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Cameroon: 2010 - Article IV Consultation—Staff Report; Debt Sustainability Analysis; Staff Report Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Cameroon

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Cameroon, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 27, 2010, 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 June 28, 2010. 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.
- Debt Sustainability Analysis.
- A staff report supplement of July 12, 2010 updating information on recent developments.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 14, 2010 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Cameroon.

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

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CAMEROON

Staff Report for the 2010 Article IV Consultation

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

Approved by Seán Nolan and Dhaneshwar Ghura

June 28, 2010

Consultation and team. The 2010 Article IV Consultation discussions were held in Douala and Yaoundé (March 18-April 1) and in Washington DC (April 25-27). The mission team met with Prime Minister Yang, State Minister at the Presidency Esso, Finance Minister Menye, Economy Minister Motaze, several other Cabinet members, BEAC National Director Mani, senior officials, local authorities, the business community, donors, and representatives of labor and civil society organizations. The team comprised Messrs. Mecagni (head), Nsengiyumva, Samake (all AFR), Vidon (SPR), Yehoué (MCM), Ms. Muthoora (FAD), and Mr. Kpodar (Resident Representative). World Bank and African Development Bank staff participated in the discussions.

Consultation focus. Policy discussions focused on the domestic impact of global economic developments, the near-term heightened risks to financial and fiscal stability, and medium-term macroeconomic prospects. The global crisis weakened economic activity, fiscal revenues, and the external position in 2009, but by less than earlier anticipated. However, public expenditure and treasury management worsened significantly, creating a serious systemic risk to the banking system. The legacy of poor fiscal management in 2009 and uncertainty about the availability of financing weigh on the 2010 budget execution.

Policy advice. The staff report recommends (i) strengthening public financial management as a key priority; (ii) continuing efforts to improve nonoil revenue mobilization; (iii) reviewing spending plans for 2010 in the light of pressure from unsettled payment obligations, the likely contingencies in budget outlays, and the financing that can realistically be mobilized; (iv) closely monitoring the conditions of the banking system in coordination with the regional supervisors; and (v) creating a more conducive environment for private sector-led growth.

The authorities' position. The authorities shared the staff's assessment of risks and vulnerabilities. They committed to addressing weaknesses in public expenditure and treasury management and to preserving the stability of the banking system. Initial steps were taken to this end. Nonetheless, a strategy to address the financing gap in the 2010 budget remains unspecified. The authorities indicated that they are working on a program of reforms—aligned to their new PRSP—that could be supported by a new Fund arrangement, but need more time to achieve internal consensus.

Contents Page

Acronyms

BEAC	Regional Central Bank (*Banque des Etats de l'Afrique Centrale)*
BIS	Bank of International Settlement
CAA	Autonomous Debt Agency (*Caisse Autonome d'Amortissement*)
CEMAC	The Central African Economic and Monetary Community (*Communauté Economique et Monétaire de l'Afrique Centrale)*
CET	Common external tariff
CFAF	Currency of African Financial Cooperation (*Franc de la Coopération Financière en Afrique*)
CGER	Consultative Group on Exchange Rates
CIME	Centers for taxes on medium-sized enterprises (*Centre des Impôts des Moyennes Entreprises*)
COBAC	Regional supervisory body (*Commission Bancaire de l'Afrique Centrale*)
DENOs	Expenditure committed but for which no payment orders have been issued (*Dépenses engagées mais non-ordonnancées)*
DGE	Direction of large enterprises (*Direction des Grandes Entreprises)*
DSA	Debt Sustainability Analysis
FSAP	Financial Sector Assessment Program
GPS	Global Positioning System
HIPC	Highly Indebted Poor Countries
JSAN	Joint Staff Advisory Note
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MTEF	Medium-term Expenditure Framework
NFA	Net Foreign Assets
NOPD	Nonoil Primary deficit
NPLs	Non-performing loans
OBI	Open Budget Index
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RAC-ESF	Rapid Access Component – Exogenous Shocks Facility
REER	Real Effective Exchange Rate
ROSC	Report on the Observance of Standard and Codes
SDR	Special Drawing Rights
SME	Small and Medium Size Enterprise
SNH	National Hydrocarbons Company (*Société Nationale des Hydrocarbures*)
SONARA	National Oil Refinery (*Société Nationale de Rafinage*)
SSA	Sub-Saharan Africa
UPOs	Unsettled Payment Orders
VAT	Value-Added Tax
WEO	World Economic Outlook

I. Background

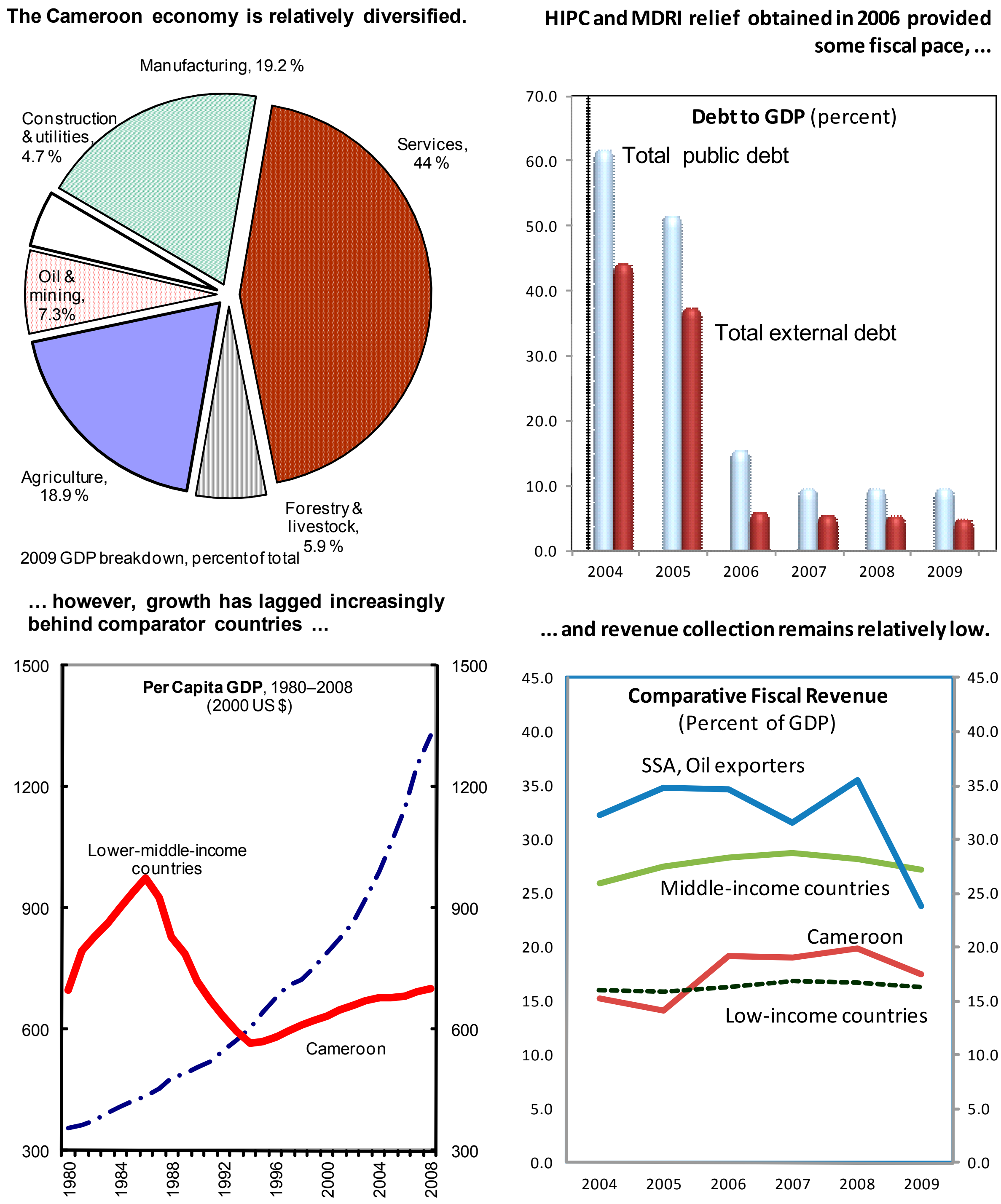
1. **While significant reforms were undertaken under the PRGF arrangement completed in January 2009, Cameroon's growth performance remained weak and the economy vulnerable to exogenous shocks.** Under the PRGF, tax and customs administrations were strengthened, macroeconomic stability was preserved, and debt relief under the HIPC and MDRI Initiatives helped firm up debt sustainability (Figure 1). However, Cameroon's growth performance remained constrained by weak infrastructure; poor governance and business environment; limited absorption capacity; a shallow financial sector; and obstacles to trade. In per capita terms, real GDP stagnated in 2005-09, and the incidence of poverty remained unchanged, actually worsening in rural areas. The country remains dependent on commodities for export earnings and fiscal revenues and thus is vulnerable to a decline in external demand and world prices.

Text Table 1. Cameroon: Economic and Social Indicators

	Cameroon	SSA
Economic Indicators, average over 2005-09		
Real per capita GDP (U.S. dollars, at 2000 prices)	678.4	658.8
Real GDP Growth (percent)	2.7	5.5
Real non-oil GDP growth (percent)	3.3	6.5
Real Per Capita GDP Growth	0.1	3.3
Total investment (Percent of GDP)	17.6	21.4
Social Indicators, 2008		
Employment to population ratio, 15+, total (%)	59.0	64.0
Primary completion rate, total (% of relevant age group)	73.0	62.0
Ratio of female to male primary enrollment	86.0	91.0
Ratio of female to male secondary enrollment	80.0	78.0
Immunization, measles (% of children ages 12-23 months)	80.0	72.0
Mortality rate, under-5 (per 1,000)	131.0	144.0
Prevalence of HIV, total (% of population ages 15-49)	5.1	5.0
Improved water source (% of population with access)	70.0	58.0

Sources: IMF, African Department and WEO databases; and The World Bank, World Development Indicators database, 2009.

Figure 1. Cameroon: Comparative Indicators and Economic Structure, 1980–2009



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

2. **Cameroon's vulnerability to exogenous shocks was highlighted during the 2009 Article IV consultation**. On that occasion, the Executive Board approved a US$144.1 million disbursement under the rapid-access component of the Exogenous Shocks Facility (RAC-ESF) to help the country weather the impact of the global crisis. Directors underscored the critical importance of achieving greater nonoil revenue mobilization; strengthening public expenditure management; improving governance and transparency; making the business environment more attractive; and enhancing the role of the financial sector.

Box 1. Cameroon: Response to Previous Fund Advice

Policy Area	Fund Advice	Outcomes
Public financial management	(i) Strengthen public financial management; (ii) Eliminate fuel subsidies and take targeted measures to protect the poor and sectors facing difficulties.	Reforms in tax and customs administrations were pursued, notably by removing tax exemptions for several enterprises and improving the computerized customs system, but little progress was made in reinforcing expenditure tracking. Fuel subsidies were not eliminated. Taxes and royalties were reduced for the forestry sector and targeted subsidies provided to the agriculture sector.
Financial sector stability	Monitor closely developments in the banking sector, in collaboration with the regional supervisor, and ensure timely assessment of asset quality.	Protracted delays by the government in settling its payment obligations, as well as the weak regulatory framework, led to heavy banks' exposure to some common borrowers.
Other structural reforms	(i) Expedite reform strategies for public enterprises; (ii) Improve governance and make the business environment more attractive; (iii) Urge CEMAC partners to further liberalize trade.	Steps were taken in restructuring the airline and the postal services companies. Efforts to improve governance were intensified, and a forum for dialogue between the private sector and the government was set up to improve the business environment. No concrete progress was made on trade reforms.

3. **A new poverty reduction strategy paper (November 2009) recognizes the disappointing growth and poverty reduction record.** It identifies five key priority areas to accelerate growth: (i) infrastructure development in energy, telecoms, and transport; (ii) development of rural and mining sectors; (iii) improvement in human resources through health, education, and training; (iv) greater regional integration and export diversification; and (v) financial sector deepening. The JSAN (www.imf.org) for the new PRSP was circulated to Directors in February 2010.

4. **The political situation is broadly stable.** However, social discontent could reemerge, as in 2008, ahead of the presidential elections in 2011. Parliament amended the constitution in April 2008 to allow the President to stand for a third term**.**

5. **Data provision to the Fund is broadly adequate for surveillance purposes, but there are important gaps in fiscal and financial sector information.** Government financial operations on a commitment basis (consistent with accounts on a cash basis) and financial sector soundness indicators are not regularly available. The quality and timeliness of balance of payments statistics need also to improve. The authorities have recognized these deficiencies and have requested TA support to address these matters.

II. Recent Developments and Performance under the Exogenous Shock Facility

6. **The global crisis slowed the pace of economic activity in Cameroon.** Lower demand and commodity prices affected exports and fiscal revenues, and tighter financing conditions delayed investment projects in energy and mining. Real GDP growth decelerated from 2.9 percent in 2008 to 2 percent in 2009 (Table 1). Food and fuel price pressures eased, leading to a decline in headline inflation to the regional convergence criterion of 3 percent in 2009, down from 5.3 percent in 2008. Inflation continued to decelerate to a twelve-month rate of 2.2 percent in March 2010.

7. **The impact of the crisis on external accounts was less than anticipated**. Exports of oil products plummeted, reflecting a fall in production and world prices, but light crude petroleum imports also contracted sharply. Some nonoil exports have rebounded since mid-2009.[1] Remittances fell more than initially projected. As a result, the external current account deficit widened by about 1 percentage point of GDP (less than the 4 percentage points anticipated at the time of the 2009 Article IV consultation), but the overall external balance, excluding the new SDR allocation received in 2009, remained positive (Table 4).

8. **The authorities responded to the crisis by protecting priority spending and supporting sectors in distress.** Despite lower revenues, original spending allocations to investment, health, and education were broadly maintained. To protect the sectors most affected, the authorities reduced taxes and royalties on timber; settled outstanding VAT credits to the cotton sector; and subsidized inputs and fertilizers for agriculture.

9. **Performance on reforms agreed under the RAC-ESF was mixed.** The authorities removed tax exemptions for 19 large enterprises; improved the use of a computerized customs system; introduced a GPS-based mechanism to track merchandise in transit and reduce tax evasion; reduced the number of tax forms; stepped up prosecution efforts against

[1] Wood exports, however, continue to suffer from a weak economic recovery in Europe.

officials charged with misappropriation of public funds; and established a new forum for dialogue between government and the private sector to improve business climate. However, other committed measures were not implemented, including the settlement of arrears to the national oil refinery and the elimination of fuel subsidies. The presentation of fiscal data on a commitment basis continued to lag and little progress was made on public enterprise reform.

