 2003, the fiscal year corresponds to the calendar year. Shaded area indicates projections.

2/ Excluding information on two banks (Banque Meridien-BIAO Cameroun and Credit Agricole du Cameroun) that were liquidated in October 1996 and June 1997, respectively.

3/ In February 1996, the Bank of Central African States (BEAC) intervention rate was replaced by the auction rate, and the reverse auction rate was established (seven-day deposits).

4/ French money market rate until end-1999.

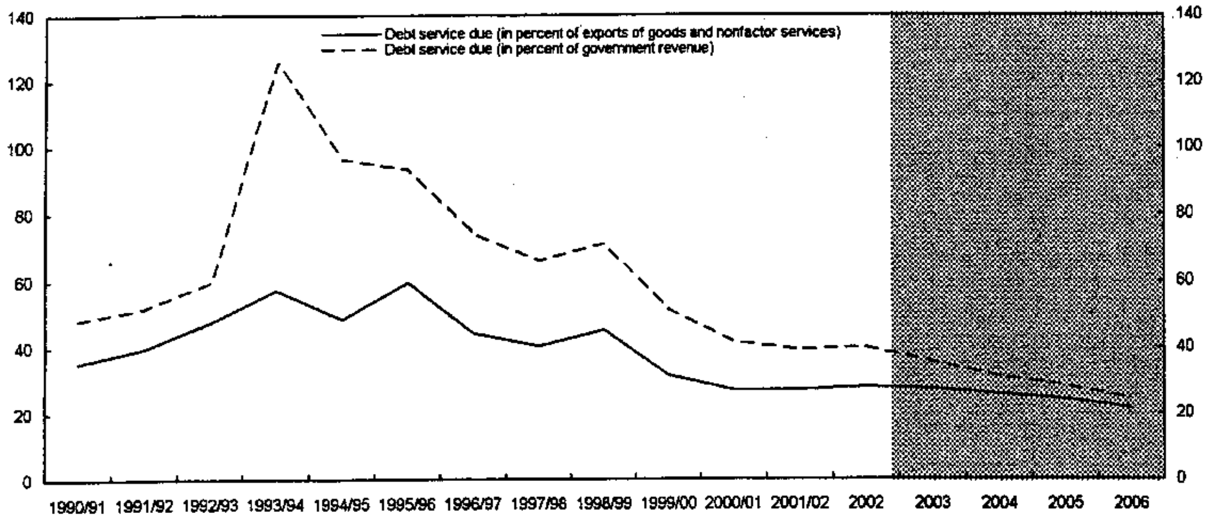
Figure 6. Cameroon: Nominal and Real Effective Exchange Rates, January 1993-July 2003
(Index, 1990=100)



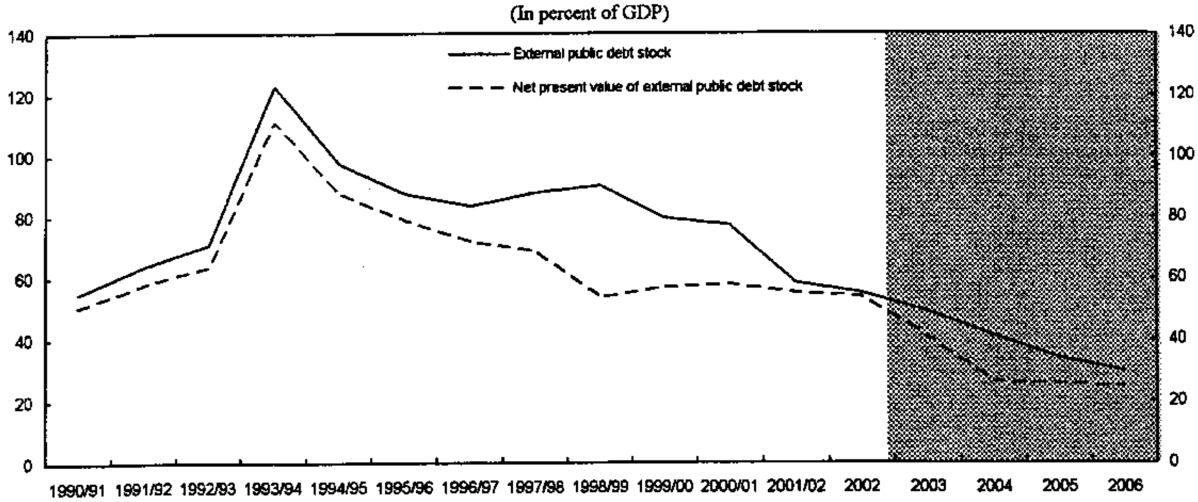
Source: IMF, Information Notice System (INS).

Figure 7. Cameroon: External Public Debt and Debt Service, 1990/91-2006 1/

Debt Service Due 2/



External Debt
(In percent of GDP)



Sources: Cameroonian authorities; and staff estimates and projections.

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

2/ Before debt rescheduling.

Table 1. Cameroon: Fund Position, 2003-06
(In millions of SDRs, unless otherwise specified)

	Outstanding on August 31, 2003	2003			2004					2005	2006
		Sep.	Oct.-Dec.	Year	Jan.-March	Apr.-June	July-Sep.	Oct.-Dec.	Year	Projections	
Transactions during the period (net)		0.00	13.21	7.81	-2.70	10.51	-2.70	7.81	12.92	-27.02	-35.61
Tranche policies and special facilities (net)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repurchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poverty Reduction and Growth Facility (net)		0.00	13.21	7.81	-2.70	10.51	-2.70	7.81	12.92	-27.02	-35.61
Disbursements		0.00	15.91	15.91	0.00	15.91	0.00	15.92	31.83	0.00	0.0
Repayments		0.00	2.70	8.10	2.70	5.40	2.70	8.11	18.91	27.02	35.61
Total Fund credit outstanding (end of period)	220.41	220.41	233.62	233.62	230.92	241.42	238.72	246.54	246.54	219.52	183.91
Tranche policies and special facilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poverty Reduction and Growth Facility	220.41	220.41	233.62	233.62	230.92	241.42	238.72	246.54	246.54	219.52	183.91
					(In percent of quota)						
Total Fund credit outstanding (end of period)	118.7	118.7	125.8	125.8	124.4	130.0	128.6	132.8	132.8	118.2	99.0
Tranche policies and special facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Facility	118.7	118.7	125.8	125.8	124.4	130.0	128.6	132.8	132.8	118.2	99.0

Sources: International Monetary Fund, Finance Department; and staff projections.

Table 2. Cameroon: Reviews and Phasing of Disbursements
Under the Three-Year PRGF Arrangement

(In millions of SDRs)

Disbursement	Date of Board Approval	Conditions	Disbursement
1	December 21, 2000	Disbursed upon Board approval of the new three-year Poverty Reduction and Growth Facility (PRGF) Arrangement	15.92
2	July 16, 2001	Disbursed upon Board approval of the first review under the arrangement and observance of end-March 2001 performance criteria.	15.92
3	January 30, 2002	Disbursed upon Board approval of the second review under the arrangement and observance of end-September 2001 performance criteria.	15.92
4	September 18, 2002	Disbursed upon Board approval of the third review under the arrangement and observance of end-March 2002 performance criteria.	15.92
5	On or after December 15, 2003	Completion of the fourth review under the arrangement by the Board and observance of end-September 2002 performance criteria and of other performance criteria under the PRGF arrangement.	15.91
6	On or after April 30, 2004	Completion of the fifth review under the arrangement by the Board and observance of end-December 2003 quantitative performance criteria, and February 29 and April 1, 2004 structural performance criteria.	15.91
7	On or after October 31, 2004	Completion of the sixth and final review under the arrangement by the Board and observance of end-June 2004 performance criteria.	15.92

Table 3. Cameroon: Selected Economic and Financial Indicators, 2000/01-2006 [1]

	2000/01		2001/02		2002	2003	2004	2005	2006
	Rev. Prog. EBS/01/105	Act.	Rev. Prog. EBS/01/215	Act.	Prel.	Rev. Prog.		Projections	
	(Annual percentage changes, unless otherwise indicated)								
National income and prices									
GDP at constant prices	5.3	5.3	4.6	4.3	4.2	4.2	4.7	5.1	5.7
Of which: non-oil GDP	5.5	5.5	5.0	4.9	4.6	4.5	5.1	5.4	6.0
GDP deflator	3.0	3.0	0.1	0.3	1.9	1.1	2.3	1.1	1.2
Consumer prices (12-month average)	2.0	2.8	2.9	4.5	2.8	1.2	2.0	2.0	2.0
Consumer prices (end of period)	2.0	4.8	3.2	3.0	2.4	2.0	1.3	2.3	1.5
Nominal GDP (in billions of CFA francs)	6,320	6,320	6,615	6,612	6,869	7,235	7,750	8,235	8,809
Oil output (in thousands of barrels a day) [2]	115	114	108	103	102	97	90	86	81
External trade									
Export volume	2.8	2.5	0.5	-1.6	-7.0	3.9	-0.4	1.5	2.0
Of which: non-oil sector	4.1	4.1	2.1	0.0	-6.6	8.1	1.3	3.8	4.2
Import volume	13.6	12.5	3.6	19.4	1.9	-2.1	4.4	4.3	2.4
Average oil export price (U.S. dollars per barrel)	24.6	25.5	19.9	20.9	23.6	26.4	23.2	21.2	19.7
Nominal effective exchange rate	...	-2.8	...	2.2	3.1	...	...	...	...
Real effective exchange rate	...	-4.9	...	4.7	3.6	...	...	...	...
Average exchange rate (CFA francs per SDR)	...	964	...	941	902	...	...	...	...
Terms of trade	1.8	4.5	-13.1	-8.4	0.0	-4.2	-0.8	-3.1	-2.1
Non-oil export price index (in CFA francs)	2.3	3.4	-5.1	0.1	2.9	-7.9	4.2	3.6	3.0
Money and credit (end of period)									
Net domestic assets [3]	6.7	4.1	8.9	-1.2	4.1	4.3	7.5	5.7	6.4
Net credit to the public sector [3]	2.1	0.6	2.4	-1.2	1.0	-1.3	1.2	-0.7	-0.6
Credit to the private sector	14.0	8.7	12.2	10.8	11.6	13.3	12.0	12.1	13.0
Broad money (M2)	13.0	17.9	9.7	11.6	18.3	4.4	11.0	8.1	9.8
Velocity (GDP/average M2)	6.2	6.2	6.0	5.6	5.4	5.2	5.1	5.1	4.9
Discount rate (end of period; in percent)	7.0	7.0	6.5	6.5	6.5	...	...	...	...
Central government operations									
Total revenue	17.7	19.0	-2.2	-1.3	5.1	3.6	6.2	5.0	6.6
Of which: non-oil revenue	11.9	12.3	9.8	9.8	3.6	11.1	13.2	9.7	10.1
Total expenditure	14.8	16.0	8.5	2.1	3.0	1.4	6.9	7.8	7.6
	(In percent of GDP, unless otherwise indicated)								
Gross national savings	15.0	13.6	14.4	11.7	11.3	14.2	15.3	15.0	15.3
Gross domestic investment	17.7	17.7	18.8	18.0	18.3	17.3	17.9	18.4	18.7
Central government operations									
Total revenue	20.4	20.6	19.2	19.6	19.2	18.8	18.7	18.5	18.4
Oil revenue	6.8	6.9	4.9	5.2	5.4	4.3	3.3	2.6	2.1
Non-oil revenue	13.6	13.6	14.3	14.3	13.8	14.5	15.4	15.9	16.3
Non-oil revenue (in percent of non-oil GDP)	15.9	16.2	16.0	16.1	15.6	16.2	16.6	16.9	17.2
Total expenditure	18.4	18.6	19.3	18.1	17.8	17.2	17.1	17.4	17.5
Noninterest total expenditure [4]	13.0	13.0	14.5	14.1	14.2	13.8	13.9	14.4	14.7
Capital expenditure [5]	2.7	2.8	4.0	2.6	2.2	2.5	3.2	3.8	4.0
Overall fiscal balance (excl. grants)	2.0	2.0	0.0	1.5	1.3	1.7	1.5	1.1	0.9
Overall fiscal balance (incl. grants)	2.4	2.4	0.5	1.9	1.6	2.6	2.2	1.7	1.5
Primary balance [4,6]	7.4	7.5	4.8	5.5	5.0	5.0	4.7	4.1	3.7
Of which: non-oil sector	0.6	0.6	-0.1	0.3	-0.4	0.7	1.4	1.5	1.6
External sector									
Current account balance (including grants)	-2.7	-4.1	-4.4	-6.4	-7.0	-3.1	-2.7	-3.4	-3.5
External public debt	75.6	77.3	65.6	58.5	55.1	49.1	41.4	34.0	29.8
	(In percent of exports of goods and services, unless otherwise indicated)								
Net present value (NPV) of external public debt [7]	179.0	198.3	197.7	194.4	170.5	166.8	116.0	119.1	119.2
External debt service (before debt relief)									
Scheduled	27.6	26.9	28.9	26.9	27.9	27.3	25.7	24.2	21.6
Scheduled (in percent of government revenue)	41.7	41.7	39.8	39.1	39.9	35.7	31.2	28.6	24.5
External debt service [7]	...	10.1	...	9.0	8.9	12.5	13.2	12.9	12.3

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2002.

2/ These estimates and projections result in an average annual decline of 5.5 percent during the period.

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

4/ Excluding foreign-financed investment and restructuring expenditure.

5/ Excluding restructuring expenditure.

6/ Excluding privatization proceeds.

7/ After debt relief.

Table 4. Cameroon: Central Government Operations, 2001-06 1/

(In billions of CFA francs, unless otherwise indicated)

	2001		2001/02		2002		2003				2004			2005	2006
	Jan-Dec.		Oct. 01 - Sept. 02		Jan-Dec.		Jan.-Jun.	July-Sept.	Oct.- Dec.	Jan-Dec.	Jan.-March	April-June	Jan.-Dec.	Projections	
	Rev. Prog	Est.	Rev.Prog.	Est.	Rev.Prog EBS/02/164	Prel. Est.	Prel. Est.	Rev. Prog		Rev. Prog.	Rev. Prog.		Rev. Prog.		
Total revenue and grants	1,298	1,282	1,315	1,301	1,322	1,335	716	361	351	1,428	371	370	1,497	1,570	1,670
Total revenue	1,267	1,252	1,277	1,278	1,286	1,316	690	336	336	1,362	358	356	1,447	1,520	1,620
Oil sector revenue	366	337	320	343	310	369	162	75	74	310	68	66	256	213	182
Non-oil sector revenue	900	914	957	935	976	947	328	262	262	1,052	290	290	1,191	1,306	1,438
Direct taxes	235	241	254	270	267	277	138	59	60	257	86	68	295	323	356
Special tax on petroleum products	64	67	63	64	62	68	39	20	21	80	21	22	88	96	104
Taxes on international trade	162	163	167	162	172	165	80	41	41	161	43	45	182	199	219
Other taxes on goods and services	367	388	404	396	411	391	213	124	124	462	120	136	547	602	665
Of which: value-added tax (VAT) 2/	313	326	338	335	344	329	163	97	98	358	93	105	426	459	497
Nontax revenue	73	55	70	68	63	72	34	17	17	68	20	19	79	87	95
Unrealized tax revenue	...	...	...	-26	...	-25	24	0	0	24	0	0	0	0	0
Total grants (current)	31	31	38	24	36	19	26	25	15	66	13	14	50	50	50
Of which: HIPC assistance	...	30	...	23	0	24	18	9	9	36	11	12	42	37	30
Total expenditure	1,186	1,189	1,317	1,189	1,337	1,225	591	298	354	1,243	325	321	1,328	1,432	1,541
Current expenditure	955	957	1,020	985	1,039	1,028	516	251	278	1,045	266	261	1,058	1,104	1,170
Wages and salaries	354	350	402	380	410	403	200	107	114	421	110	110	455	485	526
Other goods and services	254	246	307	283	319	299	151	82	88	321	78	79	316	340	370
Of which: HIPC spending	...	0	...	1	30	1.4	2	10	13	25	5	5	20	36	51
Subsidies and transfers	119	136	117	119	119	127	75	26	26	128	38	33	129	133	140
Scholarships and subsidies	56	86	45	59	46	64	42	9	9	59	22	15	60	63	65
Pensions	58	51	65	60	67	63	33	17	17	68	16	17	68	70	74
Separation grants	8	0	7	0	6	0	0	1	1	1	0	1	1	0	0
Interest due	228	225	193	203	191	199	89	35	50	175	40	39	158	146	134
External	210	201	180	180	177	178	79	30	45	154	30	38	137	125	111
Domestic	18	24	14	22	15	22	10	5	5	21	10	1	21	21	23
Capital expenditure	232	214	297	177	298	178	73	48	77	198	59	60	270	328	371
Foreign-financed investment	56	76	103	30	97	26	15	14	25	54	13	16	70	88	97
Domestically financed investment	152	113	176	123	181	128	50	30	49	129	33	41	180	225	258
Of which: HIPC spending	...	0	...	0	30	1	3	7	16	26	13	16	70	112	141
Restructuring	25	25	19	23	20	24	8	4	4	15	13	3	20	15	15
Of which: companies to be privatized	0	0	0	0	0	0	0	0	0	0	10	0	10	0	0
Unclassified expenditure	0	17	0	28	0	18	2	-1	-1	0	0	0	0	0	0
Overall balance, commitments basis															
Excluding grants	80	63	-39	89	-51	91	99	39	-18	120	34	35	118	87	80
Including grants	112	93	-1	112	-16	110	125	64	-3	186	47	49	168	137	130
Net change in arrears and statistical discrepancy	-156	-137	-389	-366	-388	-337	-12	3	-26	-35	-14	-14	-54	-54	-33
External (interest)	4	-33	-360	-357	-360	-357	0	0	0	0	0	0	0	0	0
Domestic	-160	-103	-30	-32	-28	-26	-6	0	-29	-35	-14	-14	-54	-54	-33
Deferred payments and float 3/	0	0	0	23	0	46	-6	3	3	0	0	0	0	0	0
Overall balance, cash basis															
Excluding grants	-76	-74	-429	-277	-439	-246	87	42	-44	85	20	22	64	33	47
Including grants	-44	-43	-391	-253	-403	-227	113	67	-29	151	33	36	114	83	97
Financing	-32	44	-189	253	-177	227	-113	-67	29	-151	-87	-113	-347	-347	-330
External financing (net)	-50	125	-126	421	-129	401	20	20	21	60	-24	-60	-177	-137	-97
Amortization	-324	-332	-297	-297	-347	-347	-148	-53	-123	-325	-48	-102	-298	-286	-255
Drawings	264	480	394	941	441	972	168	73	144	385	24	41	120	149	158
Project financing	56	76	103	30	97	26	15	19	19	54	13	16	70	88	97
Program financing (loans)	19	8	54	9	89	32	0	0	42	42	11	26	51	61	61
Debt rescheduling	190	396	238	901	255	914	153	54	83	289	0	0	0	0	0
Of which: HIPC assistance	...	28	...	61	...	44	20	2	2	25	0	0	0	0	0
Reduction in arrears (principal)	10	-23	-223	-223	-223	-223	0	0	0	0	0	0	0	0	0
Domestic financing (net)	18	-81	-64	-168	-48	-174	-133	-87	8	-211	-63	-53	-170	-210	-233
Banking system	-97	25	64	34	71	10	-73	-13	36	-50	-1	-26	10	-6	-12
Amortization	-82	-58	-67	-112	-63	-114	-33	-63	-11	-107	-44	-13	-117	-137	-149
Nonbank financing	-14	-25	-9	-26	-6	-18	-3	2	2	0	0	0	0	0	0
Privatization proceeds	152	23	0	0	3	2	0	0	0	0	0	0	0	0	0
Reserves	-13	0	-13	0	-12	0	0	0	-6	-6	-3	-3	-10	-10	-10
Financial sector	-1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Securitization	109	37	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT refund 2/	-44	-30	-39	-52	-41	-53	-23	-13	-13	-48	-14	-11	-53	-57	-62
Other	7	-53	0	-11	0	0	0	0	0	0	0	0	0	0	0
Remaining financing needs	77	0	580	0	0	0	0	0	0	0	54	78	233	264	233
Of which: possible debt relief	77	0	580	0	580	0	0	0	0	0	54	78	233	264	233
Memorandum items:															
Primary budget balance 4/	396	389	282	344	263	341	211	92	61	364	99	93	367	337	325
Primary budget balance (in percent of GDP)	6.1	6.0	4.1	5.0	3.9	5.0	...	...	...	5.0	...	...	4.7	4.1	3.7
Noninterest expenditure 5/	879	863	1,002	933	1,029	975	479	244	276	999	260	264	1,080	1,183	1,295
Noninterest expenditure (percent of GDP)	13.6	13.3	14.7	13.6	15.1	14.2	...	...	...	13.8	...	...	13.9	14.4	14.7
Total HIPC assistance 6/	...	58	...	84	...	69	38	11	11	61	...	...	49	45	44
Overall balance (excl. grants, in percent of GDP)	1.2	1.0	-0.6	1.3	-0.8	1.3	...	...	...	1.7	...	...	1.5	1.1	0.9
Non-oil primary budget balance (in percent of GDP)	0.5	0.8	-0.6	0.0	-0.7	-0.4	...	...	...	0.7	...	...	1.4	1.5	1.6
Non-oil overall balance (excl. grants, in percent of GDP)	-4.4	-4.2	-5.3	-3.7	-5.3	-4.0	...	...	...	-2.6	...	...	-1.8	-1.5	-1.2
Non-oil revenue (in percent of non-oil GDP)	16.0	16.3	15.6	15.4	16.0	15.6	...	...	...	16.2	...	...	16.6	16.9	17.2
Primary budget balance (excl. HIPC expenditure)	396	389	312	346	323	343	...	...	...	415	...	...	457	484	517
Primary budget balance (excl. HIPC exp. in percent of GDP)	6.1	6.0	4.6	5.0	4.7	5.0	...	...	...	5.7	...	...	5.9	5.9	5.9
Wages and salaries (in percent of GDP)	5.5	5.4	5.9	5.5	6.0	5.9	...	...	...	5.8	...	...	5.9	5.9	6.0
Capital expenditure (in percent of GDP) 7/	3.6	3.3	4.4	2.6	4.4	2.6	...	...	...	2.7	...	...	3.5	4.0	4.2

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2002.
2/ VAT revenue is on a gross basis. VAT refunds are included in financing consistent with earlier treatment in the program because of the existence of arrears.
3/ As of 2001/02, net change in domestic public arrears also indicates the amount of deferred payments.
4 / Excluding foreign-financed investment, restructuring expenditure, separation grants, and privatization proceeds.
5 / Excluding foreign-financed investment, restructuring expenditure and separation grants.
6 / Debt relief from multilateral (in the form of grants) and bilateral creditors.
7 / Including restructuring expenditure

Table 5. Cameroon: Selected Fiscal Indicators, 2001-06 1/

(In percent of GDP, unless otherwise specified)

	2001	2002 Est.	2003 Rev. Prog.	2004 Rev. Prog.	2005 Projections	2006
Total revenue and grants	19.8	19.4	19.7	19.3	19.1	19.0
Total revenue	19.4	19.2	18.8	18.7	18.5	18.4
Oil sector revenue	5.2	5.4	4.3	3.3	2.6	2.1
Non-oil sector revenue	14.1	13.8	14.5	15.4	15.9	16.3
Direct taxes	3.7	4.0	3.6	3.8	3.9	4.0
Special tax on petroleum products	1.0	1.0	1.1	1.1	1.2	1.2
Taxes on international trade	2.5	2.4	2.2	2.3	2.4	2.5
Other taxes on goods and services	6.0	5.7	6.4	7.1	7.3	7.5
Of which: value-added tax (VAT)	5.0	4.8	4.9	5.5	5.6	5.6
Nontax revenue	0.8	1.0	0.9	1.0	1.1	1.1
Total grants (current)	0.5	0.3	0.9	0.6	0.6	0.6
Total expenditure	18.4	17.8	17.2	17.1	17.4	17.5
Total HIPC expenditure	0.0	0.0	0.7	1.2	1.8	2.2
Current expenditure	14.8	15.0	14.4	13.7	13.4	13.3
Wages and salaries	5.4	5.9	5.8	5.9	5.9	6.0
Other goods and services	3.8	4.4	4.4	4.1	4.1	4.2
Of which: HIPC spending	0.0	0.0	0.3	0.3	0.4	0.6
Subsidies and transfers	2.1	1.8	1.8	1.7	1.6	1.6
Interest due	3.5	2.9	2.4	2.0	1.8	1.5
External	3.1	2.6	2.1	1.8	1.5	1.3
Domestic	0.4	0.3	0.3	0.3	0.3	0.3
Capital expenditure	3.3	2.6	2.7	3.5	4.0	4.2
Foreign-financed investment	1.2	0.4	0.7	0.9	1.1	1.1
Domestically financed investment	1.7	1.9	1.8	2.3	2.7	2.9
Of which: HIPC spending	0.0	0.0	0.4	0.9	1.4	1.6
Restructuring	0.4	0.4	0.2	0.3	0.2	0.2
Unclassified expenditure	0.3	0.3	0.0	0.0	0.0	0.0
Overall balance, commitments basis						
Excluding grants	1.0	1.3	1.7	1.5	1.1	0.9
Including grants	1.4	1.6	2.6	2.2	1.7	1.5
Net change in arrears	-2.1	-4.9	-0.5	-0.7	-0.7	-0.4
External (interest)	-0.5	-5.2	0.0	0.0	0.0	0.0
Domestic	-1.6	-0.4	-0.5	-0.7	-0.7	-0.4
Deferred payments and float	0.0	0.7	0.0	0.0	0.0	0.0
Overall balance, cash basis						
Excluding grants	-1.1	-3.6	1.2	0.8	0.4	0.5
Including grants	-0.7	-3.3	2.1	1.5	1.0	1.1
Financing	0.7	3.3	-2.1	-4.5	-4.2	-3.7
External financing (net)	1.9	5.8	0.8	-2.3	-1.7	-1.1
Of which: Amortization	-5.1	-5.1	-4.5	-3.8	-3.5	-2.9
Drawings	7.4	14.1	5.3	1.6	1.8	1.8
Domestic financing (net)	-1.3	-2.5	-2.9	-2.2	-2.6	-2.6
Of which: Banking system	0.4	0.1	-0.7	0.1	-0.1	-0.1
Amortization	-0.9	-1.7	-1.5	-1.5	-1.7	-1.7
Remaining financing needs	0.0	0.0	0.0	3.0	3.2	2.6
Of which: possible debt relief	0.0	0.0	0.0	3.0	3.2	2.6
Memorandum items:						
Primary budget balance 2/ 3/	6.0	5.0	5.0	4.7	4.1	3.7
Overall balance (com. basis, excl. grants)	1.0	1.3	1.7	1.5	1.1	0.9
Non-oil primary budget balance	0.8	-0.4	0.7	1.4	1.5	1.6
Non-oil overall balance (com. basis, excl. grants)	-4.2	-4.0	-2.6	-1.8	-1.5	-1.2
Noninterest expenditure 3/	13.3	14.2	13.8	13.9	14.4	14.7
Nominal GDP (in billions of CFA francs)	6,466	6,869	7,235	7,750	8,235	8,809

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Calendar-year estimates for 2001 and 2002 are derived from quarterly data.
2/ Excluding privatization proceeds.
3/ Excluding foreign-financed investment, restructuring expenditure; and separation grants.