10. **Fiscal accounts for 2009 show a limited overall budget deficit, on a cash basis, despite a shortfall in total revenue** (Text Table 2). Revenue including grants amounted to 18.4 percent of GDP, compared with 19.2 percent projected at the time of the RAC-ESF and 20.8 percent of GDP in 2008. The shortfall is primarily explained by the decline in oil prices and crisis-related tax reduction measures affecting nonoil revenues. Total expenditure was broadly maintained (18.4 percent against 18.7 percent of GDP projected) although its composition shifted from capital to current spending. The deficit on a cash basis, after accounting for the clearing of outstanding arrears audited in previous years, was modest (0.2 percent of GDP).[2] Reflecting deficit financing, the amortization of external and domestic debt and the absence of an operational market for government securities, usable government deposits at the BEAC dropped to the equivalent of one month's expenditure at end-2009, compared with 1.6 months targeted under the RAC-ESF.[3]

11. **However, public financial management (PFM) worsened significantly in 2009.** Government operations' accounts on a cash basis give an incomplete picture of the fiscal stance, as they do not include the surge in government payment obligations for fiscal operations that did not reach the cash settlement stage. There were three types of unsettled government obligations in 2009, as shown in Text Table 3 and Box 2:

- Delayed payment for losses incurred since 2008 by the national oil refinery, SONARA, on account of the fuel pricing policy. These losses reached CFAF 98.3 billion at end-2009 (1 percent of GDP) and were estimated at about CFAF 106 billion in March 2010. The government had committed, under the RAC-ESF, to compensate SONARA but this commitment was not upheld.

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[2] Arrears cleared in 2009 were part of the stock of arrears audited in 2005 and 2007. Out of the total stock of arrears recognized by past audits, about CFAF 120 billion remained outstanding at end-2008. The government's plan is to have all this stock cleared by end-2014, as agreed under the PRGF program—thus fiscal accounts tables include scheduled flows of arrears to be cleared annually (about CFAF 20 billion).

[3] Usable government deposits are those readily available (not earmarked) for government operations.

- Unsettled payment orders (UPOs). During 2009, UPOs increased sharply, reaching CFAF173 billion (1.7 percent of GDP). The stock of UPOs accumulated since 2006 reached CFAF 223.4 billion (2.1 percent of GDP) at end-2009.[4]
- Expenditure committed and for which services have been provided, but no payment orders issued (validated DENOs). The 2007 new Public Finance Law requires priority clearance of validated DENOs incurred the previous fiscal year. Validated DENOs incurred in 2009 are estimated at CFAF 110 billion, or 1 percent of GDP, to be settled through a 2010 budget appropriation.

In addition, budget transparency weakened. The National Hydrocarbon Company (SNH), which collects the bulk of government's oil revenue, was used to fund some government spending operations outside the normal treasury process.

Text Table 2. Cameroon: Key Fiscal Indicators, on a Cash Basis, 2008–10

	2008	2009		2010	
	Act.	CR/09/318*	Est.	Jan-Mar Est.	Year Proj.
	(In percent of GDP)				
Total Revenue, incl. grants	20.8	19.2	18.4	4.3	17.3
Oil Revenue	7.6	4.9	4.8	0.6	3.6
Nonoil Revenue	12.3	13.3	12.7	3.5	12.9
Grants	0.9	1.0	0.8	0.1	0.8
Total Expenditure	18.5	18.7	18.4	4.0	19.5
Current	13.1	13.0	14.2	2.9	14.4
Capital	5.5	5.7	4.2	1.1	4.9
Foreign-Financed	0.9	1.1	0.7	0.2	1.2
Own-resources-financed	4.6	4.6	3.5	0.9	3.7
Selected payment obligations	-0.4	-1.3	-0.2	-0.1	-2.9
Overall Balance, Cash basis	2.0	-0.8	-0.2	0.2	-5.2
Memorandum Items:	(Percent of nonoil GDP)				
Nonoil revenue	13.7	14.2	13.5	3.8	13.7
Nonoil Primary Balance	-5.5	-4.3	-4.9	-0.4	-5.9

* Country Report (CR).

[4] UPOs are not recognized as arrears in Cameroon, regardless of the date of issue of the payment orders, and are only recorded in the table of central government operations at the time of their payment. Cash spending in each year reflects in part payment of previous years' UPOs.

Text Table 3. Cameroon: Government Arrears and Other Payment Obligations, 2008–March 2010						
	2008		2009		March 2010	
	Annual flows	End-year stocks	Annual flows	End-year stocks	1st quarter flows	End-March stocks
	(CFAF billions, unless otherwise indicated)					
A. Arrears audited in 2005 and 2007 (unsecuritized)	-37.3	122.0	-17.0	105.0	-9.0	96.0
In percent of GDP	*-0.4*	*1.1*	*-0.2*	*1.0*	*-0.1*	*0.9*
B. Other payment obligations						
1. Obligations to SONARA	79.5	93.8	4.5	98.3	7.5	105.8
In percent of GDP	*0.7*	*0.9*	*0.0*	*0.9*	*0.1*	*1.0*
2. Unsettled payment orders (UPOs) [1]	72.2	---	173.4	223.4	107.5	165.1
In percent of GDP	*0.7*	---	*1.7*	*2.1*	*1.0*	*1.5*
3. Validated DENOS	---	---	110.0	110.0	---	110.0
In percent of GDP			*1.1*	*1.1*		1.0
Total	151.7	---	177.9	---	115.0	---
In percent of GDP	1.4	---	1.7	---	1.0	---
Memorandum items						
Payment of previous years' UPOs[2]	204.9	---	198.1	---	165.8	---
In percent of GDP	*1.9*	---	*1.9*	---	*1.5*	---
Government usable deposits	*43.6*	224.9	-71.2	153.7	21.3	175.0
In months of total expenditure		*1.4*		*1.0*		*1.0*

1. UPOs accumulated by the central government excluding its decentralized services.
2. Payments of previous years' UPOs accumulated by the central governments including its decentralized services.

12. **Reflecting PFM and supervisory problems and the impact of the crisis, banking system soundness deteriorated** (Box 3).

- The banking system became heavily exposed to a common borrower, the oil refinery (SONARA), which had to turn to bank financing to compensate for the government's long delays in settling its obligations. This common borrower channel has become a source of systemic risk.[5]
- The NPLs ratio increased from 11.5 to 12.9 percent in 2009 (Table 6), reflecting both the weaker economy in 2009 and the more aggressive bank lending behavior in 2008, in which bank credit to the non-government sector had risen by about 15 percent in real terms. Cameroon's NPL ratio remains higher than the CEMAC average.
- Cameroon also experienced a significant retrenchment in foreign bank loans during the first half of 2009. The retrenchment was part of a longer-term trend of declining international bank exposure to the country relative to GDP.

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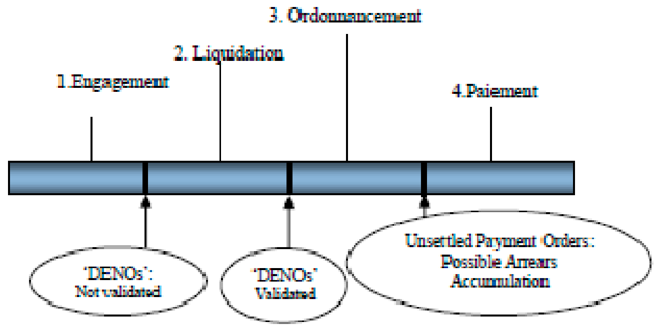
[5] Long delays in government payments to SONARA strained its liquidity and magnified its bank borrowing needs. By end-2009, SONARA had become the largest borrower for nine out of the twelve banks operating in Cameroon. For several banks, exposure to SONARA reached more than 90 percent of regulatory capital.

Box 2. The Public Expenditure Chain and Arrears Issue

The normal procedure for expenditure on goods and services in Cameroon has four stages: 1.*engagement* (commitment) 2. *liquidation* (validation phase) 3.*ordonnancement* (payment order), and 4. *Paiement* (payment).



Weak public expenditure management can lead to the accumulation of domestic and external arrears. Typically, these arise between stages 3 and 4, when payment orders remain unsettled beyond a certain time frame. According a CEMAC directive adopted in June 2008, unsettled payment orders (UPOs), known as Treasury float or "restes à payer" in Cameroon, should be considered as arrears after 90 days.[1] This directive is not currently applied in Cameroon and there is no systematic tracking of UPOs' duration. Therefore, there is no clear distinction between "normal" treasury float and arrears within the total stock of UPOs.

UPOs increased in 2009, in parallel with the clearance of a high level of previous years' UPOs. This could have resulted from multiple causes, including poor or fragmented cash flow planning and management; over-optimistic revenue forecasts; deficiencies in the treasury information system for tracking revenue and expenditure flows; the impact of extraordinary or unbudgeted expenditures; and nonbudgeted clearance of UPOs from previous years.

Another type of government payment obligation may occur between stages 1 and 3 (DENOs). DENOs which have been validated (between stage 2 and 3) but remain unpaid can be a source of arrears. DENOs cannot be easily traced, especially for expenditures committed by decentralized services of the central government. The concentration of expenditure commitments by line ministries towards the end of the fiscal year is the major source of this type of obligations. DENOs may also originate in exceptional procedures for expenditure or payment. A requirement of the new Public Finance Law implemented for the first time this year is that annual budgets contain an appropriation for DENOs incurred and validated in the previous year.

[1]The definition of arrears favored by the IMF is different; an arrear arises if no settlement is made 90 days after the delivery of the goods or services (validation phase).

Box 3: Risks and Vulnerabilities in Cameroon's Banking Sector

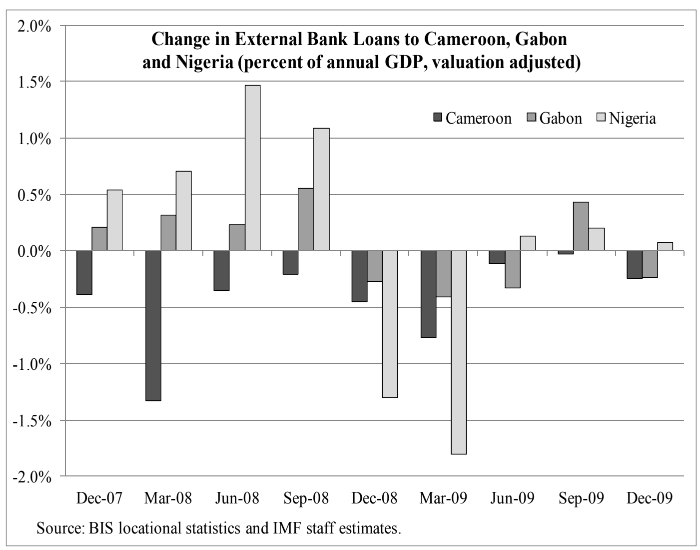
The bank regulatory framework encourages excessive credit concentration. Current bank regulation caps lending to a single borrower at 45 percent of regulatory capital, a very high limit by international standards (typically 15-20 percent). In addition, upon request by banks, the regional supervisory body (COBAC) grants every year exceptions whereby banks are allowed to lend up to 90 percent of their regulatory capital to "strategic enterprises". Loans thus tend to be concentrated on a small number of large debtors, mainly public enterprises. At end-2009, the five largest exposures accounted for about 30 percent of bank loan portfolios.

The high exposure to large enterprises could also reflect some caution by banks in lending to smaller enterprises where NPLs are already high. The manufacturing sector, which comprises most of the large enterprises and had a low NPL ratio (6.5 percent in 2009), received 30 percent of total bank loans in 2009. By contrast, the wholesale and retail sector, which encompasses many small and medium enterprises, exhibits the highest NPL ratio (about 34 percent in 2009) and received about 13 percent of total loans.

Another risk factor is connected lending. Breaches to regulatory limits on connected lending are concentrated in banks controlled by local private shareholders. This is one factor contributing to the distress of one commercial bank in 2009.

Cameroon experienced a significant retrenchment in foreign bank loans in recent years. This has resulted from the impact of global liquidity conditions on lending to banks' local affiliates. Other country risk factors, such as a perception of higher country risk linked to the social unrest in 2008, played a role.

The decline in Cameroon's exposure to international banks is not just a short term phenomenon. The Bank of International Settlement (BIS) statistics point to a downward trend in international banks' gross exposure to Cameroon over the last 10 years. The main drivers of this trend include: (i) the lack of bankable projects by international banks standards; (ii) excess domestic bank liquidity; and (iii) a changing landscape where regional banks are gaining market shares over international bank affiliates.



Source: BIS locational statistics and IMF staff estimates.

However, reduced international banking integration is all the more challenging for Cameroon as alternative channels of financing (like security issuance) are not yet developed. In an environment where external private financing is becoming intensely competitive, the same reforms that are needed to unfetter Cameroon's productive potential, such as raising standards of governance and strengthening oversight institutions, are also needed to help attract sustained foreign bank inflows.

13. **Banking sector vulnerabilities came to the fore in late 2009.** In November, a large local bank experienced a deposit run, following the appointment of a provisional administrator due to protracted violation of prudential regulations. The authorities' first response included a temporary waiver of the reserve requirement, moral suasion on large public entities to keep deposits at the distressed bank, and emergency liquidity provision by the BEAC. Pressures eased after the Minister of Finance announced the government's participation in the recapitalization of the bank. An audit of the bank has been completed, and a restructuring plan is under consideration.

14. **Broad money expanded moderately, reflecting the slowdown in economic activity and, consequently, in money demand.** Money growth declined to 7 percent, from 13 percent in 2008. Growth of bank credit to the non-government sector slowed to 7 percent, from about 20 percent in 2008; net bank credit to the central government expanded by 20 percent; and net foreign assets by some 3.5 percent.

III. POLICY DISCUSSIONS: PRESERVING MACROECONOMIC STABILITY AND FOSTERING GROWTH

15. **The authorities recognize that the impact of the global crisis and the recent deterioration in PFM have increased vulnerabilities.** Against this backdrop, policy discussions focused on: (i) improving PFM conditions; (ii) managing risks to the 2010 budget; (iii) ensuring stability and development of the financial system; (iv) safeguarding debt sustainability; (v) promoting growth; and (vi) the medium-term outlook.

A. Improving PFM Conditions

16. **The authorities and staff agreed on the urgent need to correct the weaknesses in expenditure and cash management that occurred in 2009**. To mitigate the risks involved, staff advised the following policy actions:

- Clear all arrears to SONARA to avoid serious implications for the banking system, and undertake a comprehensive audit of all outstanding UPOs;
- Implement the 2008 CEMAC Directive on the definition of government arrears (90-day rule); avoid accumulating new arrears and limit the level of UPOs by strengthening cash management and stopping budget commitments within the prescribed time limit to prevent spillovers on the following year's budget;[6]
- Prepare monthly fiscal data on a commitment basis and regular information for the four stages of the expenditure chain to allow for tracking the level of DENOs and UPOs, and a better assessment of the fiscal stance; and

[6] The Fiscal Regime Law requires that commitments be stopped at end-November in each fiscal year.