Table 6. Cameroon: Oil Sector Contribution to the Government Budget, 2000/01-2006 1/

(In billions of CFA francs, unless otherwise indicated)

	2000/01 Year Prog. EBS/00/233	2000/01 Year Actual	2001/02 Year Rev. Prog. EBS/01/215	2001/02 Year Actual	2002 Actual	2003 H1 Prel.	2003 Q3 Rev. Prog.	2003 Q4 Rev. Prog.	2003 Year Proj.	2004 Q1 Rev. Prog.	2004 Q2 Rev. Prog.	2004 Year Proj.	2005 Proj.	2006 Proj.
Production, uses, and exports														
Production and uses (in millions of barrels)														
Production	39.5	41.7	39.3	37.7	37.4	17.5	9.0	9.0	35.5	8.2	8.2	32.9	31.3	29.7
Percentage change	-4.5	0.8	-5.8	-9.6	-5.0	-12.1	-5.7	-2.4	-5.1	-5.4	-6.4	-7.2	-5.0	-5.0
Uses (exports)	39.5	41.6	39.9	39.0	36.8	17.2	8.9	8.6	34.6	8.2	8.2	32.9	31.3	29.7
By SNH 2/	25.1	26.7	25.5	24.4	24.1	11.2	6.1	5.4	22.8	5.2	5.2	20.9	20.3	19.3
By petroleum companies	14.4	14.9	14.4	14.6	12.7	5.9	2.7	3.2	11.9	3.0	3.0	12.0	10.9	10.4
Value of uses (exports)	807.6	786.5	575.0	595.3	607.0	278.1	135.3	123.6	537.0	116.8	112.0	448.9	393.6	350.1
By SNH	515.1	503.7	367.5	373.8	393.9	181.2	93.6	77.5	352.2	74.2	71.2	285.3	255.9	227.6
By petroleum companies	292.5	282.8	207.5	221.5	213.0	96.9	41.7	46.1	184.8	42.6	40.8	163.7	137.8	122.5
SNH accounts 3/														
Revenue (export receipts)	515.1	503.7	367.5	373.8	393.9	181.2	93.6	77.5	352.2	74.2	71.2	285.3	255.9	227.6
Expenditure	-129.0	-109.2	-109.2	-106.3	-97.1	-43.3	-24.4	-24.5	-92.2	-20.1	-20.2	-81.0	-81.3	-81.9
Cost sharing of 50 percent with oil companies	-81.5	-84.5	-79.0	-67.2	-61.4	-29.2	-14.2	-14.2	-57.6	-12.5	-12.5	-50.1	-50.1	-50.5
Projects	-50.8	-53.4	-49.2	-48.2	-46.4	-20.0	-9.5	-9.5	-39.0	-10.3	-10.4	-41.6	-40.2	-40.5
Investment	-4.4	-5.6	-4.2	-0.9	-1.9	-3.8	-2.1	-2.1	-8.0	-0.7	-0.7	-2.9	-3.0	-3.0
Financial costs	-3.8	-4.0	-2.1	-1.5	-1.6	-0.5	-0.1	-0.1	-0.8	-0.1	-0.1	-0.5	-0.8	-0.8
Debt amortization	-22.5	-21.6	-23.5	-16.6	-11.5	-4.9	-2.5	-2.5	-9.8	-1.3	-1.3	-5.1	-6.1	-6.2
Other expenses	-32.5	-17.9	-12.1	-21.9	-22.4	-11.0	-3.4	-3.4	-17.8	-4.4	-4.4	-17.6	-17.8	-18.0
Payments to oil companies by government to ensure minimum 13 percent profit margin	-15.1	-11.7	-18.1	-17.2	-13.2	-3.1	-6.9	-6.9	-16.8	-3.3	-3.3	-13.2	-13.4	-13.5
Disposable income	386.1	394.5	258.2	267.5	296.8	137.9	69.2	52.9	260.0	54.1	50.9	204.3	174.6	145.7
Oil companies' accounts														
Export receipts	292.5	273.4	207.5	221.5	213.0	96.9	41.7	46.1	184.8	42.6	40.8	163.7	137.8	122.5
Expenditure	-136.0	-146.4	-144.8	-109.8	-114.6	-56.8	-22.2	-22.3	-101.3	-18.2	-18.3	-73.2	-59.6	-57.4
Cost sharing of 50 percent with government	-81.5	-84.5	-79.0	-67.2	-61.4	-29.2	-14.2	-14.2	-57.6	-12.5	-12.5	-50.1	-50.1	-50.5
Projects	-50.8	-53.4	-49.2	-48.2	-46.4	-20.0	-9.5	-9.5	-39.0	-10.3	-10.4	-41.6	-40.2	-40.5
Investment	-4.4	-5.6	-4.2	-0.9	-1.9	-3.8	-2.1	-2.1	-8.0	-0.7	-0.7	-2.9	-3.0	-3.0
Financial costs	-3.8	-4.0	-2.1	-1.5	-1.6	-0.5	-0.1	-0.1	-0.8	-0.1	-0.1	-0.5	-0.8	-0.8
Debt amortization	-22.5	-21.6	-23.5	-16.6	-11.5	-4.9	-2.5	-2.5	-9.8	-1.3	-1.3	-5.1	-6.1	-6.2
Theoretical tax obligations 3/	-69.6	-73.6	-83.9	-59.7	-66.4	-30.6	-14.9	-15.0	-60.5	-9.0	-9.1	-36.3	-22.9	-20.3
Payments to oil companies by government to ensure minimum 13 percent profit margin	15.1	11.7	18.1	17.2	13.2	3.1	6.9	6.9	16.8	3.3	3.3	13.2	13.4	13.5
Contribution to government budget														
Calculated	455.8	468.1	342.1	327.3	352.9	178.7	69.2	74.0	321.9	68.3	66.1	256.0	213.4	182.1
SNH	386.1	394.5	258.2	267.5	296.8	137.9	69.2	52.9	260.0	54.1	50.9	204.3	174.6	145.7
Oil companies' profit tax	69.8	73.6	83.9	59.8	56.0	40.8	0.0	19.9	60.8	12.0	12.1	36.3	22.9	20.3
COTCO (pipeline transit fee)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.1	2.2	3.1	15.5	16.0	16.1
Actual (cash basis) 4/	455.6	438.2	338.1	347.0	368.7	161.7	74.8	74.0	310.5	...	...	...	...	...
SNH's contribution	386.1	364.6	254.2	254.7	295.1	132.5	...	...	...	...	...	...	...	...
Oil companies' profit tax	69.6	73.6	83.9	92.2	73.6	29.2	...	...	...	...	...	...	...	...
Memorandum items:														
Oil price (U.S. dollars per barrel)														
World Economic Outlook series	30.3	28.2	22.9	22.6	25.0	26.6	28.5	27.8	28.5	26.8	25.7	25.5	23.5	22.0
Discount for lower quality of Cameroon's crude	2.0	2.7	3.0	1.9	1.4	3.9	2.0	3.0	2.0	2.5	2.5	2.3	2.3	2.3
Price for Cameroon's crude	28.3	25.5	19.9	20.7	23.6	22.7	26.5	24.8	26.5	24.3	23.2	23.2	21.2	19.7
Program exchange rate (CFA francs per U.S. dollar, average)	...	743.5	...	731.0	696.7	594.3	577.7	580.7	586.8	583.9	586.6	...	...	...

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2002.
2/ SNH (Société Nationale des Hydrocarbures).
3/ As reported by SNH.
4/ As reported in the government's fiscal reporting system. For Q3 and Q4 2003, estimates include the windfall profit.

Table 7. Cameroon: Quantitative Performance Criteria and Benchmarks During the Second Annual Program Under the Poverty Reduction and Growth Facility, October 1, 2001-September 30, 2002
(Situation as of End-September 2002)

(In billions of CFA francs; cumulative from October 1, 2001, unless otherwise indicated)

	Program EBS/02/164	Adjustments [1] Oil revenue	Adjustments [1] Program financing and external debt relief	Adjusted Program Target	Cumulative Estimated Outcome	Excess or Shortfall over Adjusted Target	Observed (O) or Not Observed (N)
Ceiling on the increase in net claims of the banking system of the central government [2 3 4 5 6]	23	12	30	-19	34	53	N
Floor on the primary budget balance [2 5 7]	327	12	...	339	344	5	O
Floor on the nonaccumulation of external payments arrears of the central government [2 8]	0	...	...	0	0	0	O
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government [2 9]	0	...	...	0	0	0	O
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year [2 9 10]	0	...	...	0	0	0	O
Floor on total revenue of the central government [6 11 12]	1,290	23	...	1,313	1,279	-34	N
Of which: non-oil revenue [6 12]	957	...	...	957	936	-21	N
Floor on reduction of domestic public arrears [12]	-31	...	...	-31	-8	23	N
Of which: cash payments	-31	...	...	-31	-8	23	N
Memorandum items:							
Assumed external debt relief [13]	814	...	...	814	863 [14]	...	...
External program financing	87	...	...	87	61	...	...
Of which: IMF disbursments	29			29	28		
Privatization proceeds	0	...	...	0	0	...	...
Stock of net credit to the central government	363	...	...	363	374	...	...

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

1/ Cumulative since end-September 2001.
2/ Performance criteria for end-September 2002.
3/ This target has been adjusted (i) upward for a shortfall in program financing, and external debt relief up to an amount equivalent to 50 percent of the shortfall (for a total cumulative shortfall of CFAF 35 billion); (ii) downward by the full amount of any excess of the programmed levels in program financing and external debt relief; and (iii) downward by the full amount of any shortfall in the reduction of domestic arrears, on a net basis, in comparison with the program.
4/ The flows have been adjusted on the basis of end-December 2001 actual data.
5/ The targets have been adjusted upward/downward for 50 percent of the windfall/shortfall in oil revenue.
6/ Excluding privatization receipts.
7/ Defined as government revenue (excluding privatization proceeds) minus noninterest expenditure (excluding foreign-financed investment and restructuring expenditure).
8/ Excluding reschedulable external payments arrears.
9/ In millions of U.S. dollars. Nonconcessional debt (including leases) is defined as debt with a grant element of less than 35 percent, using discount rates based on the commercial interest reference rates (CIRRs). Debt is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted on August 24, 2000.
10/ Excluding normal, import-related credit.
11/ This target has been adjusted for the full amount of higher/lower-than-programmed oil revenue.
12/ Benchmark.
13/ Including the financing gap.
14/ Excluding government-owned provisons amounting to CFAF 38 billion to cover commecial debt operation (London Club).

Table 8. Cameroon: Structural Performance Criterion and Benchmarks for the Second Half of the Second Annual Program Under the Poverty Reduction and Growth Facility, October 1, 2001-September 30, 2002

Criterion and Benchmarks	Target Dates	Status
Performance criterion for end-September 2002		
Ensure that the new expenditure management becomes fully operational and is applied in practice in the context of the latest available expenditure management software to track spending on goods and services, including the integration of the new budget classification system.	End-September 2002	Met
Benchmarks for end-September 2002		
Implement the action plan for value-added tax (VAT) credit reimbursement, as agreed with the Fund staff.	End-September 2002	Met
Launch an audit of the debt agency (Caisse Autonome d'Amortissement—CAA) operations during 2000/01 and 2001/02 (July-June), including transactions on account of the domestic public debt other than domestic and external debt service.	End-September 2002	Met by end-Nov. 2002
Evaluate the stocks of commitments that have been executed without issuance of payment orders (*bons non mandatés)*, and of the domestic public debt, both as of end-June 2002.	End-September 2002	Met by end-Dec. 2002
With respect to the procedure of *saisie-attribution,* issue a circular specifying the nature of executory titles (*titres exécutoires*) and clarifying the computation methodology for calculating penalties (*astreintes*).	End-September 2002	Met by end-Nov. 2002
Formulate an action plan for the establishment of a Constitutional Council (Conseil Constitutionnel).	End-September 2002	Met by end-Nov. 2002

Table 9. Cameroon: Savings-Investment Balances, 2000/01-2006 1/

(In percent of GDP at market prices)

	2000/01 Est.	2001/02 Est.	2002 Est.	2003 Rev. Prog.	2004	2005 Proj.	2006
Total economy (current account balance)	-4.1	-6.4	-7.0	-3.1	-2.7	-3.4	-3.5
Gross national savings 2/	13.6	11.7	11.3	14.2	15.3	15.0	15.3
Of which: domestic savings 3/	20.4	16.9	16.8	16.5	16.4	15.8	15.7
Gross domestic investment	17.7	18.0	18.3	17.3	17.9	18.4	18.7
Private sector	-7.5	-9.3	-9.6	-5.6	-5.2	-5.6	-5.5
Gross national savings	8.1	6.9	7.2	9.8	10.3	9.9	10.2
Of which: domestic savings	11.4	9.4	10.1	10.0	9.6	9.2	9.3
Gross domestic investment	15.6	16.2	16.8	15.4	15.5	15.5	15.7
Non-oil sector	-15.7	-15.1	-15.5	-10.7	-8.9	-8.2	-7.6
Gross national savings	-0.6	0.8	0.9	4.2	6.1	6.9	7.6
Of which: domestic savings	0.4	1.6	2.4	3.5	4.4	5.3	6.1
Gross domestic investment	15.1	15.9	16.4	15.0	15.0	15.1	15.3
Oil sector	8.2	5.8	5.9	5.2	3.7	2.6	2.1
Gross national savings	8.7	6.1	6.3	5.6	4.2	3.1	2.5
Of which: domestic savings	11.0	7.8	7.6	6.5	5.2	4.0	3.2
Gross domestic investment	0.5	0.4	0.3	0.4	0.5	0.5	0.4
Central government	3.4	3.0	2.6	2.5	2.6	2.2	2.1
Gross national savings 4/	5.5	4.8	4.2	4.4	5.0	5.0	5.1
Of which: domestic savings 5/	9.0	7.5	6.8	6.5	6.8	6.6	6.4
Gross domestic investment	2.1	1.8	1.6	1.9	2.4	2.9	3.0
Memorandum items:							
Gross disposable national income	93.1	94.7	94.5	97.7	98.8	99.2	99.6
Total consumption	79.6	83.1	83.2	83.5	83.6	84.2	84.3
Private	68.4	71.4	71.1	71.5	72.0	72.6	72.5
Central government 6/	11.2	11.7	12.1	12.0	11.6	11.6	11.8

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2002.

2/ Gross disposable national income minus total consumption.

3/ GDP at market prices minus total consumption, or gross national savings minus factor services (net) and unrequited transfers (net).

4/ Central government total revenue (including grants) minus current expenditure (excluding interest payments to the IMF).

5/ Government national savings minus government factor services (net) and government unrequited transfers (net).

6/ Central government current expenditure minus domestic subsidies and transfers and domestic and foreign interest payments.

Table 10. Cameroon: Balance of Payments, 2000/01-2006 1/ 2/

	2000/01	2001/02	2002	2003	2004	2005	2006
	Est.	Est.	Est.	Rev. Prog.		Proj.	
	(In billions of CFA francs)						
Current account balance	-260	-422	-480	-225	-206	-279	-305
Trade balance	381	-8	55	73	3	-73	-109
Exports, f.o.b.	1,583	1,400	1,381	1,306	1,261	1,267	1,287
Oil and oil products	779	595	604	537	449	394	350
Non-oil sector	804	804	777	769	812	873	937
Imports, f.o.b.	-1,202	-1,408	-1,326	-1,233	-1,258	-1,339	-1,396
Services (net)	-729	-505	-628	-431	-326	-324	-316
Interest due on public debt	-221	-184	-178	-155	-138	-126	-112
Other	-508	-322	-450	-276	-188	-198	-204
Transfers (net)	88	92	92	133	117	118	120
Of which : official	26	24	19	66	50	50	50
HIPC assistance	19	23	24	36	42	37	30
Inflows	100	102	102	141	125	126	127
Outflows	-12	-10	-9	-8	-8	-8	-7
Capital account balance	56	230	282	-38	13	55	132
Official capital (net)	-222	-284	-290	-229	-176	-137	-97
Program loans	16	0	32	42	51	61	61
Project loans	75	38	26	54	70	88	97
Amortization	-312	-322	-347	-325	-298	-286	-255
Private capital (net)	277	515	572	191	190	192	229
Oil sector	118	354	387	20	15	10	21
Non-oil sector	159	160	185	171	175	182	209
Direct investment	102	122	123	125	128	131	133
Privatization receipts	0	23	2	0	0	0	0
Other, including short term	58	15	60	46	47	51	76
Overall balance	-204	-192	-198	-262	-193	-224	-173
Financing	204	192	198	262	193	224	173
Bank of Central African States (BEAC)	-126	-145	-136	-27	-40	-40	-60
Use of Fund credit (net)	24	30	29	6	11	-22	-29
Other reserves (net)	-149	-175	-164	-33	-51	-18	-31
Debt rescheduling 3/	339	917	914	289	0	0	0
Of which : HIPC assistance	...	61	44	25	...	...	...
Net change in arrears 4/	-9	-580	-580	0	0	0	0
Financing gap 5/	0	0	0	0	233	264	233
Of which : Possible debt relief	0	0	0	0	233	264	233
	(In percent of GDP)						
Trade balance	6.0	-0.1	0.8	1.0	0.0	-0.9	-1.2
Current account balance							
Excluding grants	-4.5	-6.7	-7.3	-4.0	-3.3	-4.0	-4.0
Including grants	-4.1	-6.4	-7.0	-3.1	-2.7	-3.4	-3.5
Overall balance	-3.2	-2.9	-2.9	-3.6	-2.5	-2.7	-2.0
	(Percentage change, unless otherwise indicated)						
Export volume	2.5	-1.6	-7.0	3.9	-0.4	1.5	2.0
Oil sector	-0.7	-5.2	-6.6	-6.0	-5.0	-5.0	-5.0
Non-oil sector	4.1	0.0	-6.6	8.1	1.3	3.8	4.2
Import volume	12.5	19.4	1.9	-2.1	4.4	4.3	2.4
Terms of trade	4.5	-8.4	0.0	-4.2	-0.8	-3.1	-2.1
Non-oil export price index (CFA francs)	3.4	0.1	2.9	-7.9	4.2	3.6	3.0
Import price index (CFA francs)	5.6	-1.9	-0.3	-5.0	-2.3	2.1	1.8
Exchange rate (CFA francs per U.S. dollar)	743.5	732.5	696.4	...	...	...	...

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2002.
2/ Including the financing of the Chad-Cameroon oil pipeline in 2001-03.
3/ From Paris Club and other non-Paris Club creditors.
4/ Including the London Club operation, estimated at CFAF 580 billion.
5/ From 2004 onward, the financing gap will be covered through debt relief under the enhanced HIPC Initiative.

Table 11. Cameroon: Monetary Survey, March 2001-December 2004

	2001				2002				2003				2004			
	Mar.	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sept.	Dec.
									Est.		Rev. Program		Rev. Program			
	(In billions of CFA francs, unless otherwise indicated; end of period)															
Net foreign assets	76.3	83.7	145.4	128.2	214.8	223.6	211.7	298.5	321.8	267.9	276.2	299.6	312.4	315.3	328.2	351.3
Bank of Central African States (BEAC)	11.5	35.7	90.0	69.2	171.9	180.5	165.8	205.0	223.5	206.8	211.8	231.8	241.8	241.8	251.8	271.8
Commercial banks	64.8	48.0	55.4	59.0	42.9	43.1	45.9	93.5	98.3	61.1	64.4	67.8	70.6	73.5	76.4	79.5
Net domestic assets	983.1	1,010.6	1,016.7	1,069.8	978.8	997.7	1,074.2	1,118.5	1,052.1	1,054.7	1,102.0	1,180.0	1,136.3	1,125.3	1,194.4	1,290.7
Domestic credit	985.3	1,000.2	1,027.8	1,079.7	1,031.8	1,045.4	1,122.9	1,165.7	1,127.4	1,108.6	1,155.8	1,233.8	1,190.1	1,179.1	1,248.2	1,344.5
Net claims on the public sector	435.5	453.1	443.4	463.5	433.4	440.3	464.9	475.8	463.5	423.7	414.4	457.2	458.7	432.3	433.4	474.5
Net credit to the central government	354.1	347.5	339.7	369.9	345.9	353.1	373.8	380.6	348.4	307.2	294.6	330.8	329.9	303.6	302.3	340.9
Claims	585.5	591.4	609.2	654.3	649.0	661.3	654.9	665.1	649.5	634.4	590.3	626.5	625.7	599.3	598.1	636.7
Deposits	-231.4	-243.9	-269.5	-284.4	-303.1	-308.2	-281.1	-284.4	-301.1	-327.2	-295.8	-295.8	-295.8	-295.8	-295.8	-295.8
Credit to autonomous agencies	10.6	12.4	11.0	10.5	10.4	10.3	10.6	10.2	10.9	11.0	10.2	10.2	10.2	10.2	10.2	10.2
Credit to public enterprises	70.8	93.1	92.7	83.1	77.1	76.9	80.5	84.9	104.2	105.4	109.6	116.2	118.5	118.5	120.9	123.3
Credit to financial institutions	6.3	7.8	8.0	7.2	5.2	7.7	6.6	10.3	8.4	4.4	5.3	6.3	6.6	7.0	7.3	7.7
Credit to the private sector	543.5	539.3	576.4	608.9	593.3	597.4	651.4	679.6	655.4	680.5	736.2	770.3	724.8	739.9	807.5	862.4
Other items (net)	-2.2	10.4	-11.1	-9.9	-53.0	-47.7	-48.7	-47.2	-75.3	-53.9	-53.8	-53.8	-53.8	-53.8	-53.8	-53.8
Money and quasi money	1,059.4	1,094.3	1,162.1	1,198.1	1,193.6	1,221.3	1,285.9	1,416.9	1,373.9	1,322.6	1,378.1	1,479.6	1,448.7	1,440.6	1,522.7	1,642.0
Currency outside banks	246.9	241.1	247.0	296.1	250.8	255.1	254.2	332.1	286.9	249.5	247.0	321.1	281.2	245.8	244.5	319.5
Deposits	812.5	853.1	915.1	902.0	942.8	966.2	1,031.7	1,084.9	1,087.0	1,073.1	1,131.1	1,158.5	1,167.5	1,194.8	1,278.1	1,322.5
Memorandum items:	(In percent of beginning period broad money, unless otherwise indicated)															
Contribution to the growth of broad money																
Net foreign assets	2.6	13.8	16.1	7.4	13.1	12.8	5.7	14.2	9.0	4.4	5.0	0.1	-0.7	3.6	3.8	3.5
Net domestic assets	15.5	4.1	1.3	7.0	-0.4	-1.2	5.0	4.1	6.1	-0.9	2.2	4.3	6.1	5.0	7.0	8.0
Of which : credit to the central government	-5.4	-2.5	-8.1	1.9	-0.8	0.5	2.9	0.9	0.2	-6.6	-6.2	-3.5	-1.3	-0.3	0.6	0.7
Private sector credit (annual percentage change)	13.3	8.7	14.5	11.9	9.1	10.8	13.0	11.6	10.5	13.9	13.0	13.3	10.6	8.7	9.7	12.0
Broad money (annual percentage change)	18.1	17.9	17.3	14.4	12.7	11.6	10.7	18.3	15.1	8.3	7.2	4.4	5.4	8.9	10.5	11.0
Currency	10.3	8.4	11.3	11.7	1.6	5.8	2.9	12.2	14.4	-2.2	-2.8	-3.3	-2.0	-1.5	-1.0	-0.5
Deposits	20.7	20.9	19.1	15.4	16.0	13.2	12.7	20.3	15.3	11.1	9.6	6.8	7.4	11.3	13.0	14.2
Claims on government/domestic credit ratio 1/	35.9	34.7	33.1	34.3	33.5	33.8	33.3	32.7	30.9	27.7	25.5	26.8	27.7	25.7	24.2	25.4
Currency outside banks/deposit ratio 1/	30.4	28.3	27.0	32.8	26.6	26.4	24.6	30.6	26.4	23.3	21.8	27.7	24.1	20.6	19.1	24.2
Velocity (non-oil GDP/average M2)	5.4	5.2	5.5	5.3	5.2	5.0	5.0	4.8	5.0	4.9	4.8	4.7	5.1	5.1	4.9	4.8
Velocity (GDP/average M2)	6.4	6.2	6.2	5.9	5.8	5.6	5.7	5.4	5.6	5.4	5.4	5.2	5.5	5.5	5.3	5.1
Net claims on the public sector 2/	328.0	347.4	300.8	342.2	302.4	319.9	331.4	336.5	332.7	289.3	275.1	317.9	319.4	293.0	294.1	335.2

Sources: Cameroonian authorities; and staff estimates and projections.