- Improve the cash management system by (i) preparing a periodic treasury plan; (ii) enforcing the rule requiring the use of a Treasury single account for all government operations; and (iii) avoiding expenditure outside the normal budgetary procedures, including operations by SNH on behalf of the government.

17. **The authorities have started to address these challenges.** Three steps have already been undertaken. First, a reconciliation of fiscal data between government departments has been conducted to assess the nature and level of UPOs accumulated in recent years. This has led to a downward revision of the initial estimate to CFAF 223.4 billion (2 percent of GDP). Second, about 70 percent of this stock was settled in the first quarter of 2010. Third, the authorities have contacted the BEAC in order to use the SDR allocation to settle the end-2009 stock of payment obligations to SONARA.

18. **In addition, measures are being taken to deepen PFM reforms initiated with support from various donors.** A medium-term plan for the modernization of PFM was adopted in 2009, together with institutional arrangements for its implementation. In this context, staff underscored the need to address existing shortcomings in the budget execution process, notably by:

- Establishing effective mechanisms to track expenditure flows through the budget execution process and bring into control the level of UPOs, DENOs, and other payment obligations to prevent the emergency of new arrears in the future;
- Enforcing the Public Procurement Code to ensure that the procurement process is competitive and that public entities do not rely on single-source contracts;
- Improving the public investment budget by enhancing programming in line ministries; coordinating work between central (Economy and Finance) and line ministries; and building continuity for investment financing through multi-year commitment appropriations; and,
- Strengthening the medium-term expenditure framework (MTEF) to facilitate the translation of PRSP priorities into the annual budget preparation process.

The authorities agreed that the current budget preparation and execution processes needs to be strengthened to ensure that budget allocations are consistent with the PRSP objectives, and to enhance transparency, accountability, and efficiency in the use of public resources. They stressed the need for sustained donor technical assistance in the PFM area.

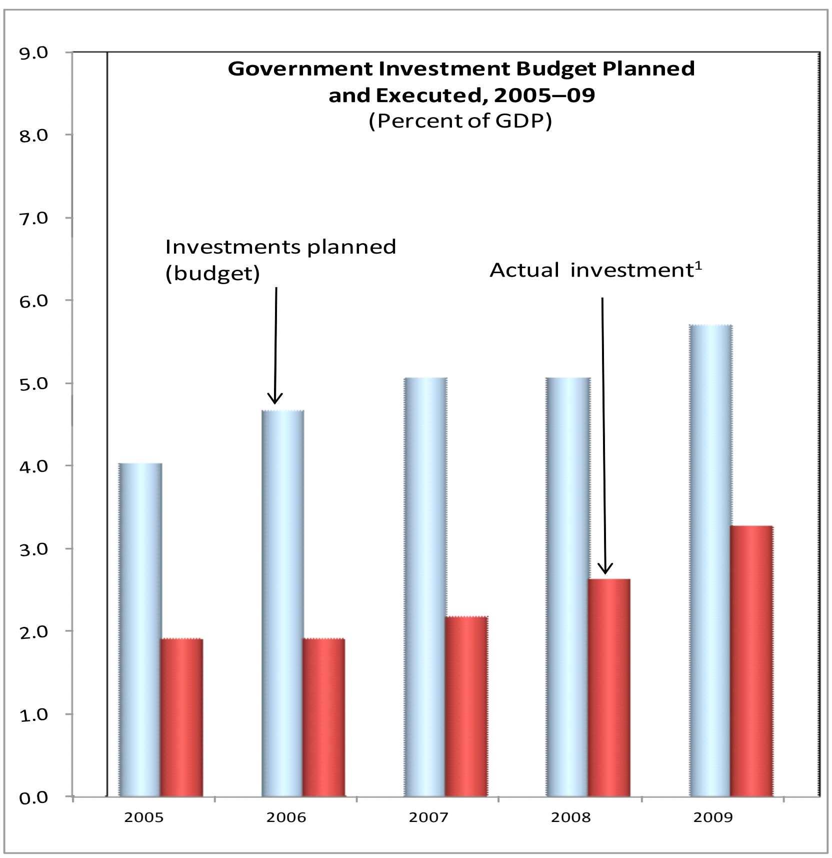
B. Controlling the Risks for the 2010 Budget

19. **The 2010 budget, approved in December 2009, critically relies on mobilizing domestic revenues and financing, as well as an improved execution rate for public investment**. Projected revenue is based on an optimistic real GDP growth assumption (3.9 percent). Budgeted expenditures (19.2 percent of GDP, compared with 18.4 percent of GDP in 2009) provide for higher wages and salaries, subsidies (including for fuel), and a large increase in capital spending. The budget also includes a provision to clear DENOs accumulated in 2009. The overall budget deficit is projected at about 3 percent of GDP. The budget relies on two main sources of domestic financing: (i) drawings of CFA 205 billion (1.8 percent of GDP) from government deposits at the BEAC; and (ii) issuance of

government bonds for CFAF 200 billion (about 2 percent of GDP) on a not-yet-operational regional market for government securities.

20. **The 2010 budget framework is problematic**, for the following reasons:

- Domestic revenues are likely overestimated, owing to overstated oil production and nonoil GDP growth projections.
- The large increase in infrastructure-related spending (to about 6 percent of GDP, from 4 percent of GDP in 2009) is unrealistic in view of Cameroon's record of low public investment execution (about 50 percent on average over the last three years) and persistent absorption capacity problems.
- Based on current WEO projections for world oil prices, budgeted fuel subsidies could fall short by about CFAF 60-70 billion (0.5-0.6 percent of GDP).
- There is no provision for contingent spending linked to the government's commitment to participate in the recapitalization of a large commercial bank.
- The budgeted drawing on bank deposits exceeds the stock of usable deposits available. Moreover, the delayed launch of the regional bond market has prompted the authorities to limit the issuance of bonds on the shallow domestic financial market.



Source: Cameroonian authorities; and IMF staff estimates and projections.
[1]Total payment orders for services provided (by government suppliers) under budget allocations.

21. **Against this background, staff advised the authorities to revise the 2010 budget, preferably through a supplementary budget.** While no decision has yet been taken, the authorities agreed that the following considerations should be taken into account:

- The allocation for fuel subsidies should prevent any further accumulation of arrears to the oil refinery. A lasting solution to this problem would require reassessing the current fuel price policy including by restoring the mechanism for the automatic adjustment of retail fuel prices; streamlining taxes on petroleum products; and replacing fuel subsidies by a more targeted social safety net. However, the authorities viewed staff advice as difficult to implement in the current social and political context.
- A provision of CFAF 20 billion (0.2 percent of GDP) for the government's participation in the recapitalization of the distressed bank was discussed with the authorities. This may underestimate the fiscal costs of the bank restructuring, given the still uncertain participation of private investors.
- The execution rate for public investment should be realistic, taking into account the country's record, and concrete actions being taken to improve absorption capacity.
- Recourse to accumulated deposits should be considered carefully to avoid further weakening an already reduced fiscal buffer for government operations in case of exogenous shocks. The use of BEAC statutory advances, aside from their high cost, could send inconsistent signals at a time when the central bank plans to promote the development of a regional market for government securities as a replacement of this instrument. However, it could constitute a last-resort source of financing.
- Because of limited absorption capacity of the domestic financial market, staff stressed the need to conduct the planned issuance of bonds by pre-announcing the schedule of sales, and testing the market reaction to a limited initial tranche. The authorities are discussing the issuance with domestic financial institutions.

22. **The discussions led to revised projections for 2010, but a financing gap close to 2 percent of GDP still remains** (Tables 2 and 3)**.** The authorities have yet to decide on their strategy to close the residual gap. They indicated that they need more time to explore and agree on the best options. Given the past record of execution and the existing infrastructure gaps, staff cautioned on the risks for the investment budget to bear disproportionately the burden of fiscal adjustment, as this would jeopardize the objective of reducing the constraints to growth. Staff advised that sustained efforts for greater revenue mobilization and a gradual phasing out of fuel subsidies could contribute to closing the financing gap in 2010–12.

C. Safeguarding Financial System Stability

23. **The authorities recognize that the concentration of bank credit is an important source of vulnerability.** Liquidity problems at large common borrowers—typically state-owned enterprises—due to protracted delays in settling government's obligations

could severely affect the health of the banking system. The authorities broadly agreed with staff on the urgency of mitigating risks by:

- Using the SDR allocation to clear the stock of arrears to the oil refinery to SONARA.
- Closely monitoring with COBAC the evolution of banking system vulnerabilities, and requiring COBAC to strengthen oversight of systemic risks and aggregate exposures of major borrowers.
- Facilitating a quick emergence of restructuring plans for financial institutions in difficulty; the fiscal cost of such plans should be kept to a minimum and recognized in the budget.
- Engaging COBAC in lowering the prudential ratios on risk concentration (Box 2) and eliminating the practice of exempting strategic enterprises, with a view to gradually reduce existing large exposures and facilitate syndication and diversification of bank exposures.

24. **Financial intermediation and access to bank credit remains hampered by a poorly functioning judicial system and limited information on creditworthiness of borrowers.** The authorities agreed to accelerate the implementation of their action plan to deepen financial intermediation. The plan, which is based on the recommendations of the 2007 Financial Sector Assessment Program (FSAP) update mission, intends to (i) improve credit information by supporting the BEAC in finalizing implementation of the central credit registry; (ii) introduce financial instruments appropriate to small and medium enterprises such as factoring, leasing, and venture capital; and (iii) improve contract enforcement by setting up a court dedicated to commercial matters and facilitating out-of-court settlements. Staff advised against creating specialized financial institutions (for agriculture and SME financing) that inherently involve vulnerable and undiversified sectoral loan portfolios.

D. Preserving Fiscal Sustainability

25. **The medium-term fiscal anchor in Cameroon should be the nonoil primary deficit, taking into account the nonrenewable nature of oil revenue and the need to scale-up public investment to address the severe infrastructure gaps.** Financing the ambitious PRSP agenda may initially translate into higher fiscal deficits and debt. However, growth dividends from resolving the severe infrastructure bottlenecks could be important to maintain a sustainable fiscal position. Staff concurred with the authorities that there is some fiscal space to accommodate much-needed capital spending. A coherent strategy would involve: (i) pursuing efforts to improve nonoil revenue mobilization; (ii) raising the execution rate of the public investment budget and developing public-private partnership in investment projects; (iii) keeping the buffer of usable government deposits at an appropriate level (at least one month of total spending); and (iv) strengthening debt management with a view to maintain a prudent borrowing policy.

26. **Mobilizing nonoil revenue continues to pose a challenge**. Nonoil revenue performance is still among the weakest in the region.[7] Given that tax rates on capital income, labor, and consumption are already high, broadening the tax base through tax administration reforms is a key priority.[8] The authorities agreed that priority should be given to:

- Strengthening the large enterprises division (DGE), and the tax centers offering accounting and tax advice to small and medium size enterprises;
- Simplifying and easing tax and customs procedures by, in particular, continuing to reduce the number of tax forms;
- Streamlining exemptions and other incentive-producing tax regimes by establishing eligibility criteria, harmonizing tax benefits, and improving monitoring of recipients;
- Continuing to combat customs fraud by a more effective tracking system to monitor transit trade;
- Reducing the time limit for paying VAT refunds, with a view to shore up the private sector's compliance with the VAT and improve the business climate.

Implementation of these actions, together with the projected growth in nonoil activity, is expected to generate an improvement in the nonoil revenue to nonoil GDP ratio.

27. **The joint Bank-Fund debt sustainability analysis (DSA) suggests that Cameroon's risk of debt distress remains low.** This assessment is broadly unchanged from the 2009 DSA, though the baseline debt trajectory is less favorable because of recent borrowing developments and the revised fiscal outlook. However, all external debt ratios are projected to stay below the relevant thresholds under the baseline and the stress tests. The public debt burden indicators do not suggest increased concerns for debt sustainability. The authorities shared the low risk assessment. As addressing infrastructure deficiencies is considered a key priority, they see the low debt vulnerability as providing some space for a reasonable increase in debt-financed public investment.

28. **Staff reiterated the need for continued prudent external borrowing.** This should rely on grants and highly concessional resources (where available) to finance government operations and on improved PFM conditions to avoid domestic arrears. Alternative sources of financing should also be developed to reduce vulnerability. Staff encouraged the

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[7] The ratio of nonoil revenue to nonoil GDP was 12.5 percent over 2007-09, compared with about 16.5 percent average for nonoil low-income SSA countries.

[8] The current VAT and most excises are already set at the maximum allowed by the CEMAC directives. The prevailing VAT rate is 19.25 percent. The standard rate for excises is 25 percent. The Corporate income tax rate is 38.5 percent. Personal income tax rates range from 10 to 35 percent. The oil and forestry sectors are subject to additional taxes through special regimes applicable for these activities.

authorities to continue to work with BEAC and take action to develop a regional market for government securities.

E. Boosting Competitiveness and Economic Growth

29. **Boosting growth is the key pillar of the new PRSP.** The authorities intend to tackle the key constraints, including underinvestment in critical infrastructure, unfavorable business climate, poor public financial management, and weak regional trade integration. The new PRSP envisions significant investment in energy, roads, port infrastructure, water supply, and information technology.[9] It also plans to improve the business climate and accelerate regional integration.

30. **Cameroon's exchange rate appears to be broadly in line with fundamentals, but competitiveness is hampered by nonprice factors linked to a weak business environment.** The real effective exchange rate (REER) appreciated by 1.3 percent in 2009 (annual average) as the appreciation of the nominal effective exchange rate (following the appreciation of the euro against other major currencies during most of the year) was partly offset by the modest negative inflation differential between Cameroon and its trade partners. Based on the Consultative Group on Exchange Rates (CGER) approach, the REER appears broadly in line with fundamentals (Box 4). External sustainability estimates, however, indicate a moderate overvaluation. This could be corrected if the euro current weakness is sustained. Survey data on the business environment show that Cameroon ranks in the bottom quartile for most indicators (Figure 2). The 2009 Enterprise Survey highlights multiple constraints faced by investors. All these indicators show that improving Cameroon's business environment remains a major challenge.

[9] Large projects have been identified in the new PRSP for key sectors of the economy and most of them are expected to be funded through public–private partnerships. These include energy (Kribi natural gas power station, Lom Pangar hydropower dam); transport (rehabilitation and upgrading of existing road network, deep sea port in Kribi, construction of new railway facilities); and water distribution (rehabilitation and extension of existing infrastructure).

Box 4. External Competitiveness and Real Exchange Rate Assessment

Cameroon's real effective exchange rate (REER) is broadly in line with fundamentals.[1] Three quantitative methodologies (similar to the CGER approach) were complemented by survey data analysis to assess Cameroon's REER and competitiveness.

Selected Indicators of the Real Effective Exchange Rate Assessment, as of May 2010

	Backward[1/]	Forward[1/]
	2009	2015
Actual current account [2/]	-3.4	-1.8
(-) Minus temporary factors[3/]	-1.7	0.0
Underlying current account (A)	-1.6	-1.8
Trade elasticity to REER (D)	-0.19	-0.19
Macroeconomic balance approach		
Current account norm (B)	-0.9	-1.0
Current account gap (C=A-B)	-0.7	-0.8
Misalignment[4/] (C/D)	**3.6**	**4.1**
External sustainability approach		
Current account norm (E)	-0.2	-0.2
Current account gap (F=A-E)	-1.4	-1.6
Misalignment[4/] (F/E)	**7.6**	**8.4**
Equilibrium Real Exchange Rate approach		
Misalignment[4/]	**2.5**	**1.1**

1/ Backward: actual at end-2009; forward: 2015 WEO projection.
2/ In percent of GDP, excluding grants.
3/ Includes temporary terms of trade movements.
4/ "+"=overvaluation;, "-"=undervaluation.

The macroeconomic balance approach estimates a current account norm (or equilibrium current account) based on economic fundamentals for Cameroon relative to its trading partners. Cameroon's oil trade surplus is one of the determinants of this norm. Backward and forward refer to the 2009 current account deficit and the 2015 projection, respectively. Based on an estimate of Cameroon's trade elasticity, a 4 percent real depreciation would be required to close the gap between the underlying current account (which strips the actual current account of all temporary factors) and the norm.

The external sustainability approach calculates the current account that stabilizes the net foreign assets (NFA)-to-GDP ratio at the end-2009 level. Based on medium-term nominal growth projections, the REER would need to depreciate by about 8 percent to stabilize NFA-to-GDP. Alternative methodologies seek to take into account the specificity of oil-producing economies, by estimating the return on oil wealth. In Cameroon, the nonoil current account deficit is larger than the expected return on oil wealth. Conclusions in terms of exchange rate misalignment are however blurred by uncertainty over total hydrocarbon (oil and natural gas) reserves.

The equilibrium real exchange rate approach models the medium-run equilibrium value of the REER as a function of fundamental factors which cause temporary but persistent deviations from long-run purchasing power parity. Panel estimation over 182 economies for the period 1973 through 2009 indicates that REER dynamics are primarily driven by variations in terms of trade, productivity, government consumption, and remittances inflows. The country specific model estimation suggests a 1 to 3 percent overvaluation for Cameroon.

Survey data analysis provides qualitative information on structural obstacles to competitiveness. The *2009-10 Global Competitiveness Index* ranks Cameroon 111th out of 133 countries. The *2010 Doing Business Report* places Cameroon at 171st of 183 countries, with particularly low rankings for Starting a Business (174th), Enforcing Contracts (174th) and Paying Taxes (170th). The 2009 *World Bank Enterprise Survey* provides a very similar picture. All these indicators underscore that Cameroon's overall business environment is holding back its competitiveness.

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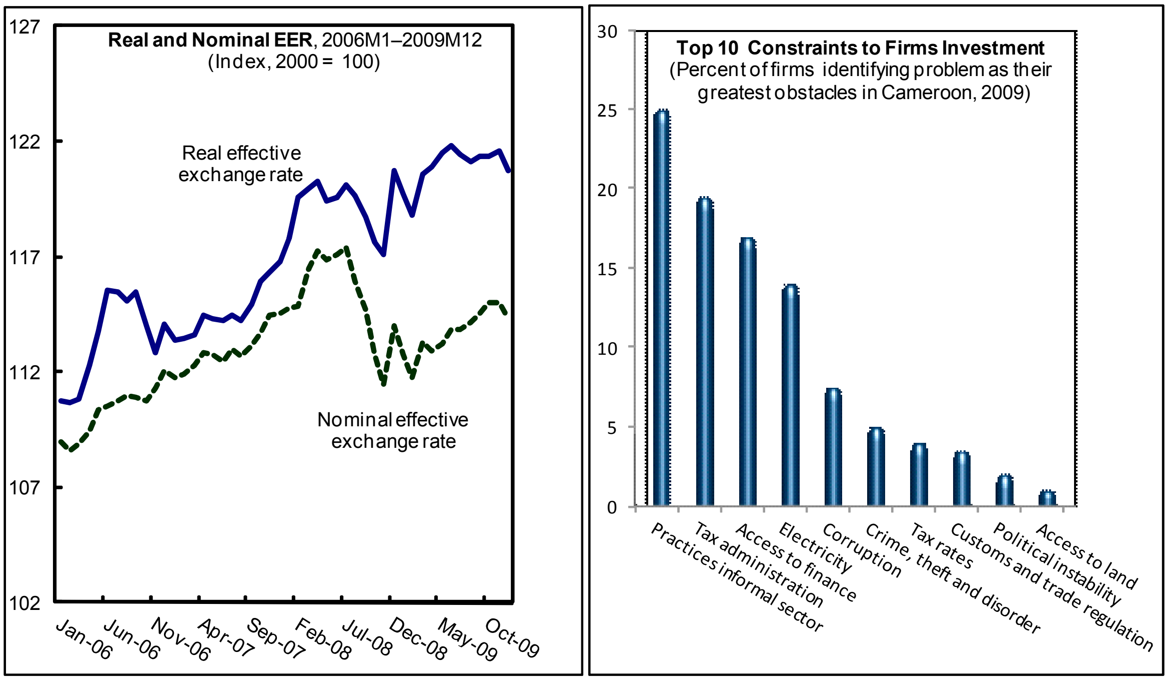
[1] The recent Euro depreciation, if sustained, would contribute to improving the price competitiveness of Cameroon.

Figure 2. Cameroon: Effective Exchange Rates (EER) and Competitiveness Index, 2006–10



Competitiveness Index and Doing Business Indicators

Global Competitiveness Index, 2009–10
(Out of 133 countries, best=1, worst=133)

Cameroon ranks relatively low on health and primary education and infrastructure but "better" on macroeconomic stability.

Overall ranking of Cameroon	111
Subcategories:	
Macroeconomic stability	34
Innovation	102
Labor market efficiency	104
Business sophistication	106
Technological readiness	111
Institution	112
Goods market efficiency	118
Higher education and training	119
Infrastructure	121
Health and primary education	122

Doing Business Indicators, 2010
(Out of 183 countries, best=1, worst=183)

Cameroon ranks relatively low on enforcing contracts and starting a business but "better" on closing a business.

Overall ranking of Cameroon	171
Subcategories:	
Closing a Business	98
Protecting Investors	119
Employing Workers	126
Getting Credit	135
Registering Property	143
Trading Across Borders	149
Dealing with Const Permits	164
Paying Taxes	170
Enforcing Contracts	174
Starting a Business	174

Sources: Cameroonian authorities; IMF Information Notice System; and World Bank (Entreprise Survey, 2009; and World Economic Forum, 2009; and Doing Business database, 2010).

31. **Staff welcomed the authorities' initiatives to strengthen the dialogue between the government and the private sector, in particular the Cameroon Business Forum.**[10] It emphasized the need, however, to support these efforts with PFM reforms that would reduce, and eventually eliminate, government arrears, and to sustain public enterprise reforms.[11] Efforts under way to improve governance, ensure the transparency of the government budget, and hold managers of public resources accountable, could reduce the uncertainty that surrounds the regulatory and judicial framework.

32. **Progress in trade liberalization remains key**. The currently high customs duties are a disincentive to private investment and productivity growth. Staff emphasized the need to (i) pursue negotiations with the other CEMAC member states with a view to reduce the level and range of the common external tariff (CET), in particular regarding imported machinery and equipment; (ii) accelerate efforts supporting regional integration by harmonizing the rules of origin and streamlining CET exemptions; and (iii) conclude a regional economic partnership agreement with the European Union. The authorities broadly agreed with staff recommendations. However, they noted difficulties in coming to an agreement with their regional partners on trade issues.

F. Medium-Term Outlook

33. **Staff concurred with the authorities that Cameroon's economic outlook is likely to improve, although less than anticipated in the new PRSP**. The positive outlook is driven by the expected recovery of the global economy, the projected increase in public capital spending, and ongoing initiatives to improve the business climate.[12]

- Oil production is expected to contribute to real growth during 2012-14, with SNH projections pointing to an average annual increase in oil production of about 20 percent during that period, followed by a resumption of the declining trend. The projected increase reflects ongoing oil investments, after successful exploration efforts over the last three years.

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[10] The Cameroon Business Forum was created in early 2009 with IFC assistance and held its first session in February 2010. It has pushed for concrete measures to improve the business climate, notably by simplifying procedures and creating a one-stop window to start a business.

[11] The airline company has a new management since February 2010. A bidding process for the telecommunication company was launched in 2009 but was unsuccessful. A new privatization strategy, through a public-private partnership, is being prepared. Restructuring options for the postal services company (CAMPOST) are being explored with a key development partner.

[12] The baseline scenario assumes a gradual moderate increase in private investment from 12.4 percent of GDP in 2009 to 13.5 percent in 2015.

- Nonoil sector growth is expected to gradually respond to structural reforms and alleviation of infrastructure gaps.[13]

Overall, staff's projections envision a gradual but sizeable increase in overall growth (from 2.6 percent in 2010 to close to 5 percent in 2014, followed by a decline in 2015 under the effect of projected lower oil production (Text Table 4). The external current account deficit would widen in 2011, but would thereafter narrow gradually to reach close to 1 percent of GDP in 2014. Efforts to tackle infrastructure bottlenecks should result in a relatively high nonoil primary deficit (around 5 percent of GDP) but a steady flow of oil revenue will gradually lower the overall budget deficit and eliminate the financing gap by 2013.[14] Inflation is expected to remain below the regional convergence criteria of 3 percent, barring new exogenous shocks.

Text table 4. Cameroon: Selected Macroeconomic Indicators, 2009–15

(Units indicated)

	2009	2010	2011	2012	2013	2014	2015
	Est.			Proj.			
Economic growth and prices							
Real GDP[1]	2.0	2.6	2.9	4.5	4.6	4.7	3.5
Nonoil real GDP[1]	3.0	3.3	3.4	3.6	3.9	4.2	4.4
Consumer prices (period average)[1]	3.0	3.0	2.7	2.7	2.7	2.7	2.7
Oil export price (US$ per barrel)	58.8	69.3	68.5	71.3	73.0	74.5	76.5
Oil output (thousands of barrels a day)	73	64	58	74	90	103	91
Fiscal aggregates[2]							
Total revenue (incl. grants)	18.4	17.3	17.1	17.8	18.5	19.1	18.5
Of which: oil	4.8	3.6	3.2	4.2	5.0	5.5	4.6
nonoil[3]	13.5	13.7	13.9	14.1	14.3	14.5	14.6
Total expenditure	18.4	19.5	19.0	18.8	18.6	18.5	18.7
Of which : noninterest current	13.9	14.1	13.5	13.1	12.6	12.4	12.3
capital	4.2	4.9	5.1	5.3	5.6	5.8	6.0
Overall budget balance (incl. grants)	-0.2	-5.2	-2.1	-1.2	-0.2	0.5	-0.2
Nonoil primary fiscal balance[3]	-4.9	-5.9	-5.0	-5.1	-5.0	-4.9	-4.8
Nonoil current balance[3]	-0.8	-1.0	0.0	0.1	0.6	0.9	1.3
External sector[2]							
Current account (incl. grants)	-2.7	-4.2	-4.3	-3.0	-1.6	-0.7	-1.5
Terms of trade[1]	-15.0	9.2	-4.3	2.3	2.6	1.4	-5.9
Total public debt	9.6	13.4	14.4	14.5	14.8	14.7	15.1
External public debt	4.9	6.6	8.6	10.2	11.3	12.3	13.4

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

[1] Percentage change.
[2] Percent of GDP.
[3] Percent of nonoil GDP.

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[13] Recent staff assessment of the growth-accounting framework points to the need to boost productivity through structural reforms and investment in infrastructure, and improving human capital (IMF Country Report No. 07/285, August 2007).

[14] The medium-term framework assumes that the level of UPOs will be stabilized to less than 5 percent of total non-interest expenditure by end-2010, consistent with a normal amount of float from treasury operations, and maintained at this level throughout 2015. Liquidated DENOs to be paid each year are factored in each spending item and not shown separately in the 2011-15 projections.

34. **The medium-term macroeconomic framework is subject to significant downside risks**. These include: (i) the uncertain pace and strength of global recovery; (ii) the fiscal framework hinges on the coverage of financing gaps that may not materialize; (iii) a vulnerable banking sector that may generate contingent fiscal liabilities; and (iv) delays in the implementation of reforms in a pre-election environment.

IV. STAFF APPRAISAL

35. **After a slowdown in activity as a result of the global crisis, there are signs that Cameroon's economy has started to recover.** Growth is expected to increase, helped by a pick-up in external demand, public investment in basic infrastructure, and ongoing initiatives to improve the business environment. However, there are risks to the projected favorable outlook stemming from (i) uncertainty on the strength and duration of the global recovery; (ii) lack of financing to cover the projected fiscal gap; and (iii) possible delays in the implementation of reforms ahead of the upcoming elections.

36. **Strengthening PFM is critical to maintain fiscal and financial sector stability.** Weaknesses in budget management that came to the fore in 2009 need to be decisively corrected. The authorities are encouraged to strengthen expenditure and treasury management, audit outstanding arrears comprehensively, and set in place processes to limit the accumulation of unsettled payment obligations. This is key to reducing adverse spillover effects on other sectors, and to enhancing policy credibility.

37. **The authorities need to be vigilant against banking sector risks.** While domestic banks have been relatively insulated from the global financial crisis, the excessive concentration of bank exposure to a few large enterprises, especially the national oil refinery, continues to pose systemic risks. These risks have been exacerbated by protracted delays in settling government obligations, and by inadequate supervisory standards. In collaboration with the regional supervisor, the authorities need to take resolute steps to: (i) monitor banking sector vulnerabilities through regular analysis of banking sector soundness indicators; (ii) promote a sound and rapid restructuring plan for a sizeable bank in difficulty; and (iii) foster the adoption of best practices on prudential ratios on risk concentration, eliminate existing exceptions in favor of some enterprises, and implement gradually but consistently these changes.