1/ In percent.
2/ In billions of CFA francs, using the definition of the Central Bank of African States, which includes deposits of public enterprises and autonomous agencies.

Table 12. Cameroon: Indicators of Fund Credit, 2000/01-2006 1/

	2000/01	2001/02	2002	2003	2004	2005	2006
				Projections			
Fund credit outstanding (end of period)							
In millions of SDRs	178.0	209.9	225.8	233.6	246.5	219.5	183.9
In millions of U.S. dollars	221.8	284.0	312.2	323.2	342.2	303.8	254.2
In billions of CFA francs	171.6	197.4	203.7	190.4	204.6	183.3	154.5
In percent of quota	95.9	113.0	121.6	125.8	132.8	118.2	99.0
Debt service to the Fund							
In millions of SDRs	10.5	1.8	1.8	9.6	20.3	28.3	36.8
In millions of U.S. dollars	13.6	2.3	2.4	13.4	28.2	39.2	50.8
In billions of CFA francs	10.1	1.7	1.7	7.8	16.6	23.3	30.4
In percent of:							
Export of goods and nonfactor services	0.5	0.1	0.1	0.4	0.9	1.3	1.7
Total debt service due	1.9	0.3	0.3	1.6	3.8	5.7	8.3
Government revenue	0.8	0.1	0.1	0.6	1.1	1.5	1.9
GDP	0.2	0.0	0.0	0.1	0.2	0.3	0.3
Quota	5.6	1.0	1.0	5.2	10.9	15.2	19.8
Debt service to the Fund (in millions of SDRs)							
Charges	1.0	1.8	1.8	1.5	1.4	1.3	1.1
Repurchases/repayments	9.5	0.0	0.0	8.1	18.9	27.0	35.6

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

1/ Fiscal year (July-June) up to 2001/02 and calendar year starting in 2002.

Yaoundé, December 2, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. The government of Cameroon has continued to implement its medium-term economic and financial program, which is supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) approved by the Executive Board of the IMF on December 21, 2000. This letter of intent, together with the attached memorandum of economic and financial policies (MEFP), supplements the letter of December 6, 2000 and the three supplementary letters of June 28 and December 28, 2001 and of August 28, 2002. The MEFP reviews performance in program implementation since 2002 and presents the government's objectives and policies for the third annual program (July 1, 2003–June 30, 2004). The latter period broadly corresponds to that of the first year of the poverty reduction strategy paper (PRSP). To this end, the government requests that the current period of the PRGF arrangement be extended through December 20, 2004. This letter also reviews progress made in implementing the enhanced Heavily Indebted Poor Countries (HIPC) Initiative completion point triggers.

2. The government reiterates its resolve to achieve the objectives of the PRGF-supported program, as well as those of the PRSP. It would like to express in this regard its appreciation for the conclusion reached by the Executive Boards of the IMF and of the World Bank last July, that the PRSP provide a sound basis for IMF and World Bank concessional financing.

3. Consistent with the PRSP, the objectives of the PRGF- supported program are to further strengthen fiscal management and to expand the non-oil revenue tax base, as well as to accelerate the implementation of structural policies that are needed to establish an environment conducive to private investment and poverty reduction. The envisaged actions aim at (i) improving governance and promoting private investment, with a view to diversifying non-oil activities and to increasing their productivity and, thus, partially offsetting the negative impact of the projected decline in oil output over the medium to

long term; and (ii) meeting the enhanced HIPC Initiative completion point triggers in 2004.

4. The government requests a waiver for the nonobservance of the end-September 2002 quantitative performance criterion concerning the ceiling on net bank claims on the central government.

5. Consistent with its request for the extension of the PRGF-supported arrangement, the government requests that the schedule of remaining disbursements be revised following the completion of the fourth review and the associated fifth loan (SDR 15.91 million) under the current arrangement. The remaining disbursement of SDR 31.8 million will be made as follows: (i) the disbursement of the sixth loan (SDR 15.91 million) under the three-year arrangement will be subject to the observance of the performance criteria for end-December 2003, the observance of the February 29 and April 1, 2004 structural performance criteria, and the completion of the fifth review under the extended three-year arrangement, on or after April 30, 2004; and (ii) the disbursement of the seventh and final loan (SDR 15.92 million) will be subject to the observance of the performance criteria for end-June 2004 and the completion of the sixth and final review under the extended three-year arrangement, on or after October 31, 2004. The discussions with Fund staff will take place in late February–early March 2004 for the fifth review and those for the sixth and final review will take place in late August–early September 2004.

6. The government also requests additional HIPC Initiative interim assistance for an amount of SDR 3.019 million to cover 18,1 percent of each principal repayment obligation falling due from December 21, 2003 to December 20, 2004.

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

Sincerely yours,

Peter Mafany Musonge
Prime Minister
Head of Government

Attachments: Memorandum of Economic and Financial Policies (MEFP), 4 Tables and 1 Annex.

CAMEROON: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Program implementation

1. Overall, the gains in macroeconomic performance and in the implementation of structural reforms achieved in recent years were maintained during the second annual program (October 2001-September 2002) and the first half of 2003. However, since November 2002, the implementation of the program has incurred delays relative to its original timetable, due to several factors. As part of the government's efforts to promote greater fiscal transparency and discipline, there was a need to reconcile the balance in the government's accounts at the treasury with the balance of the treasury's current account at the regional central bank, the Bank of Central African States (BEAC). This data reconciliation problem delayed the timely completion of the determination of the government's fiscal positions at end-September 2002 and at end-December 2002, and subsequently at end-March 2003.

2. Moreover, the implementation pace of the 2003 budget during the first half of 2003 was adversely affected by the switch to a new fiscal year beginning January 1, 2003.[1] Also, the introduction of a new budget classification in the context of the implementation of the integrated information and financial management system (IFMS) of government revenue and expenditure gave rise to additional training needs for the staff in all the administration units concerned with helping them cope with the resulting new public accounting procedures and practices. Steps were taken to address the technical and other practical problems that emerged as a result of these changes and of the training requirements. Following a rigorous monitoring of the implementation of these steps, the government managed to gain full control of its financial operations in July–August 2003, including the production of a comprehensive fiscal analysis for end-June 2003.

3. All the quantitative performance criteria for the second annual program were met, except for the end-September 2002 criterion concerning the ceiling on net bank claims on the central government, which was exceeded by 0.7 percent of GDP (see para. 9 below).[2] The end-September 2002 quantitative benchmarks on the floor on total fiscal revenue and on the reduction of domestic arrears were not observed; these two benchmarks were missed by 0.5 percent of GDP and 0.1 percent of GDP, respectively.

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[1] In April 2002, the National Assembly adopted (i) a new fiscal year, beginning on January 1, which replaced the former fiscal year (July 1–June 30), effective January 1, 2003; and (ii) a six-month transition budget covering the period July–December 2002.

[2] Taking into account the built-in mechanism for the adjustment of performance criteria and quantitative benchmarks.

4. The structural performance criterion (operationalization of the new government expenditure management system) for end-September 2002 was observed. The system became fully operational at end-September 2002, and was implemented as envisaged in the context of the latest available expenditure management software to track spending on goods and services, including the integration of a new budget classification. Only one of the five structural benchmarks for end-September 2002 (implementation of the action plan for value-added tax (VAT) credit reimbursement) was observed as planned. However, the other four structural benchmarks, which had not been observed at the end of the second annual program, were in place by November 2002. These are as follows: (i) the issuance of a circular with respect to the procedure of *saisie-attribution*, specifying the nature of the executory titles (*titres exécutoires*) and clarifying the computation methodology for calculating penalties (*astreintes);* (ii) the launching of the audit of the operations of the debt agency (Caisse Autonome d'Amortissement (CAA)) during the fiscal-years 2000/01 and 2001/02, including transactions on account of domestic public debt other than domestic and external debt service; (iii) the evaluation of the stocks of commitments that had been executed without the issuance of payments order *(bons non mandatés)* and of the domestic public debt, both as of end-June 2002; and (iv) the adoption of an action plan for the establishment of a Constitutional Council (Conseil Constitutionnel).

5. Economic activity remained sustained during the second annual program and the final quarter of 2002. It was driven, in particular, by strong domestic demand and the spillover effects of the construction of the Chad-Cameroon oil pipeline. However, the rate of real GDP growth in 2002 was somewhat lower than projected, owing to insufficient power supply and the related adverse impact on industrial output, as well as to a decline in the production of agricultural exports. As a result, the real GDP growth rate reached 4.2 percent (4.6 percent, excluding the oil sector) in 2002. During the first half of 2003, economic activity turned out to be weaker than anticipated at the time the macroeconomic projections of the PRSP were prepared, owing, in particular, to delays in implementing the public investment program for 2003.

6. The 12-month annual inflation rate (according to the national consumer price index) reached 3.6 percent at end-September 2002 (1.6 percent higher than expected for the end of the second annual program), due mainly to unexpectedly large increases in food prices. However, the inflation rate decelerated during the final quarter of 2002 to 2.8 percent as favorable weather boosted food supply. This trend continued during the first half of 2003, with the 12–month inflation rate decreasing further to 1.4 percent by end-June 2003.

7. Progress was achieved during the first quarter of 2003 in reconciling the balance of the government's accounts at the treasury with that of the treasury's current account at the BEAC, which had made it possible in March 2003 to establish the outcome of government financial operations (TOFE) at end-September 2002 (end of the second annual program) and at end-December 2002. The primary fiscal surplus (excluding HIPC Initiative-financed expenditure) during the second annual program was slightly larger than targeted. The overall fiscal surplus (excluding HIPC Initiative-financed expenditure and grants) reached 1.3 percent of GDP, exceeding the program target. However, while the implementation of

HIPC Initiative-financed programs and projects was under way, the disbursement pace had remained very slow.

8. Total revenue in the second annual program was nearly on target, with a shortfall in non-oil revenue not entirely offset by larger-than-projected oil revenue. Total expenditure, excluding interest payments and HIPC Initiative-financed expenditures, was well below the budgeted amount, owing to a very low execution rate for public investment. As noted in paragraph 3 above, net bank claims on the central government at end–September 2002 exceeded the program target, mainly due to a larger-than-programmed reimbursement of domestic public debt outside the reduction programmed under the 2000 multiyear settlement plan. At the same time, the pace of credit expansion to the private sector was a little slower than expected. Cameroon's contribution to the improvement in the external position of the regional central bank, the BEAC, strengthened considerably, with net foreign assets increasing by CFAF 76 billion between September 2001 and September 2002.

9. The fiscal and monetary trends observed as of end-September 2002 continued during the final quarter of the year. As a result, for 2002 as a whole, the primary fiscal surplus reached 5.0 percent of GDP, 1.1 percent higher than the program target. Total revenue (grants excluded) reached 19.2 percent of GDP, compared with a target of 18.9 percent of GDP, with continuing higher oil revenue more than offsetting the shortfall in non-oil revenue. Total expenditures, excluding interest payments, amounted to 14.2 percent of GDP, reflecting continued low execution rates of public investment expenditures, particularly during July-December 2002 (under the interim six-month budget). In addition, actual disbursements related to HIPC Initiative-financed expenditures amounted to only 0.03 percent of GDP in 2002, compared with the program target of 0.87 percent of GDP. Current expenditure, excluding interest payments and HIPC Initiative-financed expenditures, also remained below the program projections, while the execution of non-HIPC Initiative public investment fell far short of the target. Reflecting these developments, net bank claims on the central government increased by 2.9 percent. Credit to the private sector expanded by 11.6 percent, owing in large part to a strong expansion of credit to finance investment by mobile phone companies. Cameroon's contribution to the improvement of the BEAC's net external assets position continued to rise in the final quarter of 2002, reaching CFAF 136 billion by year's end. Money supply increased by 18.3 percent at end-December 2002.

10. Fiscal revenue during the first half of 2003 was lower than targeted. Excluding the onetime cash receipt on account of the uncashed checks recorded at end-December 2002 (0.4 percent of GDP, or CFAF 25 billion), non-oil revenue performance, particularly on account of VAT receipts, was weaker than expected. Oil revenue was also below the projection, owing to smaller-than-anticipated export volumes. Noninterest current expenditure[3] reached a level equivalent to 6.6 percent of GDP, during the first semester of

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[3] Excluding externally financed public investments, restructuring expenditures, and compensations for separation from employment.

2003 compared with a ceiling of 7.4 percent of GDP, due to the delayed implementation of the public investment program, including HIPC Initiative-financed programs and projects, in early 2003. As a result, both the primary and the overall fiscal surpluses were about on target. Reflecting these developments, net bank claims on the government were reduced from CFAF 380.6 billion at end-December 2002 to CFAF 307.2 billion at end-June 2003. Cameroon's share in the net foreign assets of the BEAC remained virtually unchanged during the first half of 2003. Thus, and with little expansion of credit to the private sector, money supply had declined by 6.7 percent by end-June 2003.

11. The structural reform process in public expenditure management resumed during the second half of the second annual program (April-September 2002). The delays incurred in implementing the second phase of the action plan for the establishment of the integrated information and financial management system (IFMS) for government revenue and expenditure had been made up by end-September 2002 (see para. 5 above). The first stage of the third and final phase of the action plan had been implemented by end-June 2003. The implemented measures included (i) the establishment of interfaces between the systems used by the different departments of the Ministry of Finance and Budget, to ensure proper exchange and consolidation of the data needed to monitor government financial operations in accordance with the various budget chapters,[4] and the charter for treasury accounts (*plan comptable du Trésor*); (ii) the effective use of the new budget classification system, including for the management of the payroll; (iii) the computerized processing of all government expenditures and revenues, both at the central and at the local government levels; and (iv) the integration of the IFMS, in order to produce, automatically and on a timely basis, tables on the financial operations of the central government.

12. Moreover, significant progress was achieved in improving the fiscal system, with, in particular, the adoption of a general tax code (*code général des impôts*) in April 2002, and the creation of a large taxpayers' unit (*Division des grandes enterprises* (DGE)) within the Tax Department of the Ministry of Finance and Budget by decree on June 30, 2003. A steering committee for the effective establishment of this unit has been set up. Furthermore, to improve the yield of the special tax on petroleum products (TSPP), the general tax code eliminated the exemptions for the refueling of fishing vessels and modified the tax base of the TSPP. As regards the latter, the special tax is now levied on the amount of imports and actual deliveries by the national petroleum refining company (SONARA) and no longer on the amount of goods supplied by the national storage company (SCDP). To ensure transparency of these operations, receipts from the VAT, customs duties, and TSPP on petroleum products, as well as the subsidy resulting from the partial application of the TSPP on kerosene, are now properly recorded in government financial operations.

13. In the area of governance, a number of measures were adopted to improve the internal control system and the transparency of public expenditures. These include, notably, (i) the

[4] Among these interfaces, the payroll management system was the most important step.

adoption by the government of an action plan to establish a Constitutional Council, which is now being implemented; and (ii) the adoption by the National Assembly of a law that specifies the responsibilities, organization, and the functioning of the external control audit body for state finances (*Chambre des Comptes*) of Cameroon's Supreme Court, which is being implemented. Moreover, the government has continued to implement the necessary steps to end the abusive recourse to the *saisie-attribution* procedure and, thereby, to prevent the emergence of any related adverse effects on macroeconomic and financial stability and the investment climate more generally.

14. Progress has also been made in other key areas of governance improvements, including those that are HIPC Initiative completion point triggers (Table 4). The new public procurement system has now become operational through functioning public procurement and specialized control committees, and the recruitment of independent observers. An independent auditor of international standing was recruited in May 2003 to assess the transitional phase of the reform. This work is to be carried out on the basis of the reports concluded by the observers and auditor and the audit reports for publicly procured contracts made during the transitional phase. A preliminary draft of the new public procurement code has been prepared with the assistance of the staffs of the World Bank and of the European Union and the French development agencies. It will be finalized in the context of an interministerial meeting to be convened under the authority of the Prime Minister, and its adoption is expected by end-December 2003.

15. In the real sector, further progress has been made in implementing the reforms that are supported by the World Bank's third structural adjustment credit (SAC III), but the pace has remained slower than expected. Concerning the public enterprises slated for privatization, the sale of the tea sector of the Cameroon Development Corporation (CDC) was completed in October 2002. The biddings for the privatization of the other three sectors of the CDC were inconclusive as there were no candidates. As regards the fixed telecommunications company (CAMTEL) and the national water company (SNEC), the bids were declared to be inconclusive following the breakdown of negotiations with the selected bidders, whose final proposals were no longer consistent with the documentation for the biddings. Outside the SAC III-supported reforms, a new gas code was adopted by the National Assembly and was promulgated on December 30, 2002, and a strategy and an action plan are being implemented to promote private investment in the hydrocarbons sector.

Medium-term macroeconomic framework

16. The government's PRGF-supported three-year program has been updated, consistent with the key objectives of the medium-term macroeconomic framework presented in the PRSP. The main policy goal pursued by the government remains the promotion of conditions conductive to sound and sustained economic growth, which is to be primarily driven by the private sector. To this end, the government's policy stance will be centered on the following five key priority objectives: (i) consolidation of the major macroeconomic balances, including, in particular, further consolidation of public finances; (ii) improvements in governance; (iii) creation of conditions conducive to the rapid development of private sector activities; (iv) diversification of the production base in the non-oil sector and stimulation of

non-oil exports to make up for the steady decline in oil output; and (v) reduction of poverty through a broader-based distribution of incomes and by maximizing people's access to essential social services, including, notably, health and education.

17. The baseline macroeconomic scenario for 2003–06 of the PRGF-supported program takes into account the latest economic trends and foreign trade developments. It also takes into account the positive factors that are expected to drive growth, particularly the gradual increase in HIPC Initiative-financed expenditure. Reaching the HIPC Initiative completion point should pave the way for additional financing under the first agreement with France under its debt reduction and development initiative (C2D) and, thereby, support public investment and budgetary expenditure in the priority sectors specified in the PRSP. The gradual rise in spending in priority social sectors, including HIPC Initiative-financed programs, is expected to sustain domestic demand and, thus, help maintain the growth dynamics. The execution rate of the public investment program (including the HIPC Initiative-financed component) would improve along the lines of the sectoral priorities of the country and the related financing within the overall government expenditure framework specified in the PRSP. The implementation of the envisaged structural reforms in the real sector and in governance will be improved, thereby making it possible to achieve the targeted objectives at a faster pace than in the past.

18. The gains expected from accelerated public investment and structural reforms should help enhance the prospects for achieving the targeted increase in private sector investment to a level that will make it the prime engine of growth by 2006. However, the pace of economic growth will also depend on the pace of the expected decline in oil output and the supply of electrical power.

19. On this basis, the objectives of the macroeconomic framework for 2003–06 are to (i) achieve an average annual real total GDP growth rate of 4.9 percent and an average annual real non-oil GDP growth rate of 5.3 percent during the period; (ii) maintain the average annual rate of inflation (as measured by the consumer price index) at 1.8 percent during the period; and (iii) maintain the external current account deficit at 3.2 percent of GDP on an average annual basis during the period. Consistent with these medium-term objectives, (i) total real GDP growth and real non-oil GDP growth rates are estimated at 4.2 percent and 4.7 percent, respectively, in 2003, and projected at 4.5 percent and 5.1 percent, respectively, for 2004; (ii) the inflation rate is estimated at 1.2 percent in 2003 and is to be contained at 2.0 percent in 2004; and (iii) the external current account deficit is to be reduced to 3.1 percent of GDP in 2003 and further to 2.7 percent in 2004.

Fiscal objectives and policies for the third annual program (July 1, 2003–June 30, 2004)

20. The fiscal program takes into account the fiscal performance through end-June 2003, the economic prospects for the remainder of 2003 and for 2004, as well as the key objectives and underpinning policy stance of the draft Budget Appropriations Act for 2004, which the government intends to submit to the National Assembly in November 2003. Moreover, in order to attain the program's objective of consolidating the fiscal and economic gains achieved so far under the PRGF-supported program, the government reaffirms its resolve to

pursue its non-oil revenue mobilization efforts and has taken steps to ensure that the fiscal expenditure policy stance is consistent with the fiscal, social, and poverty reduction priorities of the first year of the PRSP.

21. On this basis and with oil revenue projected at 3.8 percent of GDP, the fiscal program for July 1, 2003–June 30, 2004 aims at achieving (i) a primary fiscal surplus of 5.7 percent of GDP in 2003 and of 5.9 percent of GDP in 2004, excluding HIPC Initiative-financed expenditures;[5] and (ii) an overall fiscal surplus (on a commitment basis and excluding grants) of 1.7 percent in 2003 and of 1.5 percent of GDP in 2004, consistent with the objectives of the 2004 Budget Appropriation Act. These objectives are 5.8 percent of GDP and 1.2 percent of GDP, respectively, for the third annual program.

22. As regards oil revenue mobilization, the government will continue to ensure that oil revenue, including in particular the net balance of the oil operations of the national oil company (SNH), is credited to the treasury on a timely basis. It will also ensure that the required provisions on account of the depleted oil wells are set aside on a regular basis, in accordance with the legal provisions in place.

23. Based on the real non-oil GDP growth rates of 4.5 percent estimated for 2003 and of 5.1 percent projected for 2004, non-oil revenue should reach 16.2 percent of non-oil GDP in 2003 and 16.6 percent of non-oil GDP in 2004, up from the 15.6 percent of non-oil GDP estimated for 2002. On this basis, non-oil fiscal revenue should reach CFAF 1,628 billion (16.2 percent of non-oil GDP) during the third annual program. To achieve these targets, the government reaffirms its commitment to pursue its efforts to strengthen the mobilization of non-oil tax revenue through the continued implementation of steps, notably, during the first half of 2004, that the government has already taken or intends to take to improve the fiscal system and strengthen tax and customs administration.

24. Thus, as far as the efforts to improve the fiscal system are concerned, the government will pursue its policy of eliminating fiscal exemptions. In particular, the Ministry of Finance and Budget will take the necessary steps to eliminate, as of January 1, 2004, the ad hoc exemptions that have not been provided under the tax and customs legal provisions but that have been granted to certain companies; this measure is expected to yield CFAF 8 billion (0.11 percent of non-oil GDP) of additional revenue. No new ad hoc exemption will be granted. Moreover, the government will pursue the implementation of its program to eliminate the VAT tax exemptions, in accordance with its commitment in its supplementary letter of intent dated June 28, 2001 for the first review under the PRGF arrangement; this measure is expected to yield CFAF 2 billion (0.03 percent of non-oil GDP) of additional revenue. The tax exemption on reinvested profits will also be eliminated in the context of the Budget Appropriations Act of 2004, effective January 1, 2005. These measures will

[5] 5.3 percent of GDP and 4.7 percent of GDP, respectively, including HIPC Initiative-financed expenditure.

supplement those introduced in 2003, which eliminated the exceptional VAT exemptions on publicly procured contracts and reduced the tax benefits, other than those foreseen in international conventions, that had been granted to diplomatic missions and nonprofit organizations. These measures will be fully in force in 2004 and should help yield CFAF 10 billion (0.14 percent of non-oil GDP) in additional revenue.

25. The government will also begin to implement the reform of the income tax for individual taxpayers on January 1, 2004, as scheduled. This reform will result, notably, in a tax relief for low-income individual taxpayers. In order to offset the expected revenue loss, which is estimated at some CFAF 3.5 billion (0.05 percent of non-oil GDP) based on available data, the government will take the following additional measures: (i) harmonization of the taxation rules and practices for pensions and other retirement benefits; (ii) reinforced control of the incomes declared by taxpayers eligible for the income tax regimes applying to handicraft, commercial, and industrial profits; and (iii) creation of specialized tax centers, with a view to improving the monitoring of tax declarations by professionals (*professions libérales*). Moreover, the government intends to reinforce forestry taxation and securization, notably, by extending the application of common forestry taxation to communal forestry activities and by implementing a computerized information management system for the forestry sector. Finally, the government will take steps to ensure that proper taxes and fees are effectively applied to real estate transactions by establishing minimum valuation standards for assessing such estate transactions.