38. **The 2010 budget needs to be revised.** The authorities have discussed with staff some adjustments to the budget. To ensure transparency, a supplementary budget should be prepared and presented to the National Assembly. This will give the authorities an opportunity to realign non-priority spending and adopt other corrective measures that could help reduce the remaining financing gap. It will also help prevent any undue compression of priority public investment and the incurrence of new domestic arrears.

39. **Increasing Cameroon's growth will require concrete actions to address the existing bottlenecks.** Staff recognizes the need to address severe infrastructure gaps, thereby helping to promote private investment. Achieving these objectives will require raising the execution rate for public investment, improving absorption capacity, and reducing regulatory uncertainty. Cameroon's REER appears to be broadly in line with fundamentals, but competitiveness remains hampered by nonprice factors related to the weak business environment. Staff encouraged the authorities to take concrete actions to implement ongoing initiatives to improve the business climate.

40. **The updated LIC-DSA shows that Cameroon's risk of debt distress is low.** The authorities need, however, to continue to implement a prudent borrowing policy that relies on grants and highly concessional loans for financing their development program. They also need to continue to work with regional institutions to develop rapidly a regional market for government securities, a key step in reducing the current vulnerability to external financing shocks.

41. **Close monitoring of financial sector developments is warranted.** Given the current vulnerable situation, staff recommends that the authorities closely monitor financial sector developments to detect changes in risk factors at an early stage.

42. Staff recommends that the next Article IV consultation take place within 12 months.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2008–15

	2008	2009		2010	2011	2012	2013	2014	2015
	Act.	CR/09/318	Est.			Proj.			
	(Annual percentage changes, unless otherwise indicated)								
National income and prices									
GDP at constant prices	2.9	2.4	2.0	2.6	2.9	4.5	4.6	4.7	3.5
Oil	-1.8	-9.4	-15.3	-12.2	-10.2	28.6	20.3	14.6	-11.7
Nonoil	3.2	3.1	3.0	3.3	3.4	3.6	3.9	4.2	4.4
GDP deflator	5.5	-3.3	-3.3	3.2	3.1	3.0	2.8	2.6	2.4
Consumer prices (12-month average)	5.3	2.7	3.0	3.0	2.7	2.7	2.7	2.7	2.7
Nominal GDP (CFA F billions)	10,629	10,311	10,474	11,091	11,767	12,662	13,617	14,631	15,509
Oil	1,070	718	594	682	620	836	1,037	1,219	1,112
Nonoil	9,558	9,593	9,881	10,409	11,147	11,825	12,580	13,412	14,397
Oil output (thousands of barrels a day)	84	78	73	64	58	74	90	103	91
External trade									
Export volume	0.7	-4.6	-4.8	-0.3	3.4	10.6	10.4	9.8	4.5
Of which: nonoil sector	1.7	-4.1	-2.4	2.0	6.5	7.0	8.0	8.5	9.0
Import volume	5.8	-8.1	-5.2	4.6	4.6	4.7	4.9	5.2	5.3
Average oil export price (US$ per barrel)	94.3	57.5	58.8	69.3	68.5	71.3	73.0	74.5	76.5
Nominal effective exchange rate	2.1	...	-1.4	...	...	...	...	...	...
Real effective exchange rate	3.9	...	1.3	...	...	...	...	...	...
Terms of trade ("-" = deterioration)	-2.1	-20.9	-15.0	9.2 …	-4.3	2.3	2.6	1.4	-5.9
Money and credit (end of period)									
Net domestic assets [1]	1.6	14.6	4.2	6.2	4.9	4.3	2.1	0.0	3.2
Net credit to the public sector [1]	-6.5	1.7	3.5	6.3	1.0	0.4	-2.0	-4.2	-1.0
Credit to the private sector	19.6	13.0	7.1	7.1	8.1	8.2	8.4	8.5	8.8
Broad money (M2)	13.4	0.4	6.9	7.0	7.5	8.0	8.1	8.2	8.2
Central government operations									
Total revenue	13.6	-12.8	-13.3	-0.7	5.6	13.7	12.5	11.0	2.8
Total expenditure	27.5	-2.9	-1.7	12.2	3.2	6.7	6.0	7.2	6.8
	(Percent of GDP, unless otherwise indicated)								
Gross national savings	16.3	12.1	13.9	13.2	13.6	15.2	17.1	18.3	18.0
Gross domestic investment	18.1	18.0	16.6	17.4	17.9	18.2	18.7	19.0	19.5
Public investment	5.5	5.8	4.2	4.9	5.1	5.3	5.6	5.8	6.0
Private investment	12.5	12.2	12.4	12.5	12.7	12.9	13.1	13.3	13.5
Central government operations									
Total revenue (excluding grants)	20.0	18.1	17.6	16.5	16.4	17.3	18.1	18.7	18.2
Oil revenue	7.6	4.9	4.8	3.6	3.2	4.2	5.0	5.5	4.6
Nonoil revenue (percent of nonoil GDP)	13.7	14.2	13.5	13.7	13.9	14.1	14.3	14.5	14.6
Total expenditure	18.5	18.7	18.4	19.5	19.0	18.8	18.6	18.5	18.7
Fiscal balance (including net changes in arrears)									
Excluding grants	1.1	-1.8	-1.1	-6.0	-2.8	-1.7	-0.6	0.1	-0.5
Including grants	2.0	-0.8	-0.2	-5.2	-2.1	-1.2	-0.2	0.5	-0.2
Nonoil primary balance (percent of nonoil GDP)	-5.5	-4.3	-4.9	-5.9	-5.0	-5.1	-5.0	-4.9	-4.8
External sector									
Current account balance (including grants)	-1.8	-5.9	-2.7	-4.2	-4.3	-3.0	-1.6	-0.7	-1.5
Gross official reserves (imputed reserves, bn of US$)									
Imputed reserves (billion of US$)	3.0	2.3	3.6	3.3	3.4	3.6	3.9	4.4	4.7
Imputed reserves (percent of broad money)	63.2	48.6	68.0	64.2	62.2	61.0	62.0	64.9	64.6
Public debt									
Total	9.5	12.4	9.6	13.4	14.4	14.5	14.8	14.7	15.1
External	5.4	7.5	4.9	6.6	8.6	10.2	11.3	12.3	13.4
	(Percent of exports of goods and services, unless otherwise indicated)[2]								
NPV of external debt	11.8	21.3	13.7	21.1	27.1	29.7	30.8	31.9	36.2
External debt service	0.8	1.5	1.3	0.9	0.9	1.0	1.1	1.0	1.4
External debt service (as a percent of government revenue)	1.2	1.8	1.8	1.4	1.4	1.5	1.7	1.6	2.1

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

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

[2]Estimations are based on the revised DSA (June 2010) using the LIC Debt Sustainability Framework methodology.

Note: … = not available.

Table 2. Cameroon: Central Government Operations on a Cash Basis, 2008–15

(CFAF billion, unless otherwise indicated)

	2008	2009		2010		2011	2012	2013	2014	2015
	Act.	CR/09/318	Est.	Budget	Proj.	Proj.				
Total revenue and grants	2,214	1,978	1,926	1,986	1,916	2,011	2,254	2,524	2,792	2,868
Total revenue	2,122	1,870	1,839	1,875	1,826	1,929	2,194	2,469	2,740	2,818
Oil sector revenue	810	504	507	407	396	376	527	675	799	718
Nonoil sector revenue	1,312	1,366	1,331	1,468	1,431	1,554	1,667	1,794	1,940	2,100
Total grants	92	108	87	111	90	82	60	55	53	50
Projects	26	11	28	50	28	30	16	14	13	12
Programs	0	5	0	0	0	0	0	0	0	0
Other (debt relief)	66	93	59	62	61	51	44	41	39	38
Total expenditure	1,966	1,925	1,932	2,240	2,168	2,238	2,387	2,530	2,712	2,896
Current expenditure	1,395	1,338	1,491	1,563	1,600	1,632	1,713	1,772	1,871	1,967
Wages and salaries	561	624	629	685	685	722	777	830	897	946
Goods and services	512	491	541	555	529	547	583	614	660	693
Debt relief-financed	27	55	40	49	49	30	28	26	10	10
Subsidies and transfers	286	187	289	286	348	317	298	271	256	272
Of which: fuel subsidies	58	0	18	58	120	104	72	60	24	0
Pensions	94	100	104	110	110	117	126	135	145	156
Interest due	36	36	33	38	38	47	54	57	58	56
External	32	26	29	31	31	24	26	28	29	31
Domestic	4	10	4	7	7	23	29	29	29	24
Capital expenditure	589	587	441	677	548	606	674	757	842	929
Domestic investment	410	453	356	497	389	431	476	526	587	638
Foreign-financed investment	99	114	73	160	138	165	197	231	255	292
Rehabilitation and participation	80	20	12	20	20	10	0	0	0	0
Net lending[1]	-14	0	0	0	20	0	0	0	0	0
Unclassified expenditure	-4	0	0	0	0	0	0	0	0	0
Overall balance, excluding net change in arrears										
Excluding grants	156	-54	-93	-365	-341	-308	-192	-61	27	-79
Including grants	248	54	-6	-254	-251	-227	-132	-6	80	-29
Selected payment of government obligations	-37	-132	-17	-132	-325	-23	-23	-23	-14	0
External	0	0	0	0	0	0	0	0	0	0
Domestic	-37	-132	-17	-132	-325	-23	-23	-23	-14	0
Of which: Unsettled Payment Orders (UPOs)					-95	0	0	0	0	0
Obligations to SONARA[2]					-98	0	0	0	0	0
Other payments (DENOs)					-110	0	0	0	0	0
Overall balance, including net change in arrears										
Excluding grants	119	-186	-110	-497	-666	-331	-215	-84	13	-79
Including grants	211	-78	-23	-386	-576	-250	-155	-29	66	-29
Financing	-211	-33	23	386	369	46	17	29	-66	29
External financing, net	-7	16	-23	53	49	84	137	171	195	235
Amortization	-80	-87	-68	-57	-61	-51	-45	-46	-46	-44
Drawings	73	103	45	110	110	135	182	218	241	279
Project financing	73	103	45	110	110	135	182	218	241	279
Program financing (loans)	0	0	0	0	0	0	0	0	0	0
Domestic financing, net	-204	-49	45	333	320	-37	-120	-142	-261	-207
Banking system	-155	10	76	205	199	2	-11	-83	-165	-127
Banking system, excluding C2D	-140	0	123	205	211	2	-22	-93	-147	-105
Use of SDR Allocation					111	0	0	0	0	0
Amortization	-59	-59	-31	-72	-79	-139	-173	-128	-96	-80
Nonbank financing	10	0	0	200	200	100	63	68	0	0
New bond issue					200	100	63	68	0	0
Reserves	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Remaining financing gap	0	111	0	0	207	203	139	0	0	0
Memorandum items										
Primary budget balance[3]	487	293	47	-20	-17	23	176	340	412	327
Nonoil primary balance	-526	-415	-481	-623	-609	-555	-605	-624	-662	-691
Nonoil current balance	27	137	-73	16	-99	3	14	77	122	183
Oil price assumption, US$ per barrel	94	58	59	70	69	69	71	73	75	77
Remaining financing gap (US$ million)	0	229	0	0	414	394	267	0	0	0

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

[1] The amount for 2010 represents a provision for the recapitalization of a distressed bank.

[2] Total amount of arrears owed to SONARA at end-2009.

[3] Excludes grants, debt-relief and foreign financed investment and restructuring.

Table 3. Cameroon: Selected Fiscal Indicators, on a Cash Basis, 2008–15

(Percent of GDP, unless otherwise indicated)

	2008	2009		2010		2011	2012	2013	2014	2015
	Act.	CR/09/318	Est.	Budget	Proj.			Proj.		
Total revenue and grants	20.8	19.2	18.4	17.0	17.3	17.1	17.8	18.5	19.1	18.5
Total revenue	20.0	18.1	17.6	16.1	16.5	16.4	17.3	18.1	18.7	18.2
Oil sector revenue	7.6	4.9	4.8	3.5	3.6	3.2	4.2	5.0	5.5	4.6
Nonoil sector revenue	12.3	13.3	12.7	12.6	12.9	13.2	13.2	13.2	13.3	13.5
Total grants	0.9	1.0	0.8	1.0	0.8	0.7	0.5	0.4	0.4	0.3
Total expenditure	18.5	18.7	18.4	19.2	19.5	19.0	18.8	18.6	18.5	18.7
Current expenditure	13.1	13.0	14.2	13.4	14.4	13.9	13.5	13.0	12.8	12.7
Wages and salaries	5.3	6.1	6.0	5.9	6.2	6.1	6.1	6.1	6.1	6.1
Goods and services	4.8	4.8	5.2	4.7	4.8	4.6	4.6	4.5	4.5	4.5
Debt relief-financed	0.3	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.1	0.1
Subsidies and transfers	2.7	1.8	2.8	2.4	3.1	2.7	2.4	2.0	1.8	1.8
Of which: fuel subsidies	0.5	0.0	0.2	0.5	1.1	0.9	0.6	0.4	0.2	0.0
Pensions	0.9	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Interest due	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
External	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Domestic	0.0	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.5	5.7	4.2	5.8	4.9	5.1	5.3	5.6	5.8	6.0
Domestic investment	3.9	4.4	3.4	4.3	3.5	3.7	3.8	3.9	4.0	4.1
Foreign-financed investment	0.9	1.1	0.7	1.4	1.2	1.4	1.6	1.7	1.7	1.9
Rehabilitation and participation	0.8	0.2	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Net lending[1]	-0.1	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Unclassified expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, excluding net change in arrears										
Excluding grants	1.5	-0.5	-0.9	-3.1	-3.1	-2.6	-1.5	-0.4	0.2	-0.5
Including grants	2.3	0.5	-0.1	-2.2	-2.3	-1.9	-1.0	0.0	0.5	-0.2
Selected payment of government obligations	-0.4	-1.3	-0.2	-1.1	-2.9	-0.2	-0.2	-0.2	-0.1	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.4	-1.3	-0.2	-1.1	-2.9	-0.2	-0.2	-0.2	-0.1	0.0
Of which: Unsettled Payment Orders (UPOs)					-0.9	0.0	0.0	0.0	0.0	0.0
Obligations to SONARA[2]					-0.9	0.0	0.0	0.0	0.0	0.0
Other payments (DENOs)					-1.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including net change in arrears										
Excluding grants	1.1	-1.8	-1.1	-4.3	-6.0	-2.8	-1.7	-0.6	0.1	-0.5
Including grants	2.0	-0.8	-0.2	-3.3	-5.2	-2.1	-1.2	-0.2	0.5	-0.2
Financing	-2.0	-0.3	0.2	3.3	3.3	0.4	0.1	0.2	-0.5	0.2
External financing, net	-0.1	0.2	-0.2	0.5	0.4	0.7	1.1	1.3	1.3	1.5
Amortization	-0.8	-0.8	-0.6	-0.5	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3
Drawings	0.7	1.0	0.4	0.9	1.0	1.1	1.4	1.6	1.7	1.8
Project financing	0.7	1.0	0.4	0.9	1.0	1.1	1.4	1.6	1.7	1.8
Program financing (loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, net	-1.9	-0.5	0.4	2.8	2.9	-0.3	-0.9	-1.0	-1.8	-1.3
Banking system	-1.5	0.1	0.7	1.8	1.8	0.0	-0.1	-0.6	-1.1	-0.8
Banking system, excluding C2D	-1.3	0.0	1.2	1.8	1.9	0.0	-0.2	-0.7	-1.0	-0.7
Use of SDR Allocation					1.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.6	-0.6	-0.3	-0.6	-0.7	-1.2	-1.4	-0.9	-0.7	-0.5
Nonbank financing	0.1	0.0	0.0	1.7	1.8	0.8	0.5	0.5	0.0	0.0
New bond issue					1.8	0.9	0.5	0.6	0.0	0.0
Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Remaining financing gap	0.0	1.1	0.0	0.0	1.9	1.7	1.1	0.0	0.0	0.0
Memorandum items				(Percent of nonoil GDP)						
Nonoil revenue	13.7	14.2	13.5	13.4	13.7	13.9	14.1	14.3	14.5	14.6
Nonoil primary balance	-5.5	-4.3	-4.9	-5.7	-5.9	-5.0	-5.1	-5.0	-4.9	-4.8
Nonoil current balance	0.3	1.4	-0.8	0.1	-1.0	0.0	0.1	0.6	0.9	1.3
					(Percent of GDP)					
Primary budget balance[3]	2.7	-0.4	0.3	-1.9	-1.9	-1.5	-0.6	0.4	0.9	0.2
Stock of total public debt	9.5	12.4	9.6	…	13.4	14.4	14.5	14.8	14.7	15.1
Stock of external public debt	5.4	7.5	4.9	…	6.6	8.6	10.2	11.3	12.3	13.4
Nominal GDP (CFA billion)	10,629	10,311	10,474	11,683	11,091	11,767	12,662	13,617	14,631	15,509
Nonoil GDP (CFA billion)	9,558	9,593	9,881	10,967	10,409	11,147	11,825	12,580	13,412	14,397

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

[1] The amount for 2010 represents a provision for the recapitalization of a distressed bank.

[2] Total amount of arrears owed to SONARA at end-2009.

[3] Excludes grants, debt-relief and foreign financed investment and restructuring.

Table 4. Cameroon: Balance of Payments, 2008–15

	2008	2009		2010	2011	2012	2013	2014	2015
	Act.	CR/09/318	Est.			Proj.			
				(CFA F billions)					
Current account balance	-191	-610	-282	-471	-503	-377	-213	-103	-227
Trade balance	206	-441	-154	-83	-222	-38	183	383	165
Exports, goods	2,638	1,687	1,926	2,227	2,288	2,625	3,023	3,421	3,426
Oil and oil products	1,411	808	767	888	818	1,109	1,381	1,628	1,478
Nonoil sector	1,227	878	1,159	1,339	1,470	1,516	1,642	1,793	1,947
Imports, goods	-2,432	-2,128	-2,080	-2,310	-2,510	-2,663	-2,840	-3,038	-3,261
Services (net)	-527	-234	-299	-430	-380	-422	-444	-497	-443
Income (net)	-147	-111	-60	-180	-158	-170	-199	-233	-207
Transfers (net)	278	176	231	222	257	253	248	245	258
Inflows	356	198	252	273	279	281	282	285	294
Outflows	-79	-22	-21	-51	-22	-28	-34	-40	-37
Capital and financial account balance	381	170	351	283	369	343	397	374	406
Capital account	78	11	28	28	30	16	14	13	12
Capital transfers	78	11	28	28	30	16	14	13	12
Financial account	302	160	323	255	339	328	383	361	394
Official capital	53	28	126	68	141	185	219	227	256
Long-term borrowing	133	115	213	129	191	230	266	273	300
Of which: SDR allocation	0	0	111	0	0	0	0	0	0
Private capital (net)	249	132	197	187	198	142	164	134	138
Errors and omissions,net	-40	0	78	0	0	0	0	0	0
Overall balance	149	-439	147	-188	-134	-34	185	271	179
Financing	-149	439	-147	188	134	34	-185	-271	-179
Bank of Central African States	-149	328	-147	-19	-69	-105	-185	-271	-179
Use of IMF credit (net)	4	0	70	0	-1	-1	-2	-3	-23
Change in imputed reserves (net)	-153	328	-217	-19	-68	-104	-183	-268	-156
Of which: SDR allocation	0	0	-111	0	0	0	0	0	0
Financing need	0	111	0	207	203	139	0	0	0
				(Percent of GDP)					
Trade balance	1.9	-4.3	-1.5	-0.8	-1.9	-0.3	1.3	2.6	1.1
Imports	-22.9	-20.6	-19.9	-20.8	-21.3	-21.0	-20.9	-20.8	-21.0
Non-oil exports	11.5	8.5	11.1	12.1	12.5	12.0	12.1	12.3	12.6
Current account balance									
Excluding grants	-2.5	-6.9	-3.4	-5.1	-5.0	-3.5	-2.0	-1.1	-1.8
Including grants	-1.8	-5.9	-2.7	-4.2	-4.3	-3.0	-1.6	-0.7	-1.5
Overall balance	1.4	-4.3	1.4	-1.7	-1.1	-0.3	1.4	1.9	1.2
Financing gap	0.0	1.1	0.0	1.9	1.7	1.1	0.0	0.0	0.0
				(Percentage change, unless otherwise indicated)					
Export volume	0.7	-4.6	-4.8	-0.3	3.4	10.6	10.4	9.8	4.5
Oil sector	-2.6	-6.2	-13.2	-9.2	-10.1	29.7	20.9	15.0	-12.0
Nonoil sector	1.7	-4.1	-2.4	2.0	6.5	7.0	8.0	8.5	9.0
Import volume	5.8	-8.1	-5.2	4.6	4.6	4.7	4.9	5.2	5.3
Terms of trade	-2.1	-20.9	-15.0	9.2	-4.3	2.3	2.6	1.4	-5.9
Nonoil export price index (CFA F)	2.7	-8.2	-3.2	13.3	3.0	-3.6	0.3	0.6	-0.4
Import price index (CFA F)	12.6	1.0	-9.8	6.2	3.8	1.4	1.6	1.7	1.9
Exchange rate (CFA F per US$)	447.9	484.7	472.1	…	…	…	…	…	…
Gross official reserves (imputed reserves, bn of US$)	3.0	2.3	3.6	3.3	3.4	3.6	3.9	4.4	4.7
(percent of broad money)	63.2	48.6	68.0	64.2	62.2	61.0	62.0	64.9	64.6

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

Table 5. Cameroon: Monetary Survey, December 2008–December 2015

(Billions of CFA francs, unless otherwise noted)

	2008	2009			2010	2011	2012	2013	2014	2015
	Dec.	Juin	Dec.		Dec.			Proj.		
	Act.	Est.	CR/09/318	Est.	Proj.					
Net foreign assets	1,732	1,691	1,416	1,794	1,813	1,882	1,987	2,171	2,443	2,621
Bank of Central African States (BEAC)	1,428	1,552	1,112	1,464	1,483	1,552	1,657	1,841	2,112	2,291
Commercial banks	304	140	304	330	330	330	330	330	330	330
Net domestic assets	571	493	896	669	822	950	1,072	1,135	1,135	1,250
Domestic credit	855	686	1,035	1,007	1,245	1,374	1,495	1,558	1,558	1,673
Net claims on the public sector	-250	-476	-212	-170	-14	12	22	-37	-175	-211
Net credit to the central government	-378	-449	-368	-302	-103	-101	-112	-195	-360	-487
Claims	106	107	…	178	339	389	439	464	464	454
Deposits (net)	-484	-556	-368	-480	-442	-491	-551	-659	-824	-941
Credit to autonomous agencies	14	15	14	15	15	18	20	20	20	20
Credit to public enterprises	114	88	143	117	74	96	115	138	166	257
Credit to financial institutions	17	17	17	11	11	12	14	14	16	16
Credit to the private sector	1,088	1,146	1,230	1,166	1,248	1,349	1,459	1,582	1,717	1,868
Other items (net)	-284	-194	-140	-338	-423	-423	-423	-423	-423	-423
Money and quasi-money	2,303	2,184	2,312	2,462	2,635	2,832	3,059	3,307	3,578	3,871
Currency outside banks	431	358	431	447	458	470	483	498	514	532
Deposits	1,873	1,826	1,881	2,015	2,177	2,363	2,576	2,809	3,063	3,339
Memorandum items:										
Contribution to the growth of broad money (percentage points)										
Net foreign assets	11.5	-1.8	-14.2	2.7	0.8	2.6	3.7	6.0	8.2	5.0
Net domestic assets	1.6	-3.4	14.6	4.2	6.2	4.9	4.3	2.1	0.0	3.2
Of which: credit to the central government	-7.7	-3.1	0.4	3.3	8.1	0.1	-0.4	-2.7	-5.0	-3.5
Private sector credit (annual percentage change)	19.6	16.7	13.0	7.1	7.1	8.1	8.2	8.4	8.5	8.8
Broad money (annual percentage change)	13.4	7.7	0.4	6.9	7.0	7.5	8.0	8.1	8.2	8.2
Currency	21.2	21.8	0.1	3.9	2.3	2.6	2.9	3.1	3.3	3.4
Deposits	11.7	5.3	0.5	7.6	8.0	8.5	9.0	9.0	9.1	9.0
Velocity (GDP/average M2)	5.1	...	5.0	4.7	4.7	4.6	4.6	4.6	4.6	4.5
Government usable deposits[1]										
Nominal (CFAF billion)	224.9	246.3	…	153.7	53.7	52.2	73.8	166.4	313.3	418.8
In months of total expenditure[2]	1.4	1.6	…	1.0	0.3	0.3	0.4	0.9	1.5	1.9

Sources: BEAC; and IMF staff estimates and projections.

[1] Deposits that are readily available (not earmarked) for government operations.

[2] Excluding foreign-financed investment.

Table 6. Cameroon and CEMAC: Indicators of Banking System Soundness, 2007-09
(In percent, unless otherwise indicated)

	Cameroun			CEMAC		
	2007	2008	2009	2007	2008	2009
Capital Adequacy						
Regulatory capital to risk-weighted assets[1]	10.4	10.9	9.6	12.7	25.8	17,9
Regulatory Tier I capital to risk-weighted assets	9,8	10.4	10.3	13.7	25.2	19.9
Capital (net worth) to assets	5.6	5.3	4.9	5.7	7.2	6.4
Asset quality						
Gross loans / total assets	48.8	54.4	54.2	41.3	49.1	48.9
NPL ratio[2]	12.5	11.5	12.9	11.2	9.1	10,6
NPL ratio net[3]	1.1	1.2	3.0	1.6	1.5	2.9
Provisioning rate	92.2	91.1	79.1	87.5	85.4	74.8
Earnings and Profitability						
Personnel expenses /gross income	55.2	46.8	---	45.2	39.3	---
ROA (return on assets)	1.2	2.1	---	1.7	1.7	---
ROE (return on equity)	24.8	20.6	---	29.8	23.7	---
Liquidity						
Liquid assets to total assets	41.4	38.5	34.9	50.5	43.2	39.6
Liquid assets to short term liabilities	239.9	224.9	203.3	237.6	235.3	213.3
Total (non-interbank) loans to Customer	69.7	66.9	66.0	51.9	61.8	60.8
Deposits						
Liquid Assets to Customer deposits	51.7	47.4	42.5	157.9	129.3	116.9

1. The regulatory capital is sometime lower than the core or Tier 1 capital if there are significant non-values in the bank portfolios.

2. Gross NPLs/gross loans.

3. NPLs net of provision/outstanding loans.

Table 7. Cameroon: Millennium Development Goals, 1990-2008

	1990	1995	2000	2005	2008	2008 SSA
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	59.0	59.0	60.0	60.0	59.0	64.0
Employment to population ratio, ages 15-24, total (%)	37.0	37.0	37.0	35.0	33.0	49.0
GDP per person employed (constant 1990 PPP $)	3124.0	2407.0	2687.0	2901.0	2991.0	3235.0
Income share held by lowest 20%	..	6.0	6.0	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	18.0	..	18.0	17.0	17.0	25.0
Poverty gap at $1.25 a day (PPP) (%)	..	19.0	10.0	..	..	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	51.0	33.0	..	..	..
Vulnerable employment, total (% of total employment)	..	80.0	76.0	..	..	..
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	..	..	78.0	..	84.0	71.0
Literacy rate, youth male (% of males ages 15-24)	..	..	88.0	..	88.0	79.0
Persistence to last grade of primary, total (% of cohort)	..	..	44.0	59.0	57.0	..
Primary completion rate, total (% of relevant age group)	54.0	..	50.0	52.0	73.0	62.0
Total enrollment, primary (% net)	..	..	..	..	88.0	74.0
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	14.0	12.0	6.0	9.0	14.0	18.0
Ratio of female to male primary enrollment (%)	86.0	90.0	85.0	84.0	86.0	91.0
Ratio of female to male secondary enrollment (%)	71.0	..	80.0	79.0	80.0	78.0
Ratio of female to male tertiary enrollment (%)	..	..	64.0	66.0	79.0	..
Share of women employed in the nonagricultural sector	..	19.2	22.2	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	56.0	46.0	49.0	68.0	80.0	72.0
Mortality rate, infant (per 1,000 live births)	92.0	93.0	91.0	86.0	82.0	86.0
Mortality rate, under-5 (per 1,000)	149.0	149.0	147.0	138.0	131.0	144.0
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	140.0	132.0	126.0	116.0
Births attended by skilled health staff (% of total)	58.0	..	60.0	63.0	63.0	46.0
Contraceptive prevalence (% of women ages 15-49)	16.0	..	26.0	29.0	29.0	23.0
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1000.0	..	..
Pregnant women receiving prenatal care (%)	79.0	..	75.0	82.0	82.0	72.0
Unmet need for contraception (% of married women ages 15-49)	22.0	..	20.0	20.0	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	66.0	58.0	58.0	34.0
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	9.0	24.0	..	15.0
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	27.0	52.0	..	36.0
Incidence of tuberculosis (per 100,000 people)	81.0	116.0	168.0	202.0	187.0	352.0
Prevalence of HIV, female (% ages 15-24)	..	..	..	4.3	4.3	3.3
Prevalence of HIV, male (% ages 15-24)	..	..	..	1.2	1.2	1.1
Prevalence of HIV, total (% of population ages 15-49)	0.8	4.7	6.2	5.4	5.1	5.0
Tuberculosis case detection rate (all forms)	..	41.0	35.0	85.0	93.0	46.0
Goal 7: Ensure environmental sustainability						
Forest area (% of land area)	51.9	49.6	47.3	44.9	44	26.1
Improved sanitation facilities (% of population with access)	39	43	47	51	51	31.0
Improved water source (% of population with access)	49	56	63	70	70	58.0
Marine protected areas (% of total surface area)	..	..	..	1	0	0.0
Terrestrial protected areas (% of total surface area)	..	..	..	..	10	12.0
Goal 8: Develop a global partnership for development						
Internet users (per 100 people)	0.0	0.0	0.3	1.4	3.8	6.5
Mobile cellular subscriptions (per 100 people)	0.0	0.0	1.0	13.0	32.0	33.0
Telephone lines (per 100 people)	0.0	0.0	1.0	1.0	1.0	2.0

Source: World Development Indicators, The World Bank.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

CAMEROON

Joint Fund-Bank Debt Sustainability Analysis[1]

Prepared by the Staffs of the International Monetary Fund and
the International Development Association

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June 28, 2010

The joint IMF-World Bank low-income country debt sustainability analysis (LIC DSA) indicates that Cameroon's risk of debt distress continues to be classified as low. All external debt ratios remain well below the policy-dependent thresholds under the baseline scenario and the stress tests; public debt indicators also remain at comfortable levels. The low risk rating opens the possibility for some limited non-concessional borrowing. The lower capacity assessment however implies that concessionality of any new borrowing should continue to be assessed loan by loan. Strengthening debt management practices, enhancing nonoil revenue mobilization, and widening the export base remain advisable in light of the anticipated long-run decline of oil revenues.