26. As regards tax and customs administration, the government, with the assistance of the IMF's Fiscal Affairs Department, will finalize an action plan to ensure the effective operationalization of the large taxpayers' unit created on June 30, 2003 (prior action) (Table 2). The implementation of this action plan will pave the way for the unit's effective start of operations as of April 1, 2004 (structural performance criterion) (Table 3). Once fully operational, the large taxpayers' unit is expected to result in a much-improved tax revenue mobilization effort, notably thanks to the enhanced control and collection of fiscal liabilities (including arrears) owed by the companies concerned. To accelerate the collection of taxes and other dues owed by the companies monitored by the large taxpayers' unit, tax and other liabilities owed to the government will be paid solely through bank transfers to be credited to the treasury's current account at the BEAC. These measures are expected to yield, as of 2004, some CFAF 10 billion (0.15 percent of non-oil GDP) of additional revenue. As regards customs administration, the measures include (i) strengthening the single processing window for external trade formalities (GUCE), notably through the acceleration of its computerization; (ii) strengthening the joint tax-customs unit computer links to facilitate data exchanges between the information systems of the tax and customs departments; (iii) improving physical and documentary inspections for the release of goods; and (iv) strengthening the control system for special status exemptions (bonded warehouses and temporary admissions) and transit traffic. Finally, the government also intends to complete the preparatory work on a law for a new property tax system in Yaoundé and Douala, based on the land surveys that are now under way in these two cities, with a view to presenting it to the National Assembly for discussion during its November 2004 session. Prior to introducing

this reform, the government will implement its plan to secure the collection of real estate tax and of fees and other dues resulting from productive activities on state-owned properties.

27. In order to optimize its treasury cash position, the government will endeavor to prevent the recurrence of lengthy delays in the encashment of checks issued by taxpayers at the treasury' current account at the BEAC. To this end, it will produce, on a monthly basis, the list of uncashed checks from taxpayers, the date of receipt of which is exceeding two months or more. The production of the first list will be a prior action (Table 1). That of each subsequent monthly list will be a continuous structural benchmark throughout the period of the PRGF arrangement (Table 3). Moreover, to ensure that both tax and nontax revenues are correctly recorded and enhance transparency in fiscal transactions, the government will transform into regular treasury accounts (i.e., accounts held solely by the treasury on behalf of government entitites—comptes du Trésor) all government accounts that have been opened at commercial banks outside the regular treasury accounts, with the exception of the following: accounts monitored by a public accountant of the treasury, those managed by a public legal management committee (e.g., management committees of schools), and those required to manage externally funded projects (structural performance criterion) (Table 3).

28. On the expenditure side, the government has taken measures to improve the overall quality of its expenditure program by containing nonessential spending, increasing the financing of high-priority programs and projects through available HIPC Initiative resources, and increasing outlays in the priority social sectors, consistent with the objectives of the PRSP. Thus, total noninterest expenditure should not exceed CFAF 999 billion (13.8 percent of GDP) in 2003 and should be contained within CFAF 1,180 billion (13.9 percent GDP) in 2004. On this basis, the corresponding ceiling for the third annual program is CFAF 1,044 billion (13.9 percent of GDP). The expenditure program for 2003 includes public investments (excluding restructuring expenditures) 2.5 percent GDP and noninterest current expenditures totaling 12 percent of GDP. These expenditures are budgeted at 3.2 percent of GDP and 11.6 percent of GDP, respectively, in the Budget Appropriations Act for 2004. On this basis, the corresponding ceiling and target have been set at CFAF 220 billion (2.9 percent of GDP) and CFAF 892 billion (11.9 percent of GDP), respectively, for the third annual program.

29. Taking into account the fiscal objectives for 2004, the government wage bill will not exceed 5.9 percent of GDP, and the amount of transfers and subsidies will be limited to 1.7 percent of GDP; the latter amount incorporates, notably, the positive impact expected from the reduction in subsidies on kerosene consumption following the reactivation of the automatic adjustment mechanism for the prices of petroleum products since January 1, 2003. The government is committed to paying off its bills for water (SNEC), electricity (AES SONEL), telecommunications (CAMTEL), and air and railways transport (CAMAIR and CAMRAIL). In particular, the budgetary allocations for water, electricity, telecommunications and transport will be effectively used and monitored under the PRGF-supported program (quantitative benchmark) (Table 1). Moreover, to enhance further the transparency of budgetary operations and induce the government to pay off its utility and transport bills, on the one hand, and the companies to pay their tax liabilities, on the other

hand, the government will promote vigorously direct payments and deductions at source as the main settlement methods for settling cross debts between the government and public enterprises. It will not have recourse to ad hoc fiscal offsetting and will intensify its efforts to clear the outstanding fiscal arrears of liable enterprises. To this end, it will prepare, following proper auditing, a comprehensive list of cross debts between the government and all the liable public enterprises and, on this basis, formulate a strategy and a settlement plan to clear up these claims.

30. Restructuring outlays for public enterprises of CFAF 24 billion (0.4 percent of GDP) have been included in the third annual program (July 1, 2003–June 30, 2004), including CFAF 16 billion for the period January 1–June 30, 2004. This latter amount includes a special provision of CFAF 10 billion for the implementation of the action plans that are expected to be put in place for some of the public enterprises that have been slated for privatization. The government will consult with the IMF staff prior to the use of this special provision or if any possible increase in this amount were to be considered. Moreover, as the decision to purchase a presidential aircraft has been taken by the authorities, the government will ensure that the acquisition of the aircraft does not jeopardize the implementation of the PRGF-supported program or fiscal sustainability. To this end, the government will keep the IMF staff informed of each successive step taken in carrying out this operation.

31. Improved public expenditure management remains the focus of the government's fiscal policy stance under the third annual program. This is crucial for achieving the fiscal objectives, further strengthening macroeconomic stability, improving governance and transparency, and enhancing the credibility and sustainability of Cameroon's overall macroeconomic policy stance. Consistent with this approach and objectives, and the recommendations of the IMF's Fiscal Affairs Department, the government will concentrate its efforts, under the third annual program, on establishing (i) a solid line item budget; (ii) a comprehensive and transparent system for recording all the financial operations of the government; and (iii) a reliable reporting and accounting system, which would allow for the timely preparation of the monthly table on central government financial operations (TOFE) no later than one month following the preceding month.

32. To this end, the government reiterates its determination to complete (i) the full implementation of the integrated information and financial management system (IFMS) for government revenue and expenditure (prior action) (Table 2); and (ii) the procedural and organizational audit of the treasury department of the Ministry of Finance and Budget by end-March 2004 (structural benchmark) (Table 3). It also remains committed to implementing, on a timely basis, the steps needed to ensure proper tracking of poverty-reducing expenditures. To this end, it will specify the poverty reduction expenditure-related lines and sublines, based on the new functional budget classification, prior to the submission to the National Assembly of the Draft Budget Appropriations Act for 2004 (structural benchmark) (Table 3).

33. The government will also pursue its efforts to implement the other control measures for monitoring its financial operations that have already been foreseen under the PRGF-

supported program. These measures include, notably, (i) the completion of a study aimed at improving the internal control system, to be completed by end-December 2003; and (ii) the effective implementation of the law specifying the responsibilities, the organization, and the functioning of the external control audit body for state finances *(Chambre des Comptes)* of Cameroon' Supreme Court, in order to ensure that the external control audit body is fully in place by 2004.

34. As regards the execution of the multiyear settlement plan for reducing domestic public arrears, the government has revised its initial plan, based on a preliminary reevaluation of the stock of unauthorized expenditures and of domestic public debt as of end-December 2002. On this basis, the government has prepared an interim settlement plan that is consistent with the fiscal program for the third annual program. The government is also committed to (i) updating the stock of domestic public debt as of end-June 2003 by no later than January 31, 2004 (structural benchmark) (Table 3); and (ii) auditing the operations of the debt agency (Caisse Autonome d'Amortissement (CAA)) for the fiscal-years 2000/01 and 2001/02, including the audit of domestic public debt transactions unrelated to the servicing of domestic and external public debt, and the adoption of an action plan for the implementation of the recommendations by end-December 2003 (structural benchmark) (Table 3).

35. The government acknowledges that the implementation of the first series of programs and projects that had received a favorable opinion from by the HIPC Initiative consultative committee for the follow-up of the management of HIPC Initiative resources has incurred delays. To solve this problem, administrative and organizational measures are being implemented, with a view to improving the functioning of the consultative committee,[6] as well as the disbursements of HIPC Initiative resources and the payment of the supplied services.[7] The government will continue to make deposits in the special account opened at the BEAC, including resources on account of HIPC Initiative debt service relief from official bilateral creditors. It is fully aware that the use of these resources must (i) be consistent with the efforts aimed at improving public expenditure management and the quality of the

[6] These measures aim, in particular, at (i) clarifying the respective roles and responsibilities of the two units providing technical support for the consultative committee, namely, the permanent secretariat, which is a purely administrative structure, and the operational unit, which is responsible for following up on the preparatory work on programs and projects to be submitted to the committee for its opinion; and (ii) establishing working groups to prepare the programs and projects for submission to the committee.

[7] The total HIPC Initiative resources deposited in the BEAC special account had amounted to CFAF 156 billion (2.1 percent of GDP) by end-September 2003. Out of this amount, CFAF 25 billion was transferred to the treasury's account in July 2002 to help speed disbursements on account of the HIPC Initiative-financed expenditures that had received the favorable opinion of the consultative committee.

government's overall expenditure program; and (ii) conform to the specific objectives and priorities for economic, social, and poverty reduction policies specified in the PRSP.

36. The monetary program for July 1, 2003–June 2004 foresees (i) a contribution by Cameroon of CFAF 25 billion to the net foreign assets of the BEAC by end-December 2003, and of CFAF 10 billion by end-June 2004; (ii) an increase in net bank claims on the central government of CFAF 24 billion between end-June 2003 and end-December 2003, and a reduction of CFAF 27 billion between end-December 2003 and end-June 2004, including the programmed disbursements on account of the HIPC Initiative-financed expenditure; and (iii) an expansion of credit to the private sector of 13.2 percent to CFAF 770 billion by end-December 2003 and a reduction of 4 percent during the first half of 2004 to CFAF 740 billion by end-June 2004. Net bank claims on the central government are estimated at CFAF 295 billion at end-September 2003; they are projected at CFAF 331 billion at end-December 2003 (performance criterion), at CFAF 330 billion at end-March 2004 (benchmark), and at CFAF 304 billion at end-June 2004 (performance criterion) (Table 1). Money supply is expected to increase by 11.9 percent in 2003 and to decline by 2.6 percent during the first half of 2004.

Structural reforms

37. The government renews its firm commitment to effectively implement a number of actions aimed at creating an environment truly conducive to private investment. To this end, it reaffirms its determination to (i) accelerate the implementation of measures aimed at improving governance and of the reforms envisaged in various non-oil real sectors of the economy; (ii) pursue the ongoing reforms in the financial sectors; and (iii) give a new impulse to the reform process in the petroleum sector. Various measures and actions in the area of governance and in the real sectors are also HIPC Initiative completion point triggers. The government has established an interministerial committee under the direct authority of the Prime Minister's Office to coordinate and supervise progress in implementing the actions necessary to reach the HIPC completion point and in monitoring PRSP implementation. Progress made in implementing the HIPC Initiative completion point triggers by mid-October 2003 is described in the attached Table 4.

Governance and real sector reforms

38. The government remains resolved to implement all the measures needed to improve governance and transparency, including those that are HIPC Initiative completion point triggers. The final report on the technical audit of the judicial system was submitted to the government in early October 2003. Based on the recommendations of this audit, the government will formulate and adopt, before end-December 2003, an action plan for the reform of the judicial system (structural benchmark), the implementation of which will begin in January 2004. As regards the problems of the *saisie-attribution* procedure, the government will continue to exercise its close oversight over the rigorous implementation of this procedure in a manner that is fully consistent with the corrective measures that have been adopted so far under the program and that are specified in the supplementary letters of intent of December 28, 2001 and August 28, 2002. In this context, it will, in particular, sign

the *Accords de siège* of the BEAC (structural benchmark) (Table 3). It will also pursue the implementation of the actions committed in its supplementary letters of intent of December 28, 2001 and August 28, 2002, which specify the correct interpretation of the legal provisions of the Treaty on the Harmonization of Business Law in Africa (OHADA Treaty). As regards the reform of the public procurement system, the new public procurement code will be adopted by end-December 2003 at the latest. The government will pursue the implementation of the action plan for the establishment of the Constitutional Council, with a view to completing it by end-June 2004.

39. The government reaffirms its determination to ensure the satisfactory implementation of the reforms supported by the third structural adjustment credit (SAC III) of the World Bank, which was extended through end-December 2003. As regards the privatization program, it will proceed with the implementation of the action plan that has been prepared in cooperation with the World Bank for the privatization of the three remaining sectors (bananas, palm oil, and hévéa) of the Cameroon Development Corporation (CDC). It will recruit internationally renowned experts before end-November 2003 to (i) analyze the agreements signed by the CDC concerning the banana sector; (ii) assess the banana sector; and (iii) conduct a diagnostic analysis of the CDC and formulate a privatization strategy. As regards the cotton production development company (SODECOTON), the government intends to recruit before end-January 2004 an independent consultant to review the organization of the cotton sector and conduct a diagnostic study of SODECOTON, with a view to identifying possible privatization options.

40. Concerning the telecommunications sector, the government will implement the action plan that it has formulated, with World Bank assistance, for the privatization of the fixed telecommunications company (CAMTEL). In this context, the concession agreement for the exploitation of the fixed telecommunication services and the interim terms of reference (*cahiers des charges*) of CAMTEL have been signed in November 2003; the work on a business plan for CAMTEL by an independent consultant is expected to start by end-October 2003. The new privatization strategy for CAMTEL should be adopted before end-March 2004. Moreover, the government is examining several possible options to relaunch the privatization process for the water company (SNEC), in cooperation with the World Bank.

41. In the port sector, the main short-term goal of the government is to complete the institutional and financial reforms for the transfer of the industrial and commercial activities to the private sector, with a view to facilitating the smooth and steady development of activities by the various operators involved. In this regard, the government expects to promote a major improvement in the competitiveness of the port of Douala, and, as a result, of Cameroon's economy, through (i) the accelerated implementation of the port infrastructure rehabilitation and modernization program, with financial assistance from the French, German, and Japanese development agencies; and (ii) the reduction in the clearance time required for unloading goods and to dispatch them in containers at the port of Douala. Regarding the transfer of the container terminal and the towing and anchorage activities to the private sector, the selection of the provisional bidders is expected to be made by end-

November 2003. As regards the shortening of the clearance process for containerized goods, new measures have been identified, following the completion of an in-depth study of the various stages involved in the clearance process that was conducted under the coordination of the single processing window for the clearance of external trade formalities (GUCE). The main measures being launched are as follows: (i) automatic targeting (*ciblage automatique*); (ii) the installation of meters at each stage of the clearance process; (iii) the establishment of a computerized link between the customs administration (PAGODE) and GUCE; and (iv) a switch to a fully computerized single window for the clearance of foreign trade formalities, for which the bidding process for the purchase of the needed equipment has already been launched.

42. Regarding air transportation, the financial situation of the national airline (CAMAIR), which has been deteriorating rapidly since late 2002, calls for quick and determined action on the part of shareholders to prevent an acceleration of the financial crisis, which could have a heavy negative impact on the budget. The government is committed to formulating an action plan for addressing the financial situation of CAMAIR, no later than end-December 2003 (structural benchmark) (Table 3). Moreover, the government will ensure that the payment of the bills sent by CAMAIR on account of the services provided to the government is made effectively and on a timely basis.

43. The government remains committed to pursuing its comprehensive reforms in the forestry sector and to protecting the environment, with the assistance of the World Bank, the European Union, and the U.K., German, and Canadian development agencies. In the short term, the government will accelerate the taking of the following measures, which will also contribute to the achievement of the HIPC Initiative completion point triggers: (i) satisfactory and steady implementation of the contract of the independent observer selected through a bidding process; (ii) launching of the studies on the restructuring of the former National Office of Forestry Development (formerly ONADEF) and the establishment of the social structures of the National Agency for Forestry Development (ANAFOR) (Board of Directors and General Management); (iii) study and approval of forestry development plans, in consultation with the operators involved; and (iv) implementation of a transparent procedure to grant new business licenses for forestry activities based on a competitive bidding process. A special emphasis will be put on the strengthening of the computerized information management system for the forestry sector (SIGIF), particularly with a view to improving data collection and processing through the Securitization Program for Fiscal Revenue from the Forestry Sector. In addition, the government will continue to maintain a close oversight over the execution of sanctions taken against forestry operators who have not complied with the forestry law and applicable regulations and other administrative decisions. It will strive to ensure a better coordination between the Ministry of Environment and Forestry, the Ministry of Justice and the Ministry of Finance and Budget. Finally, it has established and forwarded to the private partners concerned, for their review and comments, a draft document on the organization and sequencing of the control process while a circular that clarifies the key elements of the penal procedure is under preparation. Once the document has been by all the partners involved, it will be distributed, in particular, to all the inspectors concerned.

Financial sector

44. The government will continue to monitor closely progress in implementing the payments system reform undertaken with World Bank and IMF assistance and supported by a World Bank loan. The government is also firmly committed to accelerating the implementation of the restructuring plan for the financially troubled Postal Savings Bank, notably through the validation of the opening balance statement. This validation would incorporate the results of the ongoing reconstruction of deposits, the reorganization of the operations, the completion of the ongoing program aimed at collecting new deposits, and initial actions to implement the rebuilding of the liquidity position of the Postal Savings Bank. The goal is to complete its restructuring by end-December 2004. As regards the housing bank (Crédit Foncier du Cameroun), the government submitted a restructuring plan to the regional bank supervision agency, the COBAC, in mid-November 2003 at the latest. The primary purpose of this plan is to refocus the activities of this institution around its initial mandate, namely, the financing of social housing.

45. In the context of implementing the regional legislation on microfinance, the government will (i) provide its support for the mobilization of a World Bank loan to the COBAC, in order to secure the resources required by that agency to conduct effective supervision over the microfinance institutions; (ii) publish the list of microfinance establishments that have already been denied a license to operate and ensure that such establishments are effectively taken off the list; and (iii) support the COBAC in ensuring the actual implementation of the specialized chart of accounts (*plan comptable spécialisé*), particularly by providing the needed information. The government will also lend its support to the BEAC's efforts to develop indirect monetary policy instruments, with a view to replacing the statutory advances of the BEAC for financing budget deficits by the treasury bill issues. A regional anti-money-laundering regulatory framework prepared under the auspices of the Central African Economic and Monetary Community (CEMAC)/BEAC was adopted by the Central African Monetary Union (UMAC) Ministerial Committee in July 2003. The government will establish a national investigation agency (ANIF), consistent with the CEMAC anti-money-laundering framework adopted in March 2003, relating to the prevention and sanction of money laundering and to the fight against terrorism.

46. Regarding the reform of the social security system approved by the Interministerial Committee in November 1999, the findings of the various preparatory studies that were commissioned at that time will be submitted to the government during the first quarter of 2004. Based on these findings, the government will adopt an action plan during the second quarter of 2004 and will then start to implement the agreed reforms.

Reform of the petroleum sector

47. Taking into account the prospective medium- and long-term decline in oil output, the government intends to give a renewed, strong impetus to the implementation of the reform plan of the petroleum sector which was adopted in March 2001. The plan includes, in particular, the formulation and execution of an action plan to specify the roles of the various

operators involved in the petroleum sector. To this end, the government commits itself to redefining the respective roles and responsibilities of private operators, the national petroleum company (SNH), the ministry responsible for hydrocarbons, and other entities involved in the hydrocarbons sector, so that a timetable for the implementation of the needed reforms can be finalized no later than end-June 2004. The government will also adopt, by end-December 2003 at the latest, a strategy and an action plan for the sale of its shares in the petroleum storage company (SCDP) to the private sector, which will then take over the management of the SCDP.

External sector, new CEMAC foreign exchange regulations, and debt policy and external debt management

48. As in the past, a key objective of Cameroon's external policy is to improve external competitiveness, in order to achieve external viability and strengthen growth prospects. To this end, the government will continue to implement, vigorously, the efficiency-enhancing measures of the program. It also remains committed to play a leading role in (i) promoting and reinforcing regional integration within the CEMAC; and (ii) deepening the regional fiscal and customs systems, notably through a substantial reduction in the common external tariff (to a maximum rate of 20 percent), as well as in the number of bands (from five to four). The government will review nontariff barriers by end-March 2004. Cameroon has already adopted a national investment charter that is consistent with the common charter of the CEMAC. It commits itself to specify the practical and operational details of the charter shortly. Finally, the government reaffirms its resolve to implement the new CEMAC foreign exchange regulations, particularly by transferring the related tasks and prerogatives from the administration to the commercial banks in managing foreign exchange transactions no later than end-December 2003 (structural performance criterion) (Table 3).

49. Following the Paris Club agreement of January 20, 2001, which aimed at supporting the implementation of Cameroon's program with overall debt relief and concessional treatment of its external debt under the enhanced HIPC Initiative, the government has signed bilateral agreements with all official creditors, except Saudi Arabia (negotiations with this country are still under way). It confirms its intention to grant debt relief to Chad in the context of the enhanced HIPC Initiative. As regards commercial debt, the negotiations with the commercial banks led, on May 24, 2002, to an agreement on a buyback operation for both bank and nonbank commercial debt that represented a discount of 85.5 percent of nominal principal and the forgiveness of all arrears payments. This operation was completed in August 2003 with the financial assistance of France, Norway, and the International Development Agency (IDA) (under the enhanced HIPC Initiative), as well as through Cameroon's own budget resources.

Prior actions and monitoring and review of the program

50. A number of prior actions (Table 2), that are critical to ensure the timely implementation of the July 1, 2003–June 30, 2004 third annual program, as well as its

credibility, will need to be fully in place prior to the meeting of the IMF's Executive Board to consider the documentation for the fourth review under the PRGF arrangement.

51. In order to monitor program implementation, the government has established quantitative performance criteria for end-December 2003, quantitative benchmarks for end-March 2004, and quantitative performance criteria and benchmarks for end-June 2004 (Table 1). The government has also established a number of reform measures either as structural performance criteria or structural benchmarks for the period July 1, 2003 – June 30, 2004 (Table 3). The government believes that these measures are essential for achieving the macroeconomic objectives of the program and reaching the HIPC Initiative completion point in 2004.

52. In view of the uncertainties surrounding external debt relief and oil prices, the program will continue to include a built-in contingency mechanism for the adjustment of quantitative benchmarks and performance criteria, as mentioned in the attached technical memorandum of understanding. Likewise, considering the uncertainties about the implementation of the privatization program, privatization receipts will continue to be excluded from the definition of the ceiling on net bank claims on the central government. If privatization receipts were to materialize, the government will reach prior understandings with the staff on the uses of these resources.

53. Program implementation will be regularly reviewed in the context of interministerial cabinet meetings (*Conseil de Cabinets*), chaired by the Prime Minister, Head of Government. The Minister of Finance and Budget and the Minister of Economic Affairs, Programming, and Regional Development will supervise, in their respective areas of responsibility, the implementation of the PRGF-supported program, with the assistance of the Technical Committee for the Monitoring of Economic Programs (CTS). The CTS will provide Fund staff, within the time limits indicated in the technical memorandum of understanding, with all the data necessary to monitor the PRGF-supported program effectively and on a timely basis, after their validation by the ministerial authorities concerned.

54. To this end, the authorities will continue their efforts to expand the coverage of data and improve data quality and timeliness, particularly in the context of the General Data Dissemination System (GDDS), with the primary objective being the official publication of the new official data series on national accounts that will be compiled in accordance with the new National Accounts System adopted by the United Nations in 1993 (SCN93). In this context, the government has requested technical assistance from the IMF's Statistics Department, which visited Yaoundé from September 27–October 9, 2003 to examine the methodology used for the compilation of the new national accounts data series by the National Institute of Statistics. The mission's recommendations will be reviewed by the authorities and implemented in the context of the monitoring mechanism that is being put in place to monitor and assess progress in the implementation of the PRSP. Soon after this new national account series is adopted, it will be formally submitted by the government to the IMF and will replace the data officially provided in the context of previous Article IV

consultations. This new official series will, by that time, be used in the formulation and implementation of Cameroon's economic programs and of the medium- and long-term macroeconomic framework of the PRSP, whenever the latter is updated and/or revised or PRSP implementation status reports prepared.

Table 1. Cameroon: Quantitative Performance Criteria and Benchmarks During the Third Annual Program Supported by an Arrangement Under the Poverty Reduction and Growth Facility, July 1, 2003 - June 30, 2004

(In billions of CFA francs; cumulative from January 1, 2003, unless otherwise indicated)

	June 30 2003 Est.	Sept. 30 2003 Est. Prel.	Dec. 31 2003	Mar. 31 2004	June 30 2004
Ceiling on the increase in net claims of the banking system on the central government excluding privatization receipts [1 2 3]	-73	-86	-50	-51	-77
Floor on the primary budget balance [1 3 4]	211	303	364	463	556
Ceiling on the accumulation of external payments arrears of the central government [5 6 7]	0	0	0	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government [7 8]	0	0	0	0	0
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year [5 7 9]	0	0	0	0	0
Floor on total revenue of the central government [10]	690	1,026	1,362	1,720	2076
Of which: non-oil revenue [3]	528	790	1,052	1,342	1632
Floor on reduction of domestic debts [11]	-50	-118	-163	-231	-259
Of which: structured debt [11]	-44	-112	-128	-182	-196
nonstructured debt [11]	-6	-6	-35	-49	-63
Floor on reduction of domestic debt [12]	11	11	39	51	64
Of which: SNEC [12]	0	0	8	10	12
AES SONEL [12]	1	1	7	9	12
CAMTEL [12]	2	2	12	16	20
CAMAIR [12]	8	8	12	16	20
Memorandum items:					
Assumed external debt relief	153	207	289	343	421
External program financing	0	0	55	66	105
of which: IMF	0	0	13	0	26
Privatization proceeds	0	0	0	0	0
Stock of net credit to the central government	307	295	331	330	304

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

1/ These targets will constitute performance criteria for end-December 2003 and end-June 2004.
2/ This target will be adjusted as defined in para. 31 of the TMU.
3/ The targets will be adjusted upward/downward for 50 percent of the windfall/shortfall in oil revenue. For a windfall/shortfall beyond a threshold of CFAF 35 billion, the authorities will consult with Fund staff to formulate policies to adjust performance criteria.
4/ Defined in para. 24 of the TMU.
5/ Performance criteria monitored on a continuous basis.
6/ Excluding reschedulable external payments arrears.
7/ In millions of U.S. dollars.
8/ Terms defined in paras. 17 and 18 of the TMU.
9/ Excluding normal, import-related credit.
10/ This target will be adjusted for the full amount of higher/lower-than-programmed oil revenue.
11/ Domestic debt is defined in the TMU (paras. 20 and 21) and is repaid in accordance with the plan described in para. 34 of the MEFP.
12/ Payments in cash only.

Table 2. Cameroon: Prior Actions for the Third Annual Program
(July 1, 2003–June 30, 2004) Under the PRGF Arrangement

The following prior actions have been set:

- preparation of the first list of uncashed checks from taxpayers, the date of receipt of which is exceeding two months'old or more (para. 2 of the TMU);
- adoption of an action plan for the effective operationalization of the large taxpayers' unit within the tax department created on June 30, 2003 (para. 3 of the TMU); and
- completion of the final phase of the information and financial management system (IFMS) for all central government revenue and expenditure (including at the local branches of the central government), based on the new budget classification system (para. 4 of the TMU).

Table 3. Cameroon: Structural Performance Criteria and Benchmarks for the Third Annual Program (July 1, 2003-June 30,2004) Under the PRGF Arrangement

Performance criteria

- Transformation into regular treasury accounts (i.e., accounts held solely by the treasury on behalf of government entities—comptes du Trésor) of all government accounts that have been opened at commercial banks outside the regular treasury accounts, with the exception of the following: accounts monitored by a public accountant of the treasury, those managed by a public legal management committee (e.g., management committees of schools), and those required to manage externally funded projects by end-December 2003.

- Implementation of the new foreign exchange regulations of the CEMAC by December 31, 2003.

- Preparation of the central government financial operations table for end-December 2003 on the basis of the Treasury accounts and the IFMS by February 29, 2004.

- Full implementation of the action plan for the effective operationalization of the large taxpayers' unit as of April 1, 2004.

Benchmarks

- Preparation of monthly lists of uncashed checks issued by taxpayers, with indication of the receipt date for each check that is two months' old or more, throughout the period of the extended arrangement.

- Specification of the poverty reduction expenditure-related budget items, based on the new functional budget classification system, prior to the submission to National Assembly of the draft Budget Appropriations Act for 2004 by end-November 2003.

- Completion of the audit of the debt agency's operations in fiscal-years 2000/01 and 2001/02, including the audit of domestic public debt transactions unrelated to domestic and external debt-service and adoption of an action plan for implementing the recommendations by December 31, 2003.

- Adoption of an action plan to address the financial situation of the CAMAIR by December 31, 2003.

- Adoption of an action plan for the reform of the judicial system by end-December 2003.

- Update of the stock of domestic public debt as of end-June 2003 carried out in the context of the ongoing evaluation by an independent auditor of the domestic public debt by January 31, 2004.

- Completion of the procedural and organizational audit of the treasury department of the Ministry of Finance and Budget by end-March 2004.

- Signature of the *Accords de siège* of the BEAC by March 31, 2004.

Table 4. Cameroon: Progress Toward Reaching the HIPC Initiative Completion Point

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
1. Poverty reduction strategy paper (PRSP)	
• The full poverty reduction strategy paper (PRSP) has been prepared and satisfactorily implemented for at least one year.	• The full PRSP was submitted to the staffs of the IMF and World Bank on April 9, 2003. It was reviewed by the Executive Boards of the IMF and the World Bank on July 28 and July 31, 2003, respectively. The two Executive Boards considered that the strategies and action plans for strengthening economic growth and reducing poverty presented in the document were credible and that the PRSP provided a sound basis for IMF and World Bank concessional financing, as well as debt relief in the context of the enhanced HIPC Initiative. The government has strengthened and specified the institutional framework for the participatory monitoring and evaluation of the implementation of the PRSP.
2. Macroeconomic and structural reforms	
• There is continued maintenance of a stable macroeconomic environment and satisfactory implementation of the new three-year PRGF-supported program.	• The first two annual programs (October 2000–September 2001 and October 2001–September 2002) and the PRGF-supported program were satisfactorily implemented. However, technical difficulties emerged during the second half of calendar-year 2002 that have delayed the final determination of the fiscal situation at end-September 2002 and, hence, the final assessment of the second half of the second annual program. These difficulties were overcome by the end of the first half of 2003, thanks to the implementation of corrective measures by the authorities. The latter have also pursued

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
	the implementation of reforms in budget management and in the real sectors of the economy. The initial schedule for the implementation of the PRGF-supported program has slipped for the reasons explained above. The government has proposed that the third and last annual program now start as of July 1, 2003 and end on June 30, 2004, and has requested that the original period of the arrangement be extended by up to one year through end-December 2004. The government is committed to taking all necessary actions to ensure the observance of the quantitative and structural performance criteria and benchmarks for the third annual program under the PRGF arrangement.
• The budget savings from the debt relief have been used in accordance with the criteria set forth at the decision point (control and monitoring mechanisms).	A special account at which HIPC-related funds are deposited has been opened at the Bank of Central African States (BEAC). The government has set up a consultative committee for the follow-up of the use of HIPC resources (HIPC committee), which comprises representatives of civil society (main religious groups, the business community, nongovernmental organizations (NGOs), and associations that are development partners)), as well as representatives from multilateral and bilateral creditors and donors, and of the government. The Resident Representatives of the IMF and of the World Bank participate in the meetings of the HIPC committee as observers. The implementation of the first series of programs and projects, which have obtained a favorable opinion from the HIPC committee, has incurred delays, owing to technical difficulties that have emerged in introducing transparent disbursement mechanisms for the use of HIPC funds in the context of the existing budgetary system and procedures. • Moreover, the preparation of high-quality programs and projects by potentially eligible partners has taken much longer than initially expected, owing to weaknesses

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
	in (i) the technical capacities of both private and public partners; (ii) institutional capacities; and (iii) the organization and functioning of the HIPC committee. These organizational and functional problems of the HIPC committee are being resolved. Also, the government has established procedures to expedite and secure disbursements from the HIPC resources, and, with the support of the United Nations Development Program (UNDP), launch a national campaign to inform partners of the high-quality programs and projects for submission to the HIPC committee for its opinion before their adoption by the government. Finally, the government has launched the first technical and financial audit of expenditures financed from HIPC resources.
• World Bank's Third Structural Adjustment Credit (SAC III) (International Development Association –IDA) has been concluded, and reforms have been implemented in a satisfactory manner.	• The expiration date of the SAC III was extended to end-June 2003 and has been extended once more through end-December 2003.
– Forestry sector	Forests: • Disbursements under the corresponding tranche and of the Fifth Dimension related thereto were made in early November 2002. • The government has been pursuing the reform program envisaged for the forestry sector, which relates, notably, to (i) the awarding of business licenses to operate in the forestry sector in a transparent manner; (ii) the securitization of fiscal revenue from activities in the forestry sector; (iii) the introduction of procedures for the formulation, approval, and implementation of forestry development plans; (iv) the supervision of these plans by independent agents; and (v) the implementation of the Agence National

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
	de la Forêt (ANAFOR) and the fight against illegal activities and other violations of the laws and regulations applicable to the forestry sector. • Concerning the award of business licenses, the biddings for *ventes de coupe* were launched in September 2003, and an independent observer, who sits in the commission entitled to deliver these licenses, has already been selected. • Concerning the forestry development plans, the relevant technical analysis committee received 14 new applications in July 2003. The next meeting of the interministerial committee for the approval of development forestry plans is scheduled to take place in November 2003. Moreover, the selection process for the independent observer for the support to be provided to the control and monitoring of violations has been launched. • As regards the securitization of fiscal revenue from the forestry sector, the computerized system for the information management of the forestry sector is being improved. Moreover, an audit of the decentralized fiscal system has been completed, with financial assistance from the British and Canadian development agencies. • As regards institutional reforms, the steering committee for the establishment of ANAFOR has prepared the terms of reference for the restructuring of the former Office National des Forêts (ONADEF).

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
– Privatization	Privatization program: • The action plans to relaunch the privatization process of Cameroon Development Corporation (CDC) for the remaining three activities (bananas, hévéa, and palm—the tea activity was privatized in October 2002) and Cameroon Telecommunication Company (CAMTEL) have been formulated in cooperation with the World Bank. Their implementation is under way. • Moreover, in September 2003, and following protracted negotiations with the selected provisional bidder, the government declared the bidding for the privatization of the national water company, the SNEC, to be inconclusive. The government has initiated, with World Bank assistance, the preparatory work to relaunch the privatization process. An action plan to relaunch the privatization process is to be adopted before end-October 2003.
– Transport	Port sector: • As regards institutional reform, the decrees for the adoption and approval of the charters (*statuts*) of the autonomous ports (Douala, Kribi and Limbé) have been signed. The management bodies (Board of Directors, general management) for the ports of Kribi and Limbé are expected to be in place by January 1, 2004. • The joint decree from the Ministry of Finance and Budget, the Ministry of Urban Development and Housing, and the Ministry of Transport has been signed to ensure the legal transfer of the assets of the former National Office of Cameroon's Ports (ONPC).

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
	• The financial restructuring of the autonomous port of Douala, which is by far the largest new autonomous port, is under way. • The process for transferring industrial and commercial activities to the private sector is quite advanced for the port of Douala. The invitation to bid for the container terminal, towing and anchoring activities, and the ice-making plant were launched in March 2003. • The technical bids for the container terminal and the towing and anchoring activities have been analyzed. As regards the ice-making plant, negotiations with the selected provisional bidder are under way. • Concerning the clearance time for containerized merchandise in Douala, in-depth studies were completed in 2003, with a view to identifying in detail the reasons behind the length of the clearance time. Based on the findings of these studies, new measures have been taken to shorten this time, including an information campaign to make port operators aware of their own responsibilities in keeping the merchandise at the port of Douala too long.
3. Governance and anticorruption	
• The priority strategy and action plan (PAP) for improving governance and combating corruption attached to the interim PRSP (I-PRSP) have been satisfactorily implemented:	
– In the area of **judicial reform,** (i) a *Chambre des Comptes*	• With regard to the misuse of the *saisie-attribution* procedure, which could potentially jeopardize the financial soundness of the commercial banks and other financial

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
(external control audit body for state finances); and (ii) a Constitutional Council (*Conseil Constitutionnel)* have been created.	institutions, the measures that have been taken since 2001 have helped curb their abusive use and establish a normal business climate for the operations of these commercial banks. The completion of the technical audit of the judicial system by a group of Belgian and Canadian consultants took more time than initially scheduled. The final report was submitted to the government on October 3, 2003. The findings and recommendations of this study will be used as a basis for the formulation of an action plan to reform the judicial system by end-January 2004 at the latest. The National Assembly adopted, in its March 2003 session, a law specifying the responsibilities, the organizational chart, and the functioning of an external control audit for state finances(*Chambre des Comptes*) within Cameroon's Supreme Court. Based on the law that has been promulgated, work is under way, with the assistance of external experts, on the initial draft proposals for (i) the establishment of both management (*compte de gestion*) and administrative accounts for assessment by the relevant senior legal personnel (*magistrats des comptes*); (ii) the recruitment and training of the various staffs of the external control body for state finances; (iii) the drafting of the statute(s) of the members of the external control body for state finances; and (iv) the provision of the needed logistical means to the state finances' external audit body in order to ensure its proper functioning. The action plan adopted by the government in November 2002 for establishing a Constitutional Council is being implemented. Both the technical committee and the steering committee are now operational. A consultant, who has been selected through international bidding, started working on the formulation of a draft law in August 2003. The action plan envisages the submission of the draft law to the National Assembly in its March 2004 session.

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
– The **public procurement system** has been reformed, and, in particular, audits for the preceding fiscal year have been completed, and appropriate follow-up actions implemented, in accordance with the law.	• The reform process of the institutional framework for the public procurement system was consolidated through a decree, signed by the President of the Republic on January 28, 2002, which created the public procurement commissions (located at the public contractors' head offices (*maître d'ouvrages*)) and the specialized control commissions, thereby completing the steps begun earlier in the interim phase of the reform process, during which independent observers and auditors had been introduced and the Public Procurement Regulatory Agency (ARMP) set up. The new overall institutional framework is now in place, and the regulatory framework is expected to be refined soon with the adoption of a public procurement code before end-December 2003. The summary of five audit reports on the government's publicly procured contracts for fiscal-year 2001/02 has been endorsed by the Board of Directors of the ARMP. The draft public procurement code incorporates many of the relevant recommendations of the summary. Experts of international standing were recruited in April 2003 to prepare an evaluation report of the interim phase of the public procurement reform process. They will rely, notably, on the findings of the reports prepared by the independent observers and the audit reports on the publicly procured deals contracted and/or carried out during this period.
– In the area of **budget execution and services delivery**, the results of the budget-tracking exercises and beneficiary assessments for health and education have been published and the relevant recommendations implemented.	• With a view to enhancing ownership and ensuring the sustainability of this exercise, the government has decided to ask the National Institute of Statistics (INS) to carry out the budget-tracking project and to conduct the beneficiary assessment survey. The launching of these two operations incurred delays, owing notably to difficulties encountered in securing the necessary financing arrangements. This exercise has now received the technical support of the World Bank, which will also contribute to the needed financing (through the use of available resources under the private/public

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
	partnership project for growth and poverty reduction enhancement) in order to supplement the government's own resources for that purpose. The INS has already elaborated, with the assistance of the World Bank sectoral experts, the questionnaires for the surveys for the education and health sectors. Because of the timing of the school year, the exercise is being conducted first in the health sector (beginning in early October 2003). The budget-tracking exercise will rely on the IMFS, the implementation of which has considerably progressed. The implementation of a new budget classification system will help better target and monitor poverty reduction-related expenditures.
• **Regulatory agencies.** Regulatory agencies for key sectors (including electricity and telecommunications) are autonomous, and are operating in an efficient and professional manner.	• The regulatory agencies for electricity (ARSEL) and for telecommunications (ART), which were set up in conjunction with the liberalization and privatization process in these two sensitive sectors, are now operational. They have become full-fledged partners in the context of an increasingly competitive environment, where they are required to oversee closely the observance of applicable laws and regulations and the quality of services provided to consumers. Both the activities of ARSEL and ART are supported by IDA financial assistance, which is designed to help strengthen their human operational and institutional capacities through the private/public partnership project on growth and poverty reduction enhancement. This project has notably helped finance the organization, in Yaoundé in March–April 2003, of an important information seminar to explain the roles of the different partners involved in the sectors concerned (public administration, private sector, consumers, and regulatory agencies).

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
4. Social sectors	
• **Education sector.** The sector strategy has been implemented in a timely manner, and, in particular, (i) 2,500 new classrooms have been built; and (ii) teachers' management has been effectively decentralized (*deconcentré*) and new teacher statutes adopted and implemented.	• About 2,500 new classrooms were constructed (irrespective of their financing sources) as of end-September 2003. The specialized control commission for the publicly procured contracts for collective housing and equipment is currently reviewing the draft publicly procured contracts for 682 classrooms, which are to be financed through HIPC Initiative resources. Biddings for the construction of 800 additional classrooms, which will be financed through HIPC Initiative funds, have been launched. About 330 classrooms are being built in the context of projects supported by Japan and the African Development Bank. Publicly procured bids for the construction of 450 new classrooms financed from the government's own resources are either being launched or under way in the various provinces of the country. As regards the decentralization (*déconcentration*) of the management of teachers and the adoption and entry into force of the new statutes of teachers, significant progress has also been achieved. A strategy for the rational, efficient, and decentralized (*déconcentré*) management of teachers in the public sector has been adopted. The legal framework has been established and steps to strengthen human capacity and material means have been initiated, with a view to transferring certain prerogatives from the central-government level of ministries to provincial levels. Concerning the implementation of the new statutes of teachers (which were adopted through a decree in 2000), pragmatic solutions have been gradually developed to help absorb the costs arising from the implementation of the statutes. A plan for improving the benefits (*primes*) for teachers is being formulated. Some of these benefits have already been paid. • A medium-term expenditure framework, consistent with the sectoral strategy, has

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
	been elaborated for the education sector and is included in the PRSP. The framework will be improved and updated in the context of the revisions of this document.
• **Health sector.** The sector strategy has been satisfactorily implemented in a timely manner, and, in particular, (i) child immunization rates for DPT have increased to 70 percent; and (ii) knowledge about protection and prevention measures against malaria has substantially increased, as 50 percent of pregnant women are using impregnated bed nets.	• A medium-term budgetary expenditure framework for the health sector, consistent with the sectoral strategy, has been elaborated and is included in the PRSP. The framework will be improved and updated in the context of the revisions of this document. Concerning the protection and prevention against malaria, a national strategic plan against malaria has been adopted. The antimalaria national committee has been restructured, and a permanent secretariat, in charge of coordinating the implementation of the national strategic plan, has been designated. Bids for the purchase of 810,000 impregnated bed nets have been launched. Out of this total, 150,000 bed nets have already been supplied, and their distribution is under way. An emergency information media campaign to inform pregnant women about the distribution of bed nets has been developed by a team of journalists, sociologists, and experts in communication. Moreover, a strategy for the distribution of impregnated bed nets has been formulated, with the support of the regional office of the World Health Organization (WHO). The distribution of the bed nets among all the provinces will rely on the networks of nongovernmental organizations (NGOs), with which specific contracts have been signed. Collaboration with the NGOs entail, notably, their participation in the monitoring and evaluation of the distribution of treated bed nets to pregnant women.
5. HIV/AIDS	
• Concrete progress has been made in prioritizing the fight against HIV/AIDS	• A detailed national action plan to combat HIV/AIDS, which incorporates the regional plans of ten provinces for 2003, has been adopted, and its implementation by the

Measures (Box 7 of EBS/00/194; 9/19/00)	Status as of October 15, 2003
in the government's overall development agenda and to curb infection rates in the population, with particular emphasis on education to promote the use of condoms by truck drivers, port workers, and soldiers, in order to bring the rate of infection among them to 50 percent, and that of commercial sex workers to 70 percent.	National Anti-AIDS Committee (CNLS) is under way. The plan is financed by IDA. Communication is one important element of the national plan, which aims at informing the public at large about the use of condoms by the risk groups, such as soldiers, truck drivers, port workers, and sex workers. The information campaign that has been launched relies on various means of advertising support, radio and television spots, and "gadgets". Partnership arrangements, notably with NGOs, have been concluded to distribute condoms. The number of patients receiving antiretroviral medication increased from 500 in 2000 to 5,000 in 2002 and will increase further in 2003 to reach 9,000 by year's end. The national anti-AIDS committee provides its support to the various ministries concerned for the elaboration and the implementation of sectoral action plans. Twenty-two million condoms were distributed in 2002. This figure is to be raised to 50 million by end-2003.

CAMEROON

Technical Memorandum of Understanding on the Definitions, Including Structural Performance Criteria and Benchmarks, and Modalities of the Built-in Contingency Mechanism for the Adjustment of Quantitative Performance Criteria and Benchmarks Under the Third Annual Program Under the PRGF Arrangement

A. Introduction

1. This memorandum supplements the memorandum of understanding annexed to the memorandum on economic and financial policies (MEFP) of December 6, 2000, as well as the memoranda of understanding annexed to the supplementary letters of intent of June 28 and December 28, 2001, and of August 28, 2002. It sets out the understandings between the Cameroonian authorities and the staff of the International Monetary Fund regarding the definitions of the performance criteria and quantitative and structural benchmarks of the PRGF-supported program, the built-in contingency mechanism related thereto, and the data-reporting requirements.

B. Definitions

Prior actions

2. The prior action relating to the "preparation of the first list of uncashed checks from taxpayers, the date of receipt of which is exceeding two months' old or more" will be considered as being in place following the communication to the staff of the International Monetary Fund of this list, with the details on the receipt date by the public treasury and the amount of every check.

3. The prior action relating to the "adoption of an action plan for the effective operationalization of the large taxpayers' unit within the tax department created on June 30, 2003" will be considered to be in place following the adoption by the Minister of Finance and Budget of the following: (i) a ministerial decision (*instruction ministérielle*) for the large taxpayers' unit (LTU), prepared with technical assistance from the IMF's FAD, specifying that the management responsibilities and the collection and fiscal control of large enterprises are the exclusive responsibility of this unit, and that the number of staff assigned to the LTU is increased by up to 80 to 90 agents (the draft ministerial decision will be submitted to Fund staff for its consideration before its signature); and (ii) the decree of the Minister of Finance and Budget that requires mandatory payment through bank wiring, as of April 1, 2004, to the current account of the treasury at the Bank of Central African States (BEAC) for all taxes and other obligations due to the state by all the enterprises under the responsibility of the LTU (i.e., direct taxes, I.S.P.P., value-added tax, specific mining, forestry, and agricultural taxes, fees and dues on account of productive activities carried out

on state-owned property), and for the other taxes and obligations to the specified bank accounts of the C.R.T.V., C.N.P.S., Crédit Foncier, Fonds National de l'Emploi, FEICOM, municipalities, and urban communities (i.e., dues, fees and taxes that have been introduced for the direct benefit of each of these entities).

4. The prior action relating to the "completion of the final phase of the information and financial management system (IFMS) for all central government revenue and expenditure (including at the local branches of the central government), based on the new budget classification system" will be considered to be in place following an on-site inspection by the Office of the IMF Resident Representative and the submission to the staff of the International Monetary Fund of a report to be prepared by the Ministry of Finance and Budget that states that all necessary computer applications have effectively been put in place.

Structural performance criteria

5. The structural performance criterion for December 31, 2003 relating to the "transformation into regular treasury accounts (i.e., accounts held solely by the Treasury on behalf of government entities—comptes du Trésor) of all government accounts that have been opened at commercial banks outside the regular treasury accounts, with the exception of the following: accounts monitored by a public accountant of the treasury, those managed by a public legal management committee (e.g., management committees of schools), and those required to manage externally funded project," will be considered to be in place upon receipt by the Fund of a document prepared by the treasury department that lists the commercial bank accounts transformed into regular treasury accounts and indicates their corresponding balances.

6. The structural performance criterion relating to the "implementation of the new CEMAC foreign exchange regulations" will be considered to be in place following the submission by the Ministry of Finance and Budget to the staff of the International Monetary Fund of the following documents: (i) Réglement 02/00/CEMAC/UMAC/CM as published in the Official Gazette of the Republic of Cameroon; and (ii) a legal opinion from the Minister of Justice to the effect that there is no longer any outstanding legislative provision, or government instruction, or guideline, which is inconsistent with the above-mentioned Réglement.

7. The structural performance criterion for February 29, 2004 relating to the "preparation of the central government financial operations table for end-December 2003 on the basis of the treasury accounts and the IFMS" will be considered observed following the receipt by the staff of the International Monetary Fund of the table that will track the consistency between (i) the data of the accounts balance (*balance des comptes*) using the new accounting chart (starting January 1, 2003), which is the core of data for the government financial operations table (TOFE); (ii) the data on the mandating (*ordonnancement*) of revenues and expenditures of the directorate of budget; and (iii) the data from the debt agency (Caisse Autonome d'Amortissement–CAA).