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[1] Prepared by IMF and IDA staffs in collaboration with the Cameroonian authorities. Debt data, sustainability issues, and the new debt limit policy were discussed with the authorities in the course of the 2010 article IV consultation. This DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, January 22, 2010 (available at http://www.imf.org/external/pp/longres.aspx?id=4419 and http://go.worldbank.org/JBKAT4BH40). The analysis updates the 2009 DSA (IMF Country Report for Cameroon 09/318, available at http://www.imf.org/external/pubs/cat/longres.cfm?sk=23423.0). This DSA is conservatively undertaken on gross (as opposed to net) basis as no data on Cameroon's claims are available.

I. BACKGROUND

1. **This report updates the debt sustainability analysis (DSA) prepared in 2009 (IMF Country Report No. 09/318).** The baseline scenario reflects the latest IMF Article IV discussions with the authorities (March-April 2010). Since the 2009 DSA, Cameroon has been adversely affected by the global crisis through lower exports and a drop in prices for commodities. These developments have adversely affected GDP growth, with a sizable effect on both the balance of payments and the fiscal accounts. The impact of the crisis was however less than anticipated, thanks to the Cameroonian authorities' policy response as well as Fund assistance under the Rapid Access Component of the Exogenous Shocks Facility (RAC-ESF).

2. **The DSA is based on end-2009 data provided by Cameroon's authorities.** The debt data currently covers central government external debt, public-guaranteed debt, and an estimate of domestic debt. Despite efforts to improve debt statistics, the coverage of public enterprises' liabilities, contingent liabilities of financial institutions, and overdue claims of public enterprise and parastatal entities of the government remains uneven.

3. **Debt relief agreements with bilateral and most commercial creditors have been finalized.** To date, all bilateral agreements with Paris Club and non-Paris Club creditors have been signed. Agreements were also finalized with most London Club commercial creditors, whereby the stock of debt was reduced to US$1.24 million in 2009. The authorities are making every effort to settle the outstanding debt (0.06 percent of GDP), but are experiencing difficulties in engaging with some creditors either because of a lack of response from them or because they no longer exist as ongoing commercial entities.

4. **Cameroon's debt situation has sharply improved in recent years.** Its public debt-to-GDP ratio declined from 51.8 percent in 2005 to 9.6 percent in 2009 (US$2.16 billion), thanks to HIPC and MDRI relief in 2006 and prudent borrowing policies since then (Text Table 1).[2] Since the HIPC Initiative and MDRI debt relief, a further decline in external debt has reflected the following factors: (i) a reduction in net borrowing by public enterprises; (ii) the settlement of most outstanding loans by commercial creditors; and (iii) valuation effects due to changes in exchange rates. On domestic debt, substantial repayments were also made possible by the use of windfall gains from higher-than-expected

[2] Debt data, after the HIPC and MDRI, exclude the debt service to France under the Debt Settlement and Development Contract (C2D). A reassessment by Cameroon authorities of C2D related debt service accounts for most of the decline in external debt excluding C2D between 2008 and 2009.

oil prices in 2008. In 2009 however, a partial audit resulted in an upward revision of the stock of domestic debt.[3]

Text Table 1. Cameroon: Stock of Public Debt, 2008-09

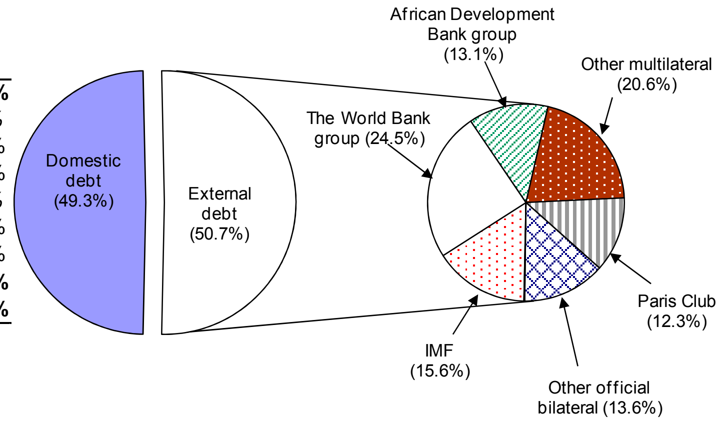
	Million of US $		Percent of total		Percent of GDP	
	2008	2009	2008	2009	2008	2009
Total	2,107.1	2,163.0	100.0	100.0	9.5	9.6
External	1,199.9	1,095.8	56.9	50.7	5.4	4.9
Domestic	907.2	1,067.1	43.1	49.3	4.1	4.8

Sources: Cameroonian authorities; and Bank-Fund staff estimates.

Figure 1. Cameroon: Public- and Publicly-Guaranteed Debt Structure, End-2009

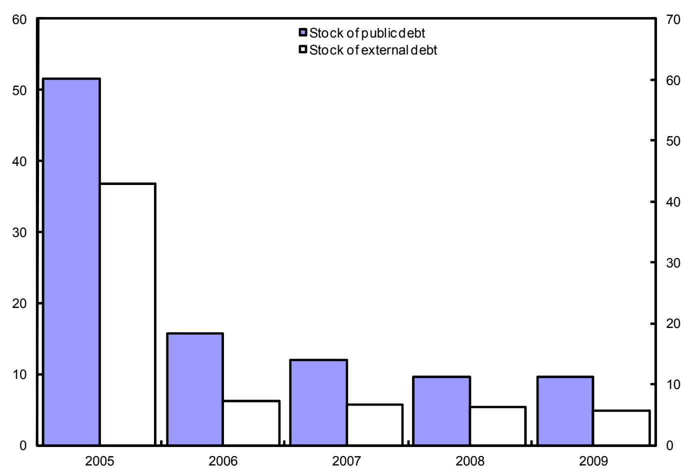
Domestic debt components

Structured debt	**62.0%**
Debt to banking sector	*18.8%*
Securitized debt to commercial banks	18.6%
Securitized debt to BEAC	0.1%
Non banking sector debt	*43.2%*
Securitized debt	14.0%
Non-securitized debt	29.2%
Non structured debt (arrears)	**19.9%**
New audited debt (2009)	**18.1%**



Sources: Cameroonian authorities; and Bank-Fund staff estimates.

Figure 2. Cameroon: Stock of public debt, 2005–2009
(Percent of GDP)



Sources: Cameroonian authorities; and IMF staff estimates.

[3] Until 2009 domestic debt primarily represented domestic arrears that were audited and rescheduled or securitized in 2005.

The composition of external public debt is currently skewed toward multilateral debt. Following HIPC and MDRI debt relief in 2006, the share of bilateral debt had become predominant. However, the share of multilateral lenders has increased in 2009 with the provision of Fund assistance under the RAC-ESF facility as well as IDA disbursements (Figure 1).

II. THE DSA BASELINE SCENARIO

5. **Relative to the previous DSA, the macroeconomic framework incorporates the impact of the crisis, but remains broadly unchanged regarding the medium and long-term perspectives.** More specifically, real GDP growth is expected to pick up over the medium term, reflecting increased investment and structural reform implementation. However, the aftermath of the international financial crisis has led to a downward revision of real growth projections. The export profile has been revised up, reflecting higher oil output projections and higher prices for key exports. The current account deficit is projected to remain volatile over the medium term, but then gradually improve over the longer term. The assumption is maintained that fiscal revenue will remain relatively flat, with improved nonoil revenue partly offsetting the projected decline in oil revenue. Over the medium term the nonoil primary balance is expected to deteriorate, reflecting the need to address considerable social and infrastructure needs. This deterioration would however occur against the background of windfalls from a temporary rebound in oil output, thus limiting borrowing requirements. New public borrowing (both domestic and external) is assumed to increase gradually over the medium term to help finance infrastructure investments. Growth-enhancing investment projects are also expected to be partly financed through foreign direct investment and other private capital flows.

Text Table 2. Cameroon: Key Macroeconomic Assumptions, 2010–30 (updated vs. previous DSA)[1]

	2010-11	2012–30
Real GDP growth (percent)		
Updated	2.7	4.6
Previous	3.3	5.1
Fiscal revenue (percent of GDP)[2]		
Updated	17.2	17.0
Previous	18.6	17.6
Exports (percent of GDP)		
Updated	25.6	25.2
Previous	23.5	23.5
Oil price (U.S. dollars per barrel)		
Updated	68.9	75.1
Previous	73.3	73.8

Sources: Cameroonian authorities; and IMF and World Bank staffs estimates.

[1] Previous DSA covers the period 2009-29.

[2] Total revenue including grants.

Box 1. Macroeconomic Assumptions for the Baseline Scenario[4]

Against the backdrop of a volatile oil production profile, the baseline annual growth, which is expected to be driven by the nonoil sector, has been revised downward in 2010-11 to around 2 ¾ percent (3.4 percent for the nonoil sector growth). Growth is expected to increase gradually to 4¾ percent by 2014 on assumptions of a temporary rebound in oil output, increased capital spending and structural reforms in the areas of business climate, provision of public goods and infrastructure, as well as more efficient public finance management. Longer-term growth is expected to average 4½ percent for 2016-30, driven by the nonoil sectors (agriculture, mining, and services). Consumer price-based inflation has eased in 2009 and is expected to hold steady at or slightly below 3 percent over the medium-term, in line with recent historical trend, and CEMAC convergence criteria.

Government revenues are projected to reflect the volatility of oil proceeds in the medium term. Non-oil revenues are expected to rise from about 13½ percent of non-oil GDP in 2009 to about 16 percent at the end of the projection period, reflecting sustained implementation of measures to strengthen tax and customs administrations. Government expenditures are expected to rise in 2010-11, but stabilize around 18 percent of GDP in the longer-term. This path is consistent with a gradual increase in capital expenditure over the medium term, control of current spending growth, and a rise in pro-poor spending. The projected path is also assumed to be supported by improvements in public financial management, including expenditure allocation and execution in priority areas.

Current account deficit, including grants, is expected to rise in 2010-11 and narrow temporarily in 2012-14 in relation with an oil export peak. A constant real exchange rate is assumed over the long term projection period. The volume growth of nonoil exports (in particular timber, cocoa) is projected to remain high (close to 9 percent in 2011–30), offsetting petroleum exports gradual decline. Import volumes are projected to increase, as the acceleration of growth in 2011-16 would be associated with imports of equipment and intermediate goods, in relation with the implementation of infrastructure investment planned in the latest PRSP. The current account deficit is expected to be financed through foreign direct investment, external public loans, and other private capital inflows.

After a peak around 2½ percent of GDP in 2010-12 (reflecting in part the projected financing gaps for these years), new external borrowing is expected to slow down and remain around 1½ percent of GDP in the longer-term. The rate of debt accumulation remains well below the “speed bump” (5 percent of GDP annually) suggested by IMF debt policy guidelines.

A relatively high concessionality of new borrowing is assumed. IDA borrowing is assumed to constitute initially ¼ of new borrowing per year, with the remainder originating from other multilateral and bilateral creditors on less concessional terms. It is assumed that Cameroon will cross the IDA-only threshold by 2012, implying that disbursements from the Bank will also be on less concessional terms. In addition, it is expected that Cameroon will use in full the recent 2009 SDR allocations for the purpose of settling domestic arrears. While this does not impact the stock of debt, it does however impact the trajectory of interest payments.

[4] Estimates and projections are in CFA francs unless otherwise indicated. The baseline is consistent with the latest IMF *World Economic Outlook* assumptions and projections (May 2010).

III. External Debt Sustainability

Baseline Scenario

6. **The LIC debt sustainability framework is guided by country-specific debt burden thresholds for external debt, based on the strength of a country's policies and institutions.** These thresholds reflect the empirical findings that sustainable debt levels for a low-income country increase with the quality of its policies and institutions. Such quality is measured by the Country Policy and Institutional Assessment (CPIA) index, compiled annually by the World Bank. Cameroon now ranks as a 'weak performer' under the joint IMF/World Bank debt sustainability framework, based on its three-year moving average CPIA score.[5] The indicative external debt burden thresholds for countries in this category are a present value (PV) of debt-to-exports ratio of 100 percent, a PV of debt-to-revenue ratio of 200 percent, a PV of debt-to-GDP ratio of 30 percent, and debt-service-to-exports and revenues ratios of 15 and 25 percent, respectively.