8. The structural performance criterion for April 1, 2004 relating to the "full implementation of the action plan for the operationalization of the large taxpayers' unit" will be considered observed when the following measures listed in the action plan (prior action) are implemented: (i) adoption of the legislative and regulatory changes as indicated in the fourth point of the implementation plan of the large taxpayers' unit (LTU) (documents to be transmitted to the staff of the IMF); (ii) selection and appointment of the LTU staff (agents) as indicated in the fifth bullet point of the implementation plan of the LTU (documents on appointments to be transmitted to the staff of the IMF); (iii) physical transfer to the (LTU of the fiscal documentation of the enterprises that have an annual turnover of more than CFAF 1 billion and of those that are 50 percent owned by them directly or indirectly; and (iv) the adoption by the Minister of Finance and Budget of a program of external fiscal controls (including, in particular, general accounting audits) planned by the LTU for 2004, as of April 1, 2004 (the program will be submitted for consideration to the staff of the International Monetary Fund before its adoption).

Structural benchmarks

9. The structural benchmark applicable throughout the period of the extended arrangement on the "preparation of monthly lists of uncashed checks issued by taxpayers, with indication of the receipt date for each check that is two months' or more old" will be considered observed upon receipt by the staff of the International Monetary Fund of the situation established by the treasury department, indicating the list of checks issued that remained uncashed for two months or more from the date of receipt by the relevant public accountant.

10. The structural benchmark for November 30, 2003 relating to the "specification of the poverty reduction-related expenditure budget items based on the new functional budget classification system, prior to the submission to the National Assembly of the draft Budget Appropriations Act for 2004" will be considered observed upon receipt by the staff of the International Monetary Fund of the document prepared by the budget directorate that will exhaustively detail budgetary items, indicating their codes and the amounts of those budget credits that are considered to provide a description of poverty reduction-related expenditure. This document is to be joined, as an annex, to the draft budget for 2004 that will be submitted to the National Assembly.

11. The structural benchmark for end-December 2003 relating to the "completion of the audit of the debt agency's operations in fiscal-years 2000/01 and 2001/02, including the audit of domestic public debt transactions unrelated to domestic and external debt service and the adoption of an action plan for implementing the recommendations" will be considered as observed upon receipt by the staff of the International Monetary Fund of the relevant audit and evaluation reports, the terms of reference of which were adopted by mutual agreement in November 2002.

12. The structural benchmark for December 31, 2003 relating to the "adoption of measures to address the deteriorating financial crisis of CAMAIR" will be considered to be

in place following the adoption of the measures that would be taken after consultation with Fund staff as regards the measures that could affect the budget, and their submission to the staff of the International Monetary Fund.

13. The structural benchmark for December 31, 2003 relating to "the adoption of an action plan for the reform of the judicial system" will be considered to be observed upon receipt by the staff of the International Monetary Fund of the relevant action plan, which will be based on the recommendations of the audit of the judicial system as described in paragraph 39 of the MEFP.

14. The structural benchmark for January 31, 2004 relating to the "update of the stock of domestic public debt as of end-June 2003 in the context of the ongoing evaluation by an independent auditor of the stock of domestic public debt" will be considered observed upon receipt by the staff of the International Monetary Fund of the relevant audit and evaluation reports, the terms of reference of which were adopted by mutual agreement in November 2002.

15. The structural benchmark for March 31, 2004 relating to the "completion of the procedural and organizational audit of the treasury department of the Ministry of Finance" will be considered observed upon receipt and approval by the staff of the International Monetary Fund of the relevant audit reports, the contents of which will conform to the terms of reference that were adopted by mutual agreement in March 2003.

16. The structural benchmark for end-March 2004 relating to the "signature of the *Accords de siège* of the BEAC" will be considered to be in place following the submission by the Ministry of Finance and Budget to the staff of the International Monetary Fund of the document duly signed.

External debt

17. "Debt" shall have the meaning set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (Decision No. 12274–00/85, dated August 24, 2000).

Concessionality of external debt

18. Debt is considered to be concessional if it includes a grant element equivalent to 35 percent or more, calculated on the basis of the commercial interest reference rate (CIRR) and following the methodology set out in staff paper SM/96/86 (4/8/96), approved by the IMF Executive Board on April 15, 1996.

Cash relief from external debt rescheduling

19. For the purpose of the program, the only form of debt relief that will be subject to the contingency mechanism described below is the one that leads to an effective reduction in programmed debt service. This excludes any relief given on debt that has been in drawn-out

rescheduling/restructuring negotiations with non-Paris club creditors and for which no debt service has been paid in the past year—for example, debts to be considered under the debt- and debt-service reduction operations with commercial creditors, and for which no provision for debt service has been made in the fiscal program (except for up-front costs).

Structured debt

20. Structured debt is defined as the stock of debt as of end-December 2002 resulting from the recorded cash payments, or which has been securitized, after the auditing of formally concluded agreements (*conventions*). Such debt comprises two categories: securitized debt and nonsecuritized debt. Securitized debt comprises bank debt, cross debt that is supported by a formal agreement, insurance company debt, and securitized wage arrears. Nonsecuritized debt includes consolidated BEAC debt, nonsecuritized public works (BTP) debt, debt to the public, semipublic and private enterprises specified in the multiyear settlement plan for public domestic arrears reduction wage arrears (Rompus), and government/SONARA/SNH cross debt. Nonsecuritized debt also includes debt related to advances from the BEAC. Structured debt service in 2003 consists of both principal and interest.

Domestic arrears (nonstructured debt)

21. Domestic arrears are understood as nonstructured domestic debt contracted by the state of Cameroon. Nonstructured debt is defined as debt not yet subject to a formal agreement (convention), cash payment, or securitization. Specifically, this debt comprises wage debt (cumulative memorandum entry following the 1998 audit); commercial debt; rental/lease debt; debt related to indemnities and compensations due by the state and expropriations, wage payments, fees, and tax credits or refunds; and debt related to social programs associated with public enterprise restructuring. The government intends to settle these debts through cash payments by end-December 2005, as specified in the revised interim settlement plan drawn up by the authorities in March 2003, based on the provisionally estimated stock as of end-December 2002.

Government financial operations table (TOFE)

22. The treasury balance (*balance des comptes*) shows government revenue and expenditure posted in Class 6 accounts (current expenditure), Class 7 accounts (current revenue), and Class 2 accounts (investment operations). Debt-related operations are recorded in Class 1 accounts (debt operations) and partly in Class 5 (financial operations). The financial operations data must be consistent with the data in the treasury account at the BEAC. Data on provisional revenue and expenditure operations and deposits of the correspondents of the treasury are recorded in Class 4 accounts of the government's chart of accounts (*plan comptable)*. These data should be compared with the data provided by departments in charge of collecting fiscal revenues, the customs department, the tax department, and ministries that rely on their own resources, in order to monitor the consistency and reliability of fiscal revenue data. Government operations that are not carried

out through the treasury, such as those involving earmarked revenue, direct interventions, and road fund operations, need to be added to the data on operations that are directly carried out through the treasury. Revenue operations are recorded on the basis of actual receipts and expenditure operations on a commitment basis. Carryover operations (*operations de journée complémentaire)*, if any, are recorded in the final month of the fiscal year.

Net bank credit to the government

23. Net claims on the central government by the banking system comprise the stock of all outstanding claims on the central government (loans, advances, and any government debt instruments, such as long-term government securities) by the banking system, less all deposits held by the central government with the banking system. Privatization proceeds are excluded from the definition of the ceiling on net claims on the central government by the banking system.

Primary budget balance

24. The primary budget balance (on a commitment basis) is calculated as total central government revenue (oil and non-oil), excluding external grants and privatization proceeds, less all expenditure other than interest payments, foreign-financed investment expenditure, restructuring expenses, and separation grants.

Quantitative benchmark on payments to utility companies

25. The quantitative benchmark relating to "payment of debt to utility companies" will be considered observed if payments to the three public utility companies (water, electricity, and fixed-line telephones) are made in quarterly amounts, as indicated in the table below. These payments are understood to exclude fiscal compensation, and they are assessed on the basis of disbursements, i.e., as listed by the treasury. They are to be registered as current expenditures in the TOFE.

Cameroon. Payments Program of Debt to Utility Companies

(In millions of CFA francs)

Utility Companies	Budgetary Allocations		Payments Made	Payment Programmed, Current Expenditure				
	2003	2004	2003	2003	2004			
			Jan. - Jun.	Jul.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.
SNEC (water)	7,933	9,000	0	7,933	2,250	2,250	2,250	2,250
AES SONEL (electricity)	7,359	8,500	858	6,501	2,125	2,125	2,125	2,125
CAMTEL (telephone)	11,943	15,863	2,412	9,531	3,966	3,966	3,966	3,966
CAMAIR (air transportation)	12,455	15,000	8,302	4,153	3,750	3,750	3,750	3,750
Total	39,690	48,363	11,572	28,118	12,091	12,091	12,091	12,091

Privatization proceeds

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

C. Modalities of the Built-in Contingency Mechanism for the Adjustment of Quantitative Performance Criteria and Benchmarks

27. In view of the uncertainties about program financing and oil prices, the program contains a built-in contingency mechanism for the adjustment of quantitative performance criteria and benchmarks relating to the ceilings on the increase in the net claims on the central government by the banking system.

Deviations from programmed oil revenue

28. Oil revenues are based on the assumption of a price per barrel of Cameroonian crude of US$25.70 and an export volume of 18 million barrels for the second half of 2003, and on respective projections of US$23.8 and 16.4 million barrels for the first half of 2004. Based on these assumptions, the contribution of oil revenue to the government budget is estimated at CFAF 149 billion in July-December 2003 and projected at CFAF 134 billion for January-June 2004.

29. In the case of lower-than-programmed oil revenue (owing to events beyond the government's control), the government will compensate for 50 percent of the shortfall by expenditure savings and cuts and/or additional revenue from other sources. For the remaining shortfall, the above-mentioned quantitative performance criteria and benchmarks will be adjusted upward. For a shortfall beyond the threshold of CFAF 35 billion per quarter, the authorities will consult with the staff of the International Monetary Fund to formulate corrective policies to adjust the quantitative performance criteria and benchmarks.

30. The entire amount of the oil revenue in excess of the programmed amount will be placed in a treasury account opened at the BEAC. Up to 50 percent of the windfall can be used to (i) increase high-priority infrastructure investment and social expenditure; and (ii) reduce domestic arrears. The remainder of the windfall will be sterilized by lowering the relevant ceilings relating to the above-mentioned performance criteria and benchmarks.

Deviations from programmed external financial assistance and reductions in domestic and external arrears

31. The above-mentioned quantitative performance criteria and benchmarks will be adjusted (i) upward for any shortfall in exceptional external financial assistance (program

financing and external debt relief, for example) up to an amount equivalent to 50 percent of the shortfall (for a total cumulative shortfall of CFAF 35 billion or less); (ii) downward for the full amount of any excess in externally financed assistance (program financing and external debt relief); and (iii) downward by the full amount of any shortfall in the programmed reductions of domestic and external payments arrears.

Program exchange rates

32. Amounts denominated in SDRs will be converted into U.S. dollars at the fixed exchange rate of US$1.3929 per SDR, and then into CFA francs at a fixed exchange rate of 579.2 CFAF per U.S. dollar for July-December 2003 and of 585.3 CFAF per U.S. dollar for January-June 2004. IMF liabilities, which are included in the definition of net claims on the central government by the banking system, will be valued at the same exchange rates. Any deviation from the exchange rate will lead to a full upward or downward adjustment, as appropriate, of the value of the stock of IMF liabilities at the central bank, and to a similar adjustment of the ceiling on net bank claims on the government by the banking system.

D. Reporting Requirements

33. The Cameroonian authorities will send data, as per the attached Table 1, to the Fund within the time limits set out in that table. Unless otherwise specified, the data are to be provided in the form mutually agreed by the authorities and the Fund. The authorities will promptly supply the Fund with any additional information that the Fund requests for the purpose of monitoring performance under the program, on a timely basis.

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey	Monthly	25th of the month for the previous month's data
	Interest rates	Irregular	One week after new rates announced
	Transactions through the HIPC Initiative account opened at the BEAC	Monthly	25th of the month for the previous month's data
	Status report on all government deposits at the BEAC	Monthly	10th of the month for the previous month's data
Fiscal data	Government financial operations table (TOFE), including revenues, expenditure, financing, and domestic debt payments (including settlement of domestic arrears)	Monthly	Four weeks after the end of the month concerned
	Treasury balances of a given month	Monthly	Eight weeks after the end of the month concerned
	Treasury "flash" reports	Monthly	10th of the month for the previous month's data
	Report on the implementation of the domestic debt settlement plan	Monthly	30th of the month for the previous month's data
	VAT refunds' balances	Monthly	25th of the month for the previous month's data
	Investment budget execution report	Quarterly	Two months after the end of quarter concerned
	Expenditure reports by selected ministries	Quarterly	Two months after the end of quarter concerned
	National oil company (SNH) operations, including export volumes, exchange rates, prices and values, transferable balance, and summary accounts	Monthly	25th of the month for the previous month's data
	HIPC Initiative spending plans and budget execution plans	Quarterly	One month after the end of quarter concerned

Table 1. Cameroon: Data- Reporting Requirements (concluded)

Category of Data	Table/Report	Frequency	Target Date
Real sector data	Consumer price index, Yaoundé and Douala (DSTAT)	Monthly	20th of the month for previous month's data
	National consumer price index (DSTAT)	Quarterly	Forty-five days after the end of the quarter concerned
	Index of industrial production (DSTAT)	Quarterly	Six months after the end of the preceding quarter
	National accounts (DSTAT)		
	Flash series	Semi-annual	Twelve months after the end of the preceding fiscal year
	Provisional series	Annual	Twenty four months after the end of the fiscal year concerned
	Final series	Every two years	Twenty four months after the end of the fiscal year
Balance of payments data	Imports by use and major export products, trade balance (DSTAT)	Monthly	25th of the month for the previous month
	Price and volume indices of imports and of exports (DSTAT)	Quarterly	One month after the end of the quarter concerned
	Consolidated balance of payments estimates	Annual	Summary estimates; six months after the end of fiscal year
External debt	Debt-service due before and after debt relief	Quarterly	At the beginning of fiscal year; updates as needed
	Cash debt service paid	Monthly	25th of the month for the previous month's data
	Debt service reconciliation table ("access table")	Quarterly	25th of the month for the previous quarter's data
	Stock of outstanding debt and arrears	Quarterly	25th of the month for the previous quarter's data
	Drawings on new loans	Quarterly	25th of the month for the previous quarter's data
External grants	Disbursements	Monthly	25th of the month for the previous month's data

Cameroon: Public Sector Debt Sustainability Analysis[1]

Under the baseline scenario, Cameroon's public debt-to-GDP ratio is expected to decline from 74 percent of GDP in 2002 to about 30 percent of GDP in 2007. The NPV of external debt-to-exports ratio should drop at the HIPC Initiative completion point in 2004 to about 116 percent and remain around this level until 2007. Stress tests indicate that an exploding debt path will not emerge under a variety of shocks. Nonetheless, a real depreciation of the CFA franc against the U.S. dollar of 30 percent in 2003 yields a substantial increase in the debt-to-GDP ratio from its 2002 level in the depreciation year (2003), followed by a steady decline. Moreover, sensitivity analyses on external debt highlight the country's high vulnerability to export shocks.

A. Introduction

1. **Ensuring the sustainability of the public debt is particularly important for Cameroon in light of the steadily decreasing oil revenue and the necessity to increase social spending in line with the country's objectives set out in its poverty reduction strategy paper (PRSP).** Oil revenue is projected to decline significantly from 5.4 percent of GDP in 2002 to 1.7 percent by 2007. At the same time, substantial outlays will be needed in priority sectors to achieve sustained poverty reduction. Efforts are already in train to increase non-oil revenue and to improve public expenditure and debt management. In this context, debt sustainability is necessary in order to ensure that, in the future, adequate public resources remain available to meet social challenges without jeopardizing the recent progress in fiscal consolidation and macroeconomic stability. Total public debt is estimated at 73.7 percent of GDP at end-2002.

2. **Both total public debt and external sustainability studies were conducted using the methodology set out in SM/02/166 (5/28/02), adjusted to Cameroon's characteristics.** The exercise involves three main steps: (i) elaboration of an appropriate medium- and long-term baseline scenario of the balance of payments and fiscal positions; (ii) computation and analysis of the dynamics of key debt indicators from the baseline scenario; and (iii) conducting stress tests designed to assess the country's vulnerability to alternative macroeconomic assumptions and exogenous shocks.

3. **The following stress tests have been carried out for total public debt and external public debt sustainability:** (i) the key parameters were set to their historical averages since the devaluation of the CFA franc in 1994 (1995-2001);[2] and (ii) real GDP

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[1] For an earlier detailed analysis of fiscal sustainability, please refer to SM/99/78.

[2] The period prior to 1995 was excluded as Cameroon underwent a major crisis and currency devaluation in January 1994. Data are on a July-June fiscal-year basis up to 2001 and on a calendar-year basis from 2002 onward. To avoid the creation of statistical problems from this change, the observations for 2002 were excluded from the historical averages.

growth was maintained at the historical average minus two standard deviations in 2003 and 2004.

In addition, specific tests were carried out for total **public debt sustainability**:

- the primary balance was set at the baseline scenario minus two standard deviations;
- a onetime, 30 percent real depreciation of the CFA franc against the U.S. dollar was applied in 2003;
- other debt-creating flows were increased by 10 percent of GDP in 2003; and
- a permanent, two-standard-deviation negative shock was applied to the price of the major commodity (oil) in 2003.

The following specific tests were carried out for **external debt sustainability**:

- export value growth was set at the historical average minus one standard deviation in 2003 and 2004;
- the U.S. dollar GDP deflator was set at the historical average minus two standard deviations in 2003; and
- net official transfers were set at the historical average minus two standard deviations.

B. Size and Origins of the Public Sector Debt

External debt

4. **External debt increased sharply between 1985 and 1995, mainly reflecting severe terms of trade shocks in the mid-1980s, a long economic depression, a fiscal crisis, and economic mismanagement.** As a result, the country had five rescheduling agreements with the Paris Club between 1989 and 1997.[3] Despite these agreements, the debt position was still judged unsustainable and in December 2000, Cameroon reached the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). At end-June 1999, the nominal stock of public external debt was estimated at US$7.8 billion (about 85 percent of GDP), that is, US$ 6.6 billion in end-June 1999 net present value (NPV) terms. The country's main creditors are Paris Club members, accounting for 69 percent of nominal debt, with 25 percent owed to France and 18 percent to Germany. Implementation of a prudent external debt policy since the HIPC Initiative decision point contributed to the reduction in the nominal stock of public external debt to US$6.9 billion (63 percent of GDP) at end-December 2002. There has been little change in the overall structure of the debt in terms of its creditor composition. A large majority of the debt is still held by Paris Club members.

[3] A sixth rescheduling was agreed in January 2001.

Domestic debt[4]

5. **Over the past few years, the government has made progress in improving the transparency and effective management of domestic debt.** Most recently, efforts were made to consolidate domestic debt data from the Caisse Autonome d'Amortissement (CAA) and the treasury, including through a number of independent audits. This has made it possible to carry out a preliminary evaluation of the stocks and flows of domestic debt at end-2002. This assessment will be firmed up on completion of ongoing further independent audits on domestic debt.[5]

6. **The total domestic debt is estimated at 15.7 percent of GDP at end-2002.** Similarly to external debt, a large part of domestic debt was accumulated prior to and during the crisis of the early 1990s. An estimated 60–65 percent of this debt was contracted prior to 1994. The total domestic debt includes arrears of CFAF 159 billion (2.3 percent of GDP). About 54 percent of the total debt was securitized, all prior to 2000. Securitized debt includes debt to commercial banks, a part of the debt to insurance companies, and a large part of civil service wage debt; securitized debt is generally subject to clear securitization agreements that specify maturity, interest rate, and repayment schedules. The efforts to establish the domestic debt at end-2002 with sufficient accuracy have allowed the authorities to prepare a medium-term plan for repayment of domestic debt (Table 1), according to which they are expected to complete the repayment of domestic arrears by 2006.

C. Medium-Term Sustainability (2003–07)

7. **The baseline scenario assumes the following:**

- Real annual growth of 4.2 percent in 2003, accelerating to 6.0 percent in 2007; inflation (GDP deflator) of 1.2 percent in 2003, with a rate of about 1.5 percent thereafter; and a rise in the external current account deficit from 3.1 percent of GDP in 2003 to 3.6 percent of GDP in 2007.

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[4] For an earlier detailed report on domestic public debt developments, please refer to Appendix IV of EBS/00/90 (5/23/00).

[5] An audit is being conducted on the size and composition of the domestic public debt at mid-2003. This audit will also include an evaluation of the cross liabilities between the government and the utility and transport companies.

Table 1. Cameroon: Domestic Debt, 2002-05

(In millions of CFA francs, unless otherwise specified)

	End-2002			2003	2004	2005
	Estimated stock 1/	As a percent of total debt	As a percent of GDP	Total projected payments 2/		
Financial debt	922,582	85.3	13.4	128,000	138,068	158,000
Banking system	398,857	36.9	5.8	...	...	...
Non-banking sector	523,725	48.4	7.6	...	...	...
Arrears	159,242	14.7	2.3	35,000	54,000	54,000
Private sector	20,052	1.9	0.3	...	...	...
Public sector	53,477	4.9	0.8	...	...	...
Households	85,713	7.9	1.2	...	...	...
Total	1,081,824	100.0	15.7	163,000	192,068	212,000
Total as percent of GDP				2.3	2.5	2.6
Memorandum item :						
Nominal GDP			6,868,734	7,235,256	7,750,303	8,235,169

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

1/ Estimated stock at end-2002, which will be finalized after the results of the latest independent audit become available.
2/ Interest and principal.

- A strengthening of the fiscal position, with the non-oil primary balance[6] increasing from a surplus of 0.7 percent in 2003 to one of 1.2 percent of GDP by 2007; a decline in oil revenue from 4.3 percent of GDP to 1.7 percent by 2007, partially offset by an increase in non-oil revenue from 14.5 to 16.7 percent of GDP; and a projected gradual increase in total noninterest expenditure as a share of GDP to 16 percent by 2007.

8. **Under the baseline scenario for fiscal debt sustainability analysis, Cameroon's debt-to-GDP ratio is expected to decline from 74 percent of GDP in 2002 to 30 percent of GDP in 2007** (Table 2). HIPC Initiative debt relief is largely responsible for the initial strong decline in the debt-to-GDP ratio. Prudent economic policies thereafter contribute to the continued lowering of this ratio. Over the same period, the debt-to-revenue ratio should also decline from 379 percent to 160 percent.

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[6] The definition of primary balance for this sensitivity analysis is total revenue (including grants) minus total noninterest expenditure.

9. **Stress tests indicate that an exploding debt path is not expected to emerge under a variety of shocks** (Figure 1). Under the stress tests of real GDP growth rates and primary balances at historical averages,[7] a commodity (oil) price shock, and an increase in other debt-creating flows, debt is higher than in the baseline but nonetheless gradually declines. Under none of these stress tests does the debt-to-GDP ratio subsequently exceed its level at the assumed completion point in 2004 (estimated under various tests at 54–64 percent of GDP in 2004 and at 54 percent under the baseline).

10. **One test only, a real depreciation of the CFA franc against the U.S. dollar of 30 percent in 2003, yields a substantial increase in the debt-to-GDP ratio from its 2002 level in the depreciation year**. From an estimated 74 percent in 2002, the ratio jumps to almost 100 percent in 2003, and, even with HIPC Initiative debt relief the ratio is over 87 percent. Thereafter, the ratio declines steadily to 61 percent by 2007.

D. External Debt Developments

11. External debt sustainability is a complex and comprehensive concept. Which indicators and benchmarks/thresholds are more relevant to the sustainability assessment depend on the country's macroeconomic situation and characteristics. Given that Cameroon, like most low-income countries, has limited access to private capital and resorts essentially to concessional loans, the NPV[8] of debt seems to be a more appropriate measure of the country's effective debt burden than its nominal value. Hence, the set of indicators includes the NPV of the debt-to-exports ratio, the NPV of the debt-to-GDP ratio, and the debt service-to-exports ratio. The concept and threshold for the ratio of debt to exports defined within the enhanced HIPC Initiative framework are used as benchmarks/references.[9]

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[7] For the purpose of conducting stress tests using historical averages, the primary balance was adjusted for the projected steady decline in oil revenue.

[8] The NPV of debt is defined as the discounted value at a given point in time of all future debt-service payments.

[9] In the denominator, exports refer to the average of the current year and previous two years; the sustainability target for the NPV of debt-to-exports ratio of the original HIPC Initiative was 200–250 percent; under the enhanced HIPC Initiative, the threshold was lowered to 150 percent.

12. **Under the baseline scenario,[10] the NPV of the debt-to-exports ratio will drop at the completion point to about 117 percent.** Between 2003 and 2007, the NPV of the debt-to-GDP ratio would fall to 23 percent (from 42 percent) and the ratio of debt service to exports to 12 percent (from 13 percent). The stress tests on these indicators are presented in Table 3 and Figures 2 and 3. Under the assumptions of smaller official transfers and the maintenance of key variables at their historical averages, the NPV of the debt-to-exports ratio increases above the baseline. In both of these cases, by 2007 the NPV of the ratio of external debt to GDP is about 5 percent higher than in the baseline.

13. **In addition, the stress tests highlight the country's high vulnerability to export shocks.** This is evident in the scenario incorporating a shock to export growth for two consecutive years (2003 and 2004). With such a development, the NPV of debt-to-exports ratio could breach the HIPC Initiative threshold of 150 percent by 2006.

14. **Overall, the debt sustainability exercises demonstrate that, under certain assumptions, including a strong fiscal effort to offset declining oil revenue and the delivery of debt relief under the HIPC Initiative, the public and external debt profiles of Cameroon would be sustainable.** However, a combination of negative shocks, if sustained, could seriously offset some of the gains. In particular, external factors, such as those affecting the value of the domestic currency and earnings from exports (commodity, in particular oil, price shocks or market access problems) have a major influence on the outcome.

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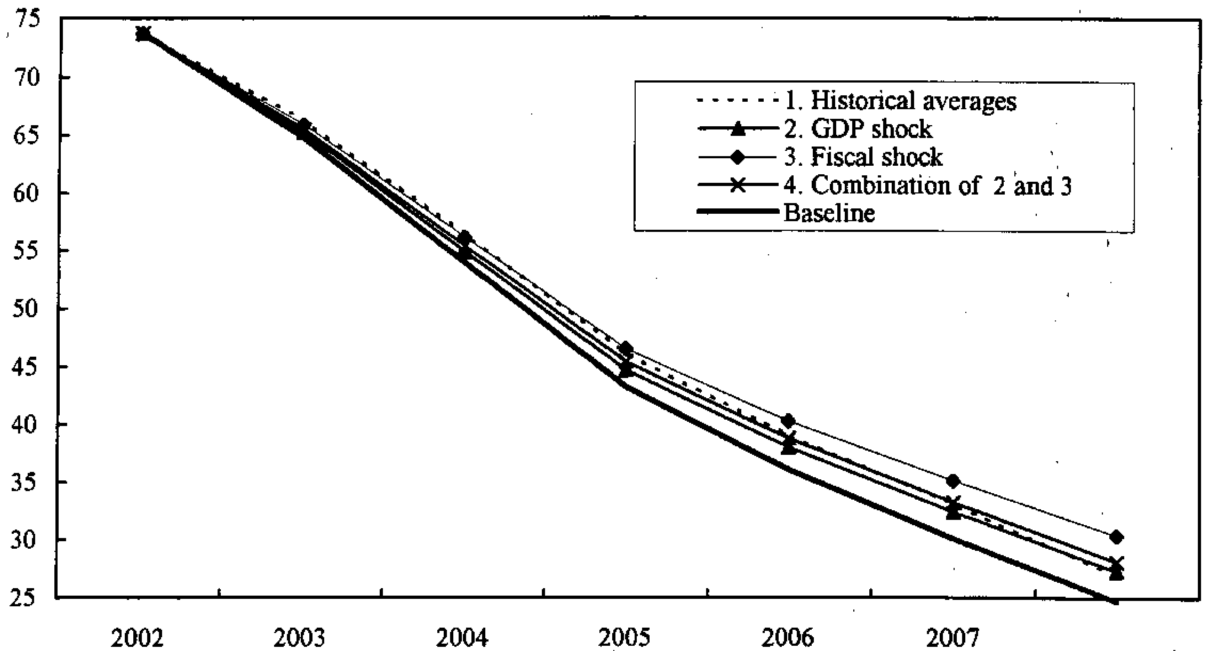
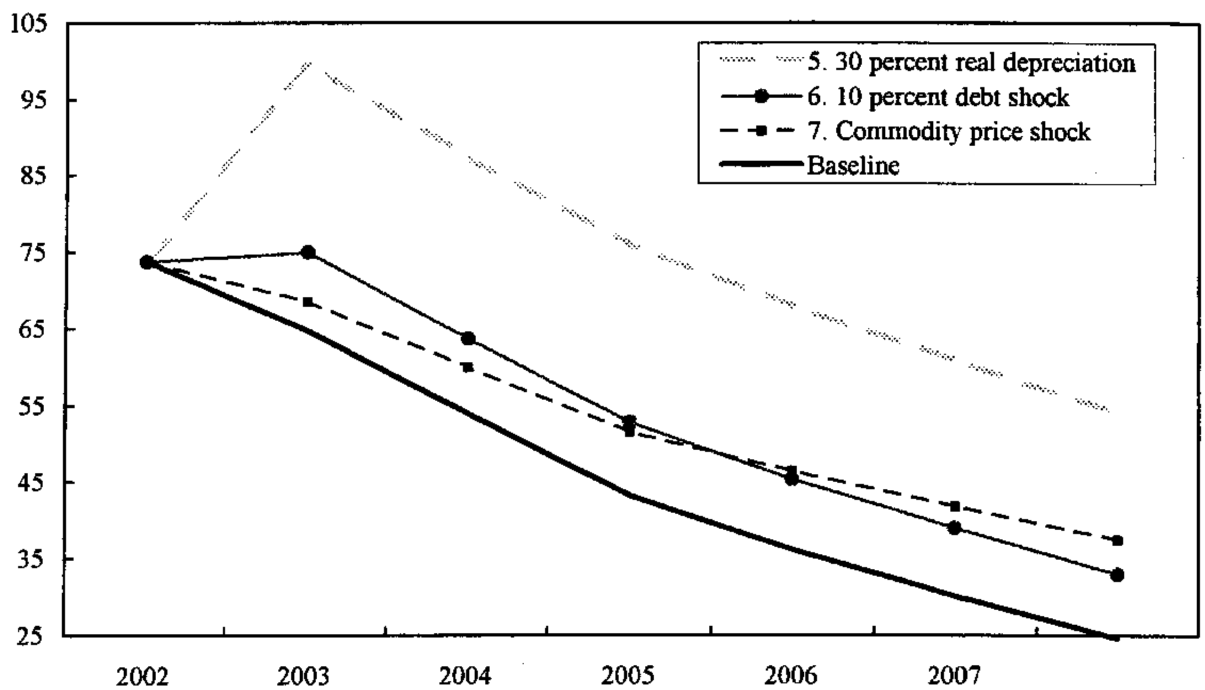
[10] A comprehensive debt sustainability analysis (DSA) was conducted in the decision point document (EBS/00/194); September 19, 2000, on the assumption that the completion point would be reached in 2003. The present DSA complements that analysis and highlights certain vulnerabilities but is not fully comparable in terms of detail (in particular, it lacks the loan-by-loan treatment in the decision point DSA), the fiscal- versus calendar-year projections, the present assumption of a completion point in 2004, and the exchange rate assumptions. A new, comprehensive DSA will be carried out at the time of the completion point.

Figure 1. Cameroon: Sensitivity Tests of Public Debt Dynamics,2002-07
(In percent of GDP)





Source: Staff projections and simulations.

Figure 2. Cameroon: Sensitivity Analysis for Net Present Value (NPV) of Debt-to-Exports Ratio, 2002-07
(In percent)

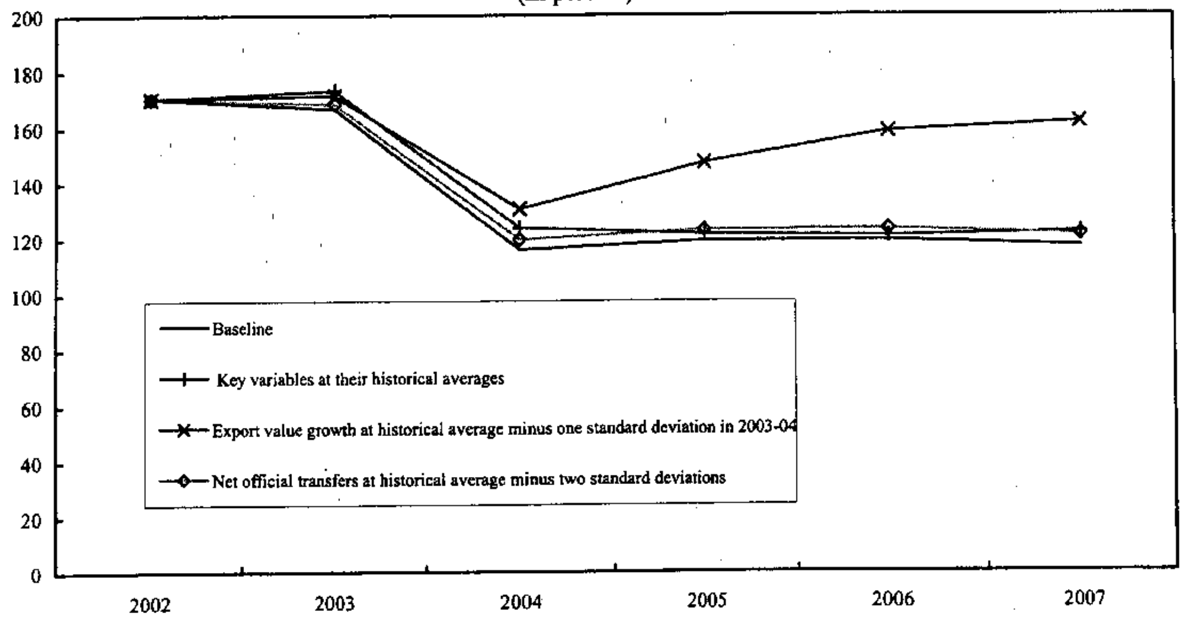
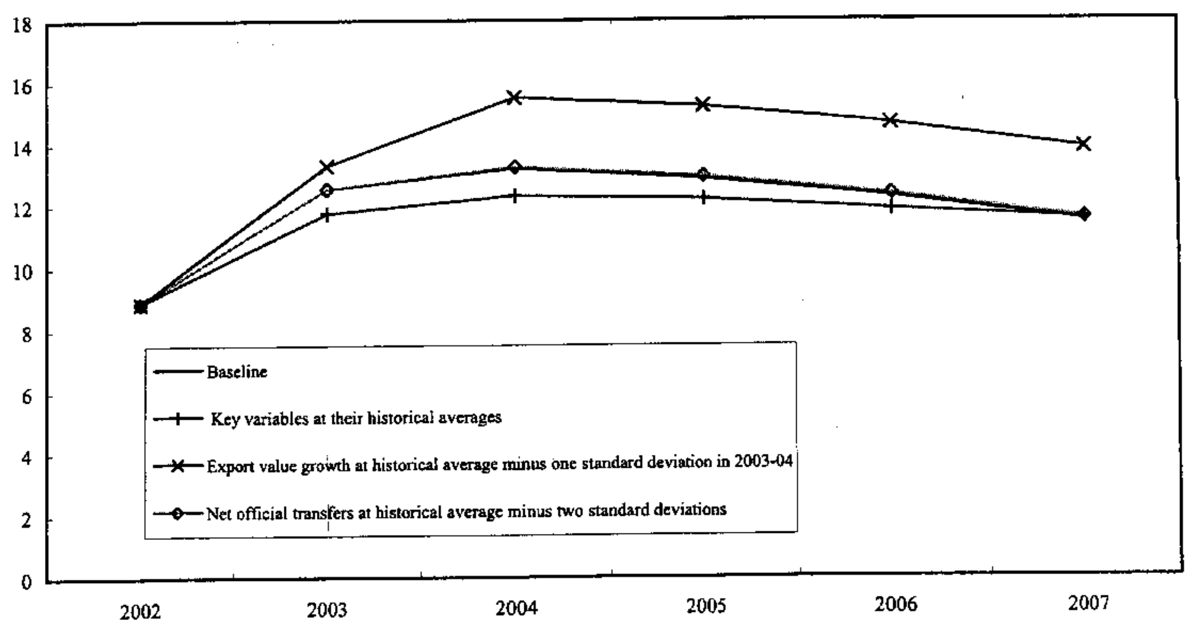


Figure 3. Cameroon: Sensitivity Analysis of Debt Service-to-Exports Ratio, 2002-07
(In percent)



Source: Staff projections and simulations.

Table 2. Cameroon: Public Sector Debt Sustainability Framework, 2002-07
(In percent of GDP, unless otherwise indicated)

	2002 Est.	2003	2004	2005	2006	2007
		Projections				
		I. Baseline medium-term projections				
Public sector debt 1/	73.7	64.7	54.0	43.3	36.1	30.1
Net Present Value (NPV)	70.7	56.1	37.0	32.8	29.0	25.6
Change in public sector debt	-33.4	-9.0	-10.8	-10.7	-7.2	-5.9
Identified debt-creating flows	-14.6	-14.8	-5.9	-3.8	-3.4	-3.5
Primary fiscal deficit (minus=surplus)	-4.5	-5.0	-4.2	-3.4	-3.0	-2.9
Revenue and grants	19.4	19.7	19.3	19.1	19.0	18.9
Oil revenue	5.4	4.3	3.3	2.6	2.1	1.7
Non-oil revenue	13.8	14.5	15.4	15.9	16.3	16.7
Grants	0.3	0.9	0.6	0.6	0.6	0.5
Primary (noninterest) expenditure	14.9	14.8	15.1	15.6	16.0	16.0
Automatic debt dynamics	-10.9	-10.4	-2.2	-0.9	-1.0	-1.1
Contribution from real interest rate 2/	0.9	1.6	0.6	1.2	1.0	0.7
Contribution from real GDP growth 3/	-6.4	-3.0	-2.9	-2.6	-2.3	-2.0
Contribution from exchange rate depreciation 4/	-5.3	-9.1	0.0	0.5	0.3	0.2
Other identified debt-creating flows	0.7	0.6	0.6	0.6	0.6	0.6
Residual, including asset changes	-18.8	5.8	-4.9	-6.9	-3.7	-2.5
Public sector debt-to-revenue ratio 1/	379	328	279	227	190	159
Gross financing need 5/	5.1	6.3	5.9	5.8	4.9	3.5
Key macroeconomic and fiscal assumptions						
Real GDP growth (in percent)	6.5	4.2	4.7	5.1	5.7	6.0
Average nominal interest rate on public debt (in percent) 6/	2.9	3.4	3.4	3.5	3.7	4.0
Average real interest rate (in percent) 7/	0.9	2.3	1.0	2.4	2.5	2.0
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	6.8	18.7	-0.1	-1.1	-0.8	-0.7
Inflation rate (GDP deflator, in percent)	2.0	1.1	2.3	1.1	1.2	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	8.1	3.0	7.1	8.7	8.1	6.1
Oil price (in U.S. dollars per barrel)	25.0	28.5	25.5	23.5	22.0	21.5
		II. Stress tests for public debt ratio				
Baseline	73.7	64.7	54.0	43.3	36.1	30.1
1. Real GDP growth and primary balance are at historical averages	73.7	66.3	56.5	46.2	39.1	33.1
2. Real GDP growth is at baseline scenario minus two standard deviations	73.7	65.2	54.9	44.7	38.0	32.4
3. Primary balance is at baseline scenario minus two standard deviations	73.7	65.9	56.2	46.5	40.3	35.2
4. Combination of 2 and 3 using once-standard-deviation shocks	73.7	65.5	55.4	45.4	38.8	33.3
5. Onetime 30 percent real depreciation in 2003 8/	73.7	99.7	87.3	75.9	68.0	60.9
6. 10 percent of GDP increase in other debt-creating flows in 2003	73.7	74.8	63.6	52.7	45.4	39.0
7. A permanent, two-standard-deviation negative shock to the oil price in 2003	73.7	68.6	60.0	51.6	46.4	41.8

Historical statistics for key variables	1995-2001 Historical Average	1995-2001 Standard Deviation	Average 2003-7
Primary fiscal deficit (minus=surplus)	-3.3	1.5	-3.7
Primary non-oil fiscal deficit	-0.5	1.0	-0.9
Oil revenue (in percent of GDP)	4.1	1.6	2.8
Real GDP growth (in percent)	4.6	0.7	5.1
Nominal interest rate (in percent) 6/	3.4	1.4	3.6
Real interest rate (in percent)	-0.8	5.1	2.1
Inflation rate (GDP deflator, in percent)	4.5	5.9	1.5
Revenue (plus grants)-to-GDP ratio	16.4	2.6	19.2
Oil price (in U.S. dollars per barrel)	19.7	5.2	24.2

Source: Staff projections and simulations.
1/ Includes external and domestic public debt
2/ Derived as $rd/(1+g)$, where r = average real interest rate, d = previous period debt ratio, and g = real GDP growth rate.
3/ Derived as $-gd/(1+g)$, where the variables are defined as in footnote 2.
4/ Derived as $aed/(1+r_f)$, where a = the share of debt denominated in foreign currency in the previous period and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar), and other variables are defined as in footnote 2.
5/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous-period debt stock.
7/ Derived as $r = (i - \pi)/(1+\pi)$, where i = the nominal interest rate and π = the inflation rate.
8/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of CFA franc) minus domestic inflation (based on GDP deflator).

Table 3. Cameroon: Sensitivity Analysis for Selected Debt Ratios, 2002-07

		Projections				
	2002	2003	2004	2005	2006	2007
Net Present Value (NPV) of debt-to-exports ratio (in percent)1/						
Baseline	170.5	166.8	116.0	119.1	119.2	117.1
Stress tests						
1. Key variables at their historical averages in 2003-07 2/	170.5	173.4	123.9	121.6	120.7	122.1
2. Real GDP growth at historical average minus two standard deviations in 2003 and 2004	170.5	166.8	116.0	119.1	119.2	117.1
3. Export value growth at historical average minus one standard deviation in 2003-04 3/	170.5	171.5	130.7	147.2	158.4	161.8
4. U.S. dollar GDP deflator at historical average minus two standard deviations in 2003	170.5	166.8	116.0	119.1	119.2	117.1
5. Net official transfers at historical average minus two standard deviations	170.5	168.6	119.7	123.0	123.3	121.3
6. Combination of 2 and 5 using one-standard-deviation shocks (one-half for export growth)	170.5	166.3	116.9	119.5	120.2	117.9
NPV of debt-to-GDP ratio (in percent)						
Baseline	52.6	42.3	26.6	25.3	24.0	22.6
Stress tests						
1. Key variables at their historical averages in 2003-07 2/	52.6	56.4	41.2	38.5	36.0	34.1
2. Real GDP growth at historical average minus two standard deviations in 2003 and 2004	52.6	46.6	32.5	30.9	29.3	27.6
3. Export value growth at historical average minus one standard deviation in 2003-04 3/	52.6	42.7	28.0	27.7	27.2	26.7
4. U.S. dollar GDP deflator at historical average minus two standard deviations in 2003	52.6	68.8	43.3	41.2	39.0	36.8
5. Net official transfers at historical average minus two standard deviations	52.6	42.7	27.4	26.1	24.8	23.4
6. Combination of 2 and 5 using one-standard-deviation shocks (one-half for export growth)	52.6	63.1	42.8	40.6	38.5	36.2
Debt-service ratio (in percent)						
Baseline	8.9	12.5	13.2	12.9	12.3	11.5
Stress tests						
1. Key variables at their historical averages in 2003-07 2/	8.9	11.8	12.3	12.2	11.9	11.6
2. Real GDP growth at historical average minus two standard deviations in 2003 and 2004	8.9	12.5	13.2	12.9	12.3	11.5
3. Export value growth at historical average minus one standard deviation in 2003-04 3/	8.9	13.3	15.5	15.2	14.7	13.9
4. U.S. dollar GDP deflator at historical average minus two standard deviations in 2003	8.9	12.5	13.2	12.9	12.3	11.5
5. Net official transfers at historical average minus two standard deviations	8.9	12.5	13.3	12.9	12.4	11.6
6. Combination of 2 and 5 using one-standard-deviation shocks (one-half for export growth)	8.9	12.2	13.1	12.8	12.2	11.5

Source: Staff projections and simulations.

1/ The ratio is defined in consistency with the HIPC framework (i.e., NPV of public and publicly guaranteed external debt in the numerator and backward-looking three-year averages of exports in the denominator). Calculations are not strictly comparable to the decision point DSA (EBS/00/194; 9/19/00), as the latter was based, inter alia, on detailed loan-by-loan projections, a fiscal-year treatment, and different exchange rate assumptions.

2/ These variables include real GDP growth, increase in the GDP deflator (in U.S. dollar terms), export value growth, and official transfers in percent of GDP.

3/ Consistent with the notion of isolated shocks, the export shock is not assumed to affect other variables, such as growth, inflation, or imports.

Cameroon: Relations with the Fund

(As of September 30, 2003)

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

II. **General Resources Account**:

	SDR million	%Quota
Quota	185.70	100.0
Fund holdings of currency	185.10	99.7
Reserve position in Fund	0.64	0.3

III. **SDR Department**:

	SDR million	%Allocation
Net cumulative allocation	24.46	100.0
Holdings	1.00	4.0

IV. **Outstanding Purchases and Loans**:

	SDR million	%Quota
PRGF arrangements	220.40	118.7

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Poverty Reduction and Growth Facility (PRGF)	12/21/2000	12/20/2003	111.42	63.68
Enhanced Structural Adjustment Facility (ESAF)/PRGF	08/20/1997	12/20/2000	162.12	162.12
Stand-By Arrangement	09/27/1995	09/26/1996	67.60	28.20

VI. **Projected Payments to Fund (SDR million; based on existing use of resources and present holding of SDRs)**

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	2.70	18.91	27.02	35.61	40.38
Charges/interest	0.64	1.41	1.30	1.15	0.95
Total	3.35	20.32	28.32	36.76	41.34

VII. **Implementation of HIPC Initiative:**

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	10/11/2000
Assistance committed (NPV terms)[1]	
Total assistance (US$ million)	1,260
Of which: Fund assistance (US$ million)	39.60
(SDR equivalent in millions)	28.51
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	2.53
Interim assistance	2.53
Completion point[2]	. . .

[1] Net present value (NPV) terms at the completion point under the original framework; and NPV terms at the decision point under the enhanced framework.
[2] Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

VIII. Safeguards Assessments:

Introduction

The Bank of Central African States (BEAC) is the common central bank of the central African States, which includes Cameroon. A Stage Two (on-site) safeguards assessment of the BEAC proposed specific remedies to alleviate vulnerabilities that were identified by the staff. The authorities have committed themselves to implementing most of the proposed remedies, as described in the following sections.

Safeguards areas and main remedies

The external audit mechanism. The auditing function and the quality control procedures of the external auditor are adequate. The safeguards assessment proposed that (i) the external auditor refer explicitly to the international standards of auditing (ISA) in its opinion; (ii) the external auditor become more cognizant of the accounting rules applicable to the recording of Fund's balances; and (iii) the BEAC include the audit opinion in the annual publication of the financial statements.

The BEAC is upgrading its accounting system and will publish its 2002 annual financial statements and the audit opinion, after the approval by the Board, on its website.

Legal structure and independence. The legislation governing BEAC is adequate.

Financial reporting. The monthly statements of the bank's financial position are not published in any form, and the December 31, 2000 audited financial statements were not published in a timely manner. The staff recommended that the BEAC (i) enhance the readability and the credibility of the published annual accounts by including detailed explanatory notes on the accounting methods followed, and explaining whether these methods referred explicitly to a generally accepted accounting framework; (ii) adopt International Accounting Standards; and (iii) change the accounting of some of its operations with the Fund, especially with regard to the revaluation of the IMF accounts.

The management of the BEAC has agreed to implement these recommendations. The BEAC, with the assistance of Banque de France, is working to modify its accounting framework and align its accounting and reporting practices with IAS and the European Central Bank (ECB) framework, including the Fund-related accounts.

Internal audit mechanism. The quality of the personnel, the rigorous methods followed for the audit of branches, the training program in place, and the risk assessment methods in place are satisfactory. However, certain weaknesses remain, and the staff recommended that the BEAC (i) establish a charter for the internal audit department (IAD); (ii) expand the audit scope and coverage of the IAD to include activities at headquarters; (iii) prepare an annual rolling, multiyear audit program describing risk assessment, activities scheduled, staffing, and financial resources required; and (iv) increase the number of qualified staff.

A gradual implementation of these recommendations is being completed by the BEAC. In its response to the Stage Two report, the management of the BEAC has specifically agreed to expand the scope and coverage of the audit department, and increase the number of qualified staff. A draft for a new IAD charter has been prepared and will be submitted for management approval concurrently with the modifications of the statutes required by the implementation of the audit committee.

The system of internal controls. On the whole, the risks are relatively well captured, although uncertainties exist because of insufficient a posteriori controls exercised on some activities at headquarters. The bank has a codified system of rules, selects its personnel carefully, maintains segregation of duties in the branches, and has recently increased resources for control purposes. Nevertheless, the staff recommended that BEAC (i) strengthen the coordination among the audit bodies; (ii) examine in-depth the segregation of duties at headquarters; and (iii) put in place a more systematic follow-up of all recommendations made by the external auditor to allow the Governor and the Board of Directors to better exercise their oversight responsibilities.

In its response to the Stage Two report, the management of the BEAC has agreed to establish an audit committee, and the modalities for creating the committee and amending regulatory texts are being considered by the bank and the Council of Ministers of member countries.

Regarding late payments of Fund obligations, which had been an issue for all of the BEAC's member countries at some time in the last three years, the staff concluded that, while the BEAC's own payment procedures and related management controls in this area were functioning adequately, procedures should be modified with respect to BEAC's relations with member countries. The staff recommended that the BEAC should repay the Fund directly using its own resources for those countries with borrowing capacity with the central bank; for countries facing fiscal difficulties, staff recommended that they at least maintain sufficient borrowing capacity with the BEAC to repay IMF obligations falling due within the next year. In its answer to the Stage Two report, the management of the BEAC did not follow the mission's recommendation that the BEAC should repay the Fund directly. The management also commented that apart from direct statutory advances to treasuries, the BEAC could not grant loans to member countries. These advances are scheduled to disappear in favor of the issuance of government bonds for financing fiscal requirements.

The staff has subsequently decided to discontinue this recommendation and consider it as implemented.

IX. **Exchange Arrangements**:

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

Local currency equivalent: CFAF 812.61 = SDR 1, as of November 5, 2003.

Cameroon maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on September 18, 2002.

XI. FSAP Participation and ROSCs:

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

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

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

XII. Technical Assistance:

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

June 2003: FAD mission on public expenditure management.

March 2003: FAD mission on public expenditure management and the treasury.

November 2002: FAD mission on public expenditure management.

May 2002: FAD mission on public expenditure management.

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

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

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

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

June 2000: FAD mission on the modernization of customs.

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

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

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

May–June 1999: FAD follow-up mission on value-added tax (VAT) and tax administration.

January–March 1999: Placement of an FAD advisor for the introduction of the VAT.

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

October–November 1998: STA mission on metadata project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on preparation of a VAT.

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

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

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

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

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

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

XIII. **Resident Representatives**:

The post of resident representative has been maintained in Yaoundé continuously since early 1989. Mr. Keller, the current IMF Resident Representative, took up his assignment in September 2001.

Cameroon: Relations with the World Bank
(As of October 15, 2003)

Government's strategy supported by the World Bank

1. The government's strategy for economic growth and poverty reduction, as described in the poverty reduction strategy paper (PRSP) communicated to the World Bank and the IMF in April 2003, is articulated along seven pillars, as detailed in IDA/SecM2003–0434.

World Bank lending and strategy

2. The Bank's portfolio consists of 9 projects with total commitments of around US$504.3 million, of which about US$53.4 million is the IBRD's. A total amount of US$294.2 million was disbursed as of September 28, 2003. Eleven percent of the commitments are for the social sectors, 31 percent for infrastructure, 4 percent for rural development and the environment, 5 percent for institutional development, and 49 percent for economic reform. Implementation of all projects but one was rated satisfactory. The World Bank Country Office organizes regular meetings with the authorities to review progress made on portfolio implementation, in order to improve the execution rate of current projects.

Table 1. Cameroon: Financial Relations with the World Bank Group
Bank Group Portfolio
(As of October 15, 2003)

	(US$ mil)
IDA total	**450.9**
Sectoral Composition (%):	
SAC	49
Agriculture	3
Transport	31
Public Private Partnership	5
Environment Capacity	1
Building	11
HIV/AIDS Multi-Sector	
Undisbursed IDA amount	219
IBRD	**53.4**
Chad-Cameroon Pipeline (%)	100
IFC total	**51.2**
Sectoral composition (%):	
Energy	94
Financial Sector	3
Food & Agri-Business	3
MIGA: No investment guarantees issued.	

3. The joint IDA-IFC Country Assistance Strategy (CAS) was presented to the Board on September 11, 2003. The strategy, which covers the period fiscal year (FY) 04–06, has two main axes: (i) strengthen the institutional framework for improved pro-poor economic management and service delivery; and (ii) support private sector development, leading to the diversification of the economy and growth. The proposed strategy will follow a "results-based" framework. In this context, the following outcomes are expected to be achieved during the next CAS period: (i) improvement in the transparency and accountability in the

mobilization and use of public resources; (ii) improvement in the use of public resources in education, health, and forestry; (iii) improvement in service delivery in key sectors; (iv) enhancement of the response of vulnerable groups in over 300 communities to the threat of HIV/AIDS through preventative, curative, or mitigating measures, while the national capacity to respond to the epidemic is strengthened; and (v) reduced burden (cost, time, etc.) on private sector companies arising from regulatory, administrative, and infrastructure constraints. Specific indicators (such as an increase in the percentage of rural communities in targeted provinces with access to basic socioeconomic services, or a decrease in the percentage of private firms rating the specific constraints as major or severe) are being identified to measure progress toward achieving these outcomes.

4. The World Bank is planning to support the government with analytical work and policy dialogue in several areas, focusing, inter alia, on (i) monitoring socioeconomic developments, including through the HIPC Initiative process and the PRSP implementation, reviews of trade prospects (especially with the Central African Economic and Monetary Community (CEMAC) countries and Nigeria), and action plans developed for the Millenium Development Goals (MDGs) in health and education; (ii) conducting participatory and in-depth work with the authorities on the sources of growth to support the PRSP pillar aimed at diversifying the economy; (iii) strengthening dialogue and action on the governance agenda by undertaking institutional governance reviews and public expenditure reviews (PERs) in key sectors (health, education, infrastructure, and agriculture); and (iv) supporting key reforms in public procurement and public finance through a Country Procurement Assessment Review and the monitoring of the action plan defined during the recent Country Financial Accountability Assessment. Finally, a Poverty Assessment will serve to measure progress.

IMF-World Bank collaboration in specific areas

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

Table 2. Cameroon: Bank/Fund Collaboration

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

6. Areas where the Fund takes the lead role relate to policy advice and reforms with respect to (i) overall macroeconomic policy and short- and medium-term financial programming; (ii) tax policy and administration; (iii) information and financial management systems for government revenue and expenditure; (iv) budgetary accounting; and (v) treasury procedures. The Bank team participates in discussions between the Fund and the government in all these areas.

7. Areas in which the World Bank takes the lead are related to (i) institutional and human capacity building for economic management, including the development of a macroeconomic model for the preparation of the short- and medium-term macroeconomic framework, the formulation of sectoral strategies and medium-term expenditure frameworks, and the analysis of poverty and the sources of growth to support the PRSP process; (ii) specific sector advice in the areas in which the Bank has active lending operations (especially in the social sectors, infrastructure, agriculture, and forestry); and (iii) support and monitoring of the implementation of the privatization program. A number of analytical studies are under way, including a participatory study on the sources of growth and a rural development review. Furthermore, the Bank plans to start a public expenditure review of the social sectors in FY 04.

8. The World Bank assessment of the reform program indicate signs of government efforts to advance the program, so as to reach the HIPC Initiative completion point in 2004. The completion of the third structural adjustment credit (SAC III) is broadly on track in

several aspects, but as a result of the delay of the Douala port reform the closing date of the credit has been extended to December 31, 2003. Also, the interim HIPC Initiative resources have not been used as effectively as expected, as only 18.5 percent of projects approved by the HIPC Initiative Consultative Committee have been committed and less than 13 percent disbursed. Finally, the Bank will continue to closely monitor progress in governance reforms.

9. Joint responsibility for policy advice by the Bank and the Fund includes (i) budgetary procedures, government expenditure management systems, and expenditure execution, including tracking of poverty-reducing expenditures; (ii) the functioning of internal and external budget control institutions; (iii) reform of the customs; (iv) trade policy; (v) financial system reform; and (vi) governance issues. The two institutions also jointly support the HIPC Initiative and PRSP process.

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

INTERNATIONAL MONETARY FUND

CAMEROON

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Extension of Arrangement, Waiver of Performance Criterion, and Extension of Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Supplementary Information

Prepared by the African Department

(In collaboration with the Policy Development and Review, and Legal Departments)

Approved by Menachem Katz and Michael Hadjimichael

December 10, 2003

1. This supplement contains information that has become available since the issuance of the above-referenced report to the Board on December 3, 2003. The thrust of the staff appraisal remains unchanged.

A. Prior Actions

2. All the prior actions were met as of December 8, 2003. These were: (i) preparation of the first list of uncashed checks from taxpayers, the date of receipt of which is exceeding two months' old or more (para. 2 of the TMU); (ii) adoption of an action plan for the effective operationalization of the large taxpayers' unit within the tax department created on June 30, 2003 (para. 3 of the TMU); and (iii) completion of the final phase of the information and financial management system (IFMS) for all central government revenue and expenditure (including at the local branches of the central government), based on the new budget classification system (para. 4 of the TMU).

B. Recent Economic Developments

3. Based on preliminary data, macroeconomic developments in the third quarter of 2003 were broadly in line with the program estimates.

4. Oil output reached 8.9 million barrels during the third quarter, as anticipated. The 12-month average inflation rate (based on the Consumer Price Index) continued to decline to 1.1 percent in September 2003, with a moderate increase in foodstuff prices. As compared to the third quarter of 2002, non-oil exports increased in CFA francs value by 4 percent, benefiting from the significant volume growth of some traditional agricultural exports (particularly bananas and cocoa). During the same period, the value of imports declined by

6.4 percent, partly as a result of the completion of the construction of the Chad-Cameroon oil pipeline.

5. The slightly lower-than-anticipated non-oil revenue performance in the third quarter of 2003 was offset by higher oil revenue collection, reflecting larger-than-projected oil prices. Noninterest expenditures exceeded somewhat the program estimates, owing to larger-than-envisaged payments on account of transfers and subsidies and restructuring expenditures. Disbursements for capital outlays were below target.

6. Broad money growth decelerated to 5.8 percent (on a year-on-year basis) by end-September 2003, reflecting notably a slowdown in expansion of credit to the private sector. Cameroon's contribution to the foreign assets of the regional central bank, the BEAC, remained constant during the third quarter of 2003.

C. Draft Budget Appropriations Act for 2004

7. Based on available documentation, the draft Budget Appropriations Act for 2004, which was submitted in early December to the National Assembly, is consistent with the program's fiscal targets.

D. Structural Measures

8. The end-November 2003 structural benchmark relating to the specification of the poverty reduction expenditure-related budget items, based on the new functional budget classification system, prior to the submission to the National Assembly of the draft Budget Appropriations Act for 2004 was implemented as foreseen (para. 10 of the TMU).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 03/221
FOR IMMEDIATE RELEASE
December 17, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fourth Review Under Cameroon's PRGF Arrangement, Approves US$23 Million Disbursement, and Grants Additional Interim Assistance of US$4.4 Million Under the Enhanced HIPC Initiative

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Cameroon's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement and approved the disbursement of an amount equivalent to SDR 15.91 million (about US$23 million) under that arrangement.

The Executive Board also approved Cameroon's request for an extension of the PRGF arrangement through December 20, 2004, and granted Cameroon additional interim assistance in an amount equivalent to SDR 3.019 million (about US$4.4 million) under the enhanced HIPC Initiative.

In completing the review under the PRGF arrangement, the Executive Board granted a waiver for the non-observance of the end-September 2002 quantitative performance criterion on the ceiling on the increase in net claims of the banking system on the central government.

Cameroon's three-year PRGF arrangement was approved on December 21, 2000 (See Press Release No. 00/86) for SDR 111.42 million (about US$163 million). With the disbursement approved today, total disbursements under the arrangement will be brought to SDR 79.59 million (about US$116 million)

The PRGF is the IMF's concessional facility for qualifying low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the executive Board's discussion on Cameroon's performance, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chair, stated:

"Cameroon's macroeconomic performance has continued to be relatively strong, with real GDP growing at a good pace, inflation well under control, and international reserves continuing to increase. Fiscal policy has remained broadly on track, with the primary and overall fiscal surpluses exceeding the program targets, but implementation of the public investment program was slower than expected. Prospects for continued robust growth are favorable, with the stepped-up use of HIPC Initiative resources expected to contribute to enhancing public investment.

"In completing the fourth review under Cameroon's PRGF-supported arrangement, the Executive Board looked forward to sustained, strong efforts by the authorities to further improve governance and fiscal management and press ahead with key institutional reforms. This will be essential to ensure lasting success in reducing economic vulnerabilities and poverty.

"The third annual program under the PRGF arrangement aims at consolidating the macroeconomic gains to date and maintaining fiscal sustainability. To achieve the PRSP growth and poverty reduction objectives, it will also be important to continue to make progress on public expenditure management and financial sector reforms, and to accelerate the pace of implementation of structural reforms in governance and in the real sectors.

"Key steps that will ensure the successful implementation of Cameroon's poverty reduction strategy, include: a further mobilization of non-oil revenue, in order to maintain non-oil revenue on the path targeted in the PRSP; measures to keep tight control on non-HIPC Initiative current spending and strengthen public expenditure and resource management; initial steps to address the weak financial position of major utilities and the national airline; and higher spending in social sectors and investment in basic infrastructure. To improve the business climate and the environment for private investment, it will be particularly important to continue strong efforts to improve governance and to accelerate efficiency-enhancing structural reforms, including through greater transparency, judicial reform, and increased power supply.

"Close program monitoring, strengthened coordination, and enhanced, concerted government action will be crucial to reach the program targets, achieve the PRSP growth and poverty reduction objectives, and allow Cameroon to reach its HIPC Initiative completion point in 2004," Mr. Sugisaki stated.

Statement by Damian Ondo Mañe, Executive Director for Cameroon
December 17, 2003

I. Introduction

My Cameroonian authorities would like to thank staff for the constructive dialogue during the review and for the balanced report on Cameroon. They also wish to express their appreciation to Management, the Executive Board as well as the international community for their continued support of Cameroon's reform efforts.

Since the mid-90s, supported by successive Fund arrangement and the international community, Cameroon has continued to make progress in the implementation of sound economic policies and the deepening of structural reforms with a view to boost economic growth, a condition to poverty reduction, and make it less dependent on the oil sector. As a result, starting in the late-nineties, real GDP growth has averaged more than 4 percent, despite wide fluctuations in oil prices, inflation has remained subdued, and fiscal performance has shown significant improvements. Regarding poverty reduction, the government was encouraged by the outcomes of the household survey (ECAMII), which indicates that poverty prevalence had decreased by 13 percentage points between 1996 and 2001, reflecting in large part the better macroeconomic performance and the implementation of key structural reforms. The implementation of the full PRSP that was presented to the Board in July 2003 is underway. Progress was also achieved in the implementation of measures aimed at improving governance, in particular the improvement of to improve the internal control system and the transparency of public expenditures.

My authorities have continued to build a strong track record under Fund-supported program and are determined to meet the objectives set forth in the Poverty Reduction Strategy. The government priority in 2004 is to achieve as soon as possible the completion point triggers under the Enhanced HIPC Initiative, whilst successfully implementing the PRGF arrangement. All but one criterion under the current PRGF program were met and actions were taken to address the missed performance criterion for which the authorities are requesting a waiver. Moreover, all prior actions agreed with the staff during the review were met.

II. Program implementation and economic developments

Economic growth remained buoyant in 2002. It was helped by the good performance of traditional agricultural exports, and the positive spillover effects of the construction of the Chad-Cameroon oil pipeline, which compensated, to a certain extent, the negative impact of the shortage of electrical power due to inadequate rainfall and to the obsolete equipment of the national electric company. The inflation rate decelerated to 2.8 percent, reflecting the improvement of foodstuff supplies.

Turning to fiscal performance, the fiscal program experienced temporary slippages during the second half of 2002 and in early 2003. Non-oil revenue was below the target as VAT receipts were lower in the first quarter of 2003, and several tax measures were not implemented. Moreover, a number of bills of several public utility and transport utilities went unpaid, and the public investment program was lower than programmed. These slippages should not be viewed as a weakening of program implementation. Instead, they resulted from a number of factors, including my authorities' efforts to reconcile the balance in the government's accounts at the treasury with those at the regional central bank (BEAC). This reconciliation proved to be more complex than envisaged and delayed the determination of the quarterly government's fiscal positions starting in September-2002 until March 2003. In addition, the switch to a new fiscal year beginning in January 2003, and the introduction of a new budget classification delayed the introduction of several fiscal measures.

Corrective measures have been taken to address the technical and other problems, and have resulted in the improvement in the collection of VAT and the recovery of tax arrears. The government is now in full control of its financial operations. Delays in the encashment of taxpayers' checks have been addressed, and the computerization of the treasury balance has been completed. The execution for capital projects, including HIPC Initiative-related spending, which started slowly following delays in the establishment of the HIPC consultative committee, is now gaining momentum. A plan has been drawn up to meet the government payment obligations to the utilities companies, and new procedures are being put in place to settle cross debts between the government and public enterprises, including CAMAIR.

Regarding structural reforms, significant efforts have been made by my authorities to enhance the fiscal system, improve governance and fight corruption. They have embarked on a comprehensive structural reform program with the support of the World Bank and the Fund. Hence, the government is committed to accelerate the improvement of customs administration and procedures through measures such as, the creation of the large taxpayers unit (LTU), the elaboration of the integrated information and financial management system (IFMS), and the strengthening of the single window for external trade formalities. It is to be noted that the large taxpayers unit will be operational next year and will monitor about 450 entities paying an equivalent of 90 percent of government's non-oil revenue. Also, the balance of the government's account is now generated monthly and is utilized for the timely production of the government financial table.

With regard to the privatization of public enterprises, it is worth noting that the sale of the tea sector of the Cameroon Development Corporation (CDC) was completed in October 2002. However, the biddings for privatization of the other three sectors of the CDC were inconclusive due to the absence of candidates. Concerning the telecommunications company (CAMTEL) and the national water company (SNEC), the bids turned out to be also inconclusive.

Monetary developments were characterized by a continued buildup in the foreign assets of the banking system, a rapid contraction in broad money and a marginal increase in net domestic assets. The banking sector remains sound, but as stressed by the staff, some commercial banks need to comply with the regional regulations related to risk concentration ratio.

III. Medium-term macroeconomic framework

My Cameroonian authorities remain fully committed to the reform process, which they view as critical to the achievement of their growth and poverty reduction goals, despite the prospect of declining oil output. In this regard, they intend to pursue the implementation of sound macroeconomic and structural policies over the medium term. Under this scenario, the growth of the GDP is expected to accelerate from 4.2 percent in 2003 to 5.7 percent in 2006, the annual inflation rate is projected to remain below 2 percent, assuming that foodstuff supplies remain steady. The external current account is expected to improve as well. To this end, my authorities continue to give high priority to the consolidation of public finances, the improvement of governance, the fight against corruption and the liberalization of the economy.

Fiscal Policy

Fiscal policy will remain the basis of the adjustment program and measures envisaged will contribute to improving the tax system through strengthening non-oil revenue mobilization, thus to achieve fiscal sustainability. Recognizing the need to achieve the enhancement of transparency and efficiency in fiscal transactions, continued efforts will made toward the completion of the ongoing audit of the treasury, and the utilization of the new budget classification system and integrated financial and management system. To this end, in order to achieve the securization and the acceleration of the collection of taxes owed by the companies monitored by the LTU, payments will be made only through bank transfers to be credited to the treasury current account at the BEAC, and all government's accounts in commercial banks will be transformed into regular treasury accounts. With regard to the improvement of tax revenue, noteworthy measures are: the elimination of fiscal exemptions, the timely encashment and the monitoring of taxpayers checks, the strengthening of the customs administration, the implementation of the individual taxpayers reform, and the enhancement of forestry taxation.

Under the program, the government is determined to improve transparency in the management of domestic public debt in order to address the long-standing solvency problem of the public utility companies and of CAMAIR, by ensuring that bills sent by these companies are promptly paid, based on a quarterly schedule. Moreover, in the payment of arrears, an audit is being conducted, as well as an assessment of the cross liability between the government and the utilities and transportation companies. The outcomes of the audit will serve in the formulation of a repayment schedule plan. Regarding the purchase of the presidential aircraft, the government will proceed with it when resources become available and will keep the Fund informed.

Monetary Policy and Financial System

Monetary policy is conducted at the regional level by the BEAC. My authorities have projected to increase its contribution to the net foreign assets of the bank. In the financial sector, my authorities are committed to promote microfinance, and to pursue the restructuration of the Postal Saving Bank and the Housing Bank under the supervision of the regional banking supervision agency (COBAC). Also, my authorities have initiated the implementation of the payments system reform aimed at improving and securing banking transactions.

Being a member of CEMAC, Cameroon will pursue a proactive role in the regional integration efforts. Therefore, the government will implement the new CEMAC foreign exchange regulations by transferring related tasks and prerogatives from the administration to commercial banks. Also, my authorities continue to give high priority to the fight against money laundering and terrorist financing. The CEMAC AML/CFT regulatory framework was adopted, the banking secrecy law voted by the National Assembly will be enacted and a national investigation agency will be established.

Structural Reforms

The government will focus on further liberalization of the economy, pursue the privatization program, strengthen public resources management, and improve governance as well as transparency, including measures that are HIPC completion point triggers. On the latter, an Interministerial committee was established under the direct authority of the Prime Minister's Office, in order to coordinate and supervise progress in implementing the actions required to reach the HIPC completion point and in monitoring PRSP implementation.

My Cameroonian authorities will pursue efforts to enhance governance and transparency, and fight corruption. To this end, the Constitutional Council's draft law is being prepared by an international consultant as well as a draft proposal for the setting of the *Chambre des Comptes*. Regarding the reform of the judicial system, the final report of the technical audit submitted to the government in early October 2003 is being used as basis for the formulation of an action plan. Other important actions are: the adoption of a new public procurement code, the implementation and the dissemination of legal provisions of the Treaty on the Harmonization of Business Law in Africa (OHADA), and rigorous implementation of correctives measures taken, in order to curb the abusive use of *saisie-attribution* procedure.

My authorities are determined to ensure the satisfactory implementation of reforms supported by the third structural adjustment credit (SAC III) funded by the World Bank, whose satisfactory implementation is a completion point trigger. As regards unsuccessful attempts to privatize the national telecommunication company (CAMTEL), the water company (SNEC), and the remaining three activities of Cameroon Development Corporation (CDC), new action plans have been designed with the technical support of the World Bank. In the cotton sector (SODECOTON), a diagnostic study will be conducted early next year.

Furthermore, for the restructuring needs of public enterprises to be privatized, a provision of CFAF 10 billion is included in 2004 budget.

In the port sector, the government intends to improve the competitiveness of the port of Douala. In this regard, industrial and commercial activities will be transferred to the private sector, in order to accelerate the rehabilitation and modernization of the infrastructure. Also, with the adoption of the single processing window for foreign trade formalities will simplify procedures and therefore curb delays.

Regarding air transportation, my authorities are aware of the need to act promptly, in order to stop the national airline (CAMAIR) financial crisis and explore a privatization option. The company's new management which was appointed in November 2003 is formulating an action plan.

With respect to the ongoing forestry sector, the government remains committed to protecting the environment, through the establishment of a computerized information management system of the forestry system aimed at improving data collection and processing. Key measures include: a transparent selection of independent observers, launching of studies aimed at restructuring the former National Office of Forestry Development (ONADEF) and the establishment of the National Agency for Forestry Development (ANAFOR), study and forestry development plans, and a transparent procedure to grant new business licenses. Moreover, coordination between the Ministry of Environment and Forestry, the Ministry of Justice and the Ministry of Finance and Budget will be strengthened.

Although oil output is declining, the government is determined to give a strong impetus to the implementation of the ongoing reform of the petroleum sector. To this end, my authorities will define the role of each key player of the hydrocarbon sector, including the national petroleum company and the ministry for hydrocarbon. Moreover, the government is committed to adopt an action plan for the sale of its shares in the petroleum storage company (SCDP) to the private sector and to increase electrical power supply.

My authorities are aware of the need to speed up the disbursement of HIPC resources already available. They recognize that expectations created among the population during the elaboration of the PRSP must be fulfilled. More time was needed in order to enhance the transparency and the quality of spending while channeling resources to the needy segments of the population. The HIPC consultative committee and a technical committee are in place, and these should help to enhance progress in the selection of poverty reduction projects.

My Cameroonian authorities reiterate their commitment to intensify actions toward improving the social indicators as underscored in the PRSP, in order to meet the program objectives, and attain the MDGs' targets through enhancing access to education and improving the health of the population, including notably combating malaria, and HIV/AIDS pandemic. Regarding the education sector, among measures being implemented, it is worthy to note the new classrooms construction program, the decentralization of teachers' management. In order to improve the efficiency of expenditure allocation targeting the poor, efforts will be made in the tracking of poverty reduction-related outlays. In this regard, a Public Expenditure Tracking Survey (PETS) was conducted in the Health sector, with the support of the World Bank. The results will be made available shortly and the PETS in the Education sector will be conducted early next year.

My authorities intend to renew the baseline of data officially provided in the context of the Article IV consultations, and thus establish a new database required for the update of the PRSP. To this end, efforts will allow to monitor and assess progress in the implementation, and the impact of the Poverty Reduction Strategy, as well as to strengthen the National Statistical Institute. A survey program, the elaboration and the publication of the new series of national accounts are among activities to carry out with the technical support of the IMF, under the guidelines of the General Data Dissemination System (GDDS).

IV. Conclusion

Despite some minor slippages, which have been corrected, Cameroon continues to maintain a good track record of policy implementation. As a result, the economic and financial situation remains on a sustainable track. The projected decline in oil production will bring in new challenges, but my authorities are confident that the reforms that they are undertaking, together with continued external assistance, will help to strengthen the economy of Cameroon, and foster economic growth, while at the same time alleviating poverty. My Cameroonian authorities remain fully committed to the reform process, and will continue to work closely with the staff in the design and implementation of the needed policies. They look forward to an early decision by the Board on the Completion Point.

Thus, I request that my colleagues continue to provide their support for Cameroon, and for today's proposed decision.