7. **Cameroon's external debt appears sustainable.** Under the baseline scenario, all debt indicators remain below their thresholds through 2030 (Text Table 3 and Figure 3). However they increase significantly compared with the 2009 DSA as higher present value of debt reflects the fact that the current DSA template uses a lower discount rate than previously[6]. The gradual rise in the PV of debt-to-exports ratio reflects the assumption that Cameroon's borrowing policy will continue to be prudent and limited by absorption capacity.[7]

Text Table 3. Cameroon: Baseline Debt Ratios, 2010–30

	Thres-hold	2010	Medium term 2010–15	Long run 2016–30
External				
PV of debt-to GDP	30.0	5.5	8.1	12.3
PV of debt-to-exports	100.0	21.1	29.5	50.9
PV of debt-to-revenue	200.0	33.2	46.0	74.7
Debt service-to-exports	15.0	0.9	1.0	2.5
Debt service-to-revenue	25.0	1.4	1.6	3.7
Fiscal				
PV of debt-to-GDP		12.4	12.2	14.7
PV of debt-to-revenue		73.1	68.2	89.2
Debt service-to-revenue		7.1	8.3	8.2

[5] Cameroon's CPIA declined from 3.3 to 3.2 between 2005 and 2006 and remained at that level in 2007 and 2008, thus the average CPIA rating for Cameroon for the last three years is 3.2—a rating corresponding to weak performance. The downgrade was the result of deterioration in the following criteria: business regulatory environment; policies and institutions for environmental sustainability; structural policy cluster; and efficiency of revenue mobilization.

[6] The discount rate has been reduced from 5 percent in the 2009 DSA to 4 percent currently, in accordance with the latest LIC-DSA template.

[7] Insufficient institutional and administrative capacity has so far kept Cameroon from scaling up foreign-financed investment above 0.5 to 1 percentage point of GDP annually.

- The DSA baseline scenario assumes a combination of concessional external borrowing and BEAC financing to help fill the financing gaps associated with the resolution of domestic arrears. Repayment of external debt could cluster in 2015-19 as the 2009 ESF-RAC is amortized. Figure 3 shows that debt service ratios would further increase after 2020 but the debt situation would still be manageable.

Alternative Scenario and Stress Tests

8. Alternative scenarios and bound tests show that debt indicators remain below their thresholds through 2030.

- The historical average scenario, which is associated with past current account surpluses, is unlikely to occur, as oil production is expected to taper off in the next 20 years. This scenario shows a more optimistic debt ratio trajectory relative to the baseline. Thus, in terms of the risk assessment the historic scenario is not relevant and is therefore omitted from Figure 3.

- An export shock would be the primary source of increased debt vulnerability. The export stress-test suggested in the DSA template (exports growth in US$ terms in 2011-12 at 1 standard deviation below the 10 year historical average) represents a major shock in the case of Cameroon. Indeed, the 2000-09 reference period is volatile and incorporates a sizeable export decline in 2009. Hence, that stress scenario has exports declining by more than 8% in US$ terms in both 2011 and 2012 before returning to baseline. As a consequence, the PV of external debt to export ratio rises dramatically in the stress-test scenario (Figure 3.c.), without however breaching the 100 percent threshold.

IV. Public Sector Debt Sustainability

9. **The DSA baseline shows that public debt sustainability will be preserved.** It is assumed that new domestic debt will only be generated by issuance of government securities and BEAC financing. New government securities issuance in the domestic markets is assumed to start in 2010 (consistent with Government plans), at conditions similar to the issuance by Gabon of 2007. Issuance is thus projected to amount to about 1.8 percent of GDP in 2010, 0.9 percent in 2011 and at most ½ percent of GDP annually during 2012-18, before increasing again in outer years. In the baseline scenario, the public debt ratio will rise gradually over the long-term. This is initially driven by external borrowing, with domestic debt issuance picking up over the longer run. In sum, the PV of debt-to-GDP and debt-to-revenue ratios is expected to rise over time, yet debt service would stay at a comfortable level through 2030.

10. **Alternative scenarios and bound tests indicate that all debt sustainability indicators remain on stable paths and do not reveal particular vulnerabilities** (Table 2a). However, the scenario of a permanently lower GDP growth and the bound test

that stresses growth at one standard deviation below its historical average show the most sensitive debt dynamics relative to the baseline.

11. **Despite its low risk of debt distress, Cameroon has stepped up efforts to strengthen its debt management framework**. Following joint Bank-Fund technical assistance, the authorities are working to implement a new debt management strategy aligned with CEMAC guidelines. The authorities have themselves started producing a DSA and have formulated a medium-term debt management strategy for central government debt, which has been annexed to the budget law. A National Debt Committee has been instituted but remains to be installed. A partial audit of domestic arrears was conducted in 2009, and another one is planned in 2010.

V. Scope for Non-Concessional Borrowing

12. **Cameroon has some limited scope for non-concessional borrowing.** Small amounts of non-concessional borrowing are already incorporated in the baseline, as some commitments have been signed in 2009 and early 2010, for which disbursements are expected to be spread out over several years. Beyond that, staff has explored the possibility for Cameroon to borrow more on non concessional terms. In particular, under an alternative scenario (Figure 5), additional non-concessional borrowing is assumed to be required in order to accelerate the financing and execution of already identified infrastructure projects (as presented in the latest PRSP). Additional borrowing is set at FCFA 70 billion in 2010 (about 0.65 percent of GDP), and this amount of non-concessional borrowing is maintained until 2015. Cameroon is thus expected to continuously borrow on non-concessional terms over the medium-term, a realistic assumption in accordance with the new Fund debt limit policy. The terms and conditions of new non-concessional borrowing are assumed to be similar to those recently offered by a major bilateral lender, and still involve a significant grant element, although less than 35 percent. To be prudent, the new borrowing is not assumed to impact the DSA measures of repayment capacity (e.g. the growth rate is the same as in the baseline scenario).

13. **In that alternative baseline scenario, all debt indicators remain below their thresholds through 2030.** The bound test for the PV of debt-to-exports ratio reaches the threshold but avoids a breach in the export shock stress test. Cameroon's low risk rating is therefore not affected in this scenario, supporting the case for a non-zero limit on non-concessional borrowing in the context of World Bank operations (No such limit is required by the IMF in the absence of a Fund-supported program). Non-concessional borrowing should however remain linked to adequate evaluation of the underlying investment projects.

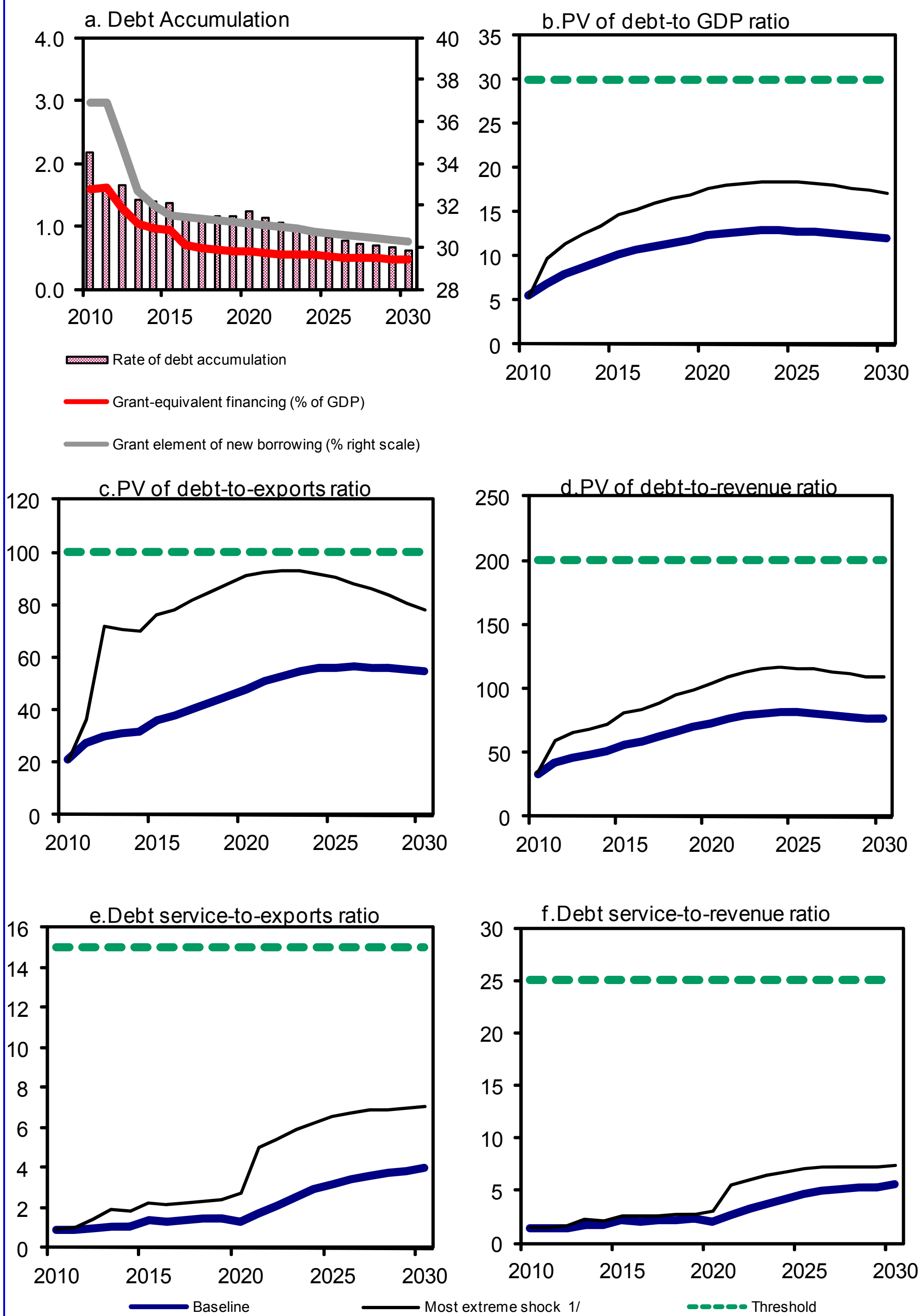
VI. Conclusion

14. **Cameroon's risk of debt distress remains low.** All external debt ratios remain well below the policy-dependent thresholds. However, because of the reassessment of the stock of domestic debt and ongoing new external borrowing, debt indicators are somewhat higher than in the 2009 DSA. Debt indicators rise under alternative scenario and bound tests, but not beyond country-specific debt burden thresholds, when assessing external sustainability, and remain at a comfortable level in regards to public debt sustainability.

15. **The authorities shared the low risk assessment.** As the removal of infrastructure deficiencies is considered a key priority, the authorities see the low debt vulnerability as providing some space for a reasonable increase in debt-financed investment. In that context, a moderate use of non-concessional borrowing is being considered for projects where concessional financing may not be available.

16. **However, persistent weakness in public finance management and insufficient data coverage suggest caution in assessing Cameroon's debt vulnerabilities.** These vulnerabilities include quasi-fiscal liabilities of state-owned enterprises and the build-up of new arrears since the 2005 audit, only partly quantified in a 2009 audit follow-up. The authorities' efforts to improve debt management could be reinforced by steps to ensure better coverage of public sector liabilities and by a new and more comprehensive audit of domestic unsettled payment obligations. In addition, continued efforts to achieve greater nonoil revenue mobilization and to widen the export base would be advisable, given the expected long-run decline in oil revenue.

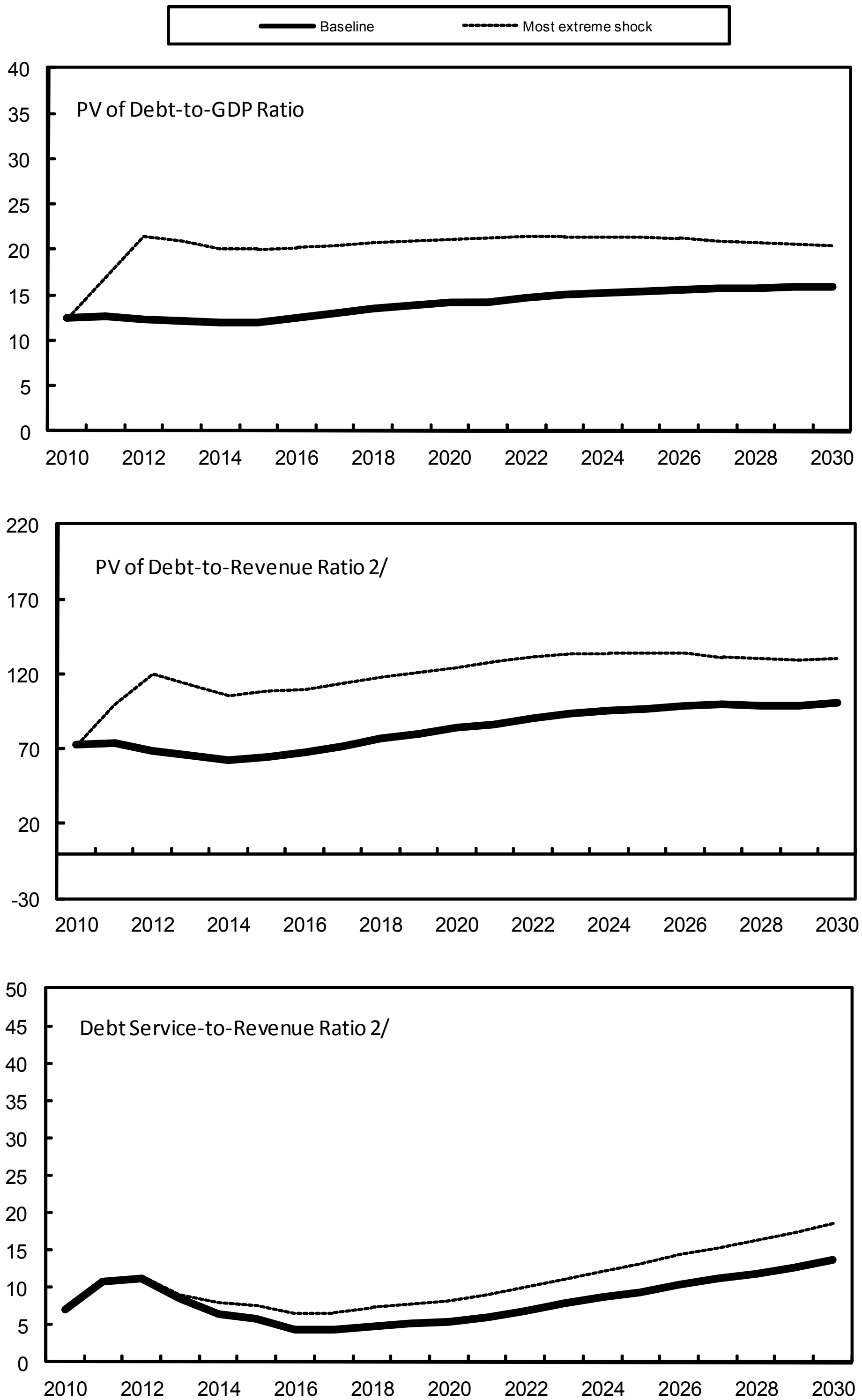
Figure 3. Cameroon: Indicators of Public- and Publicly-Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Source: Staff projections and simulations.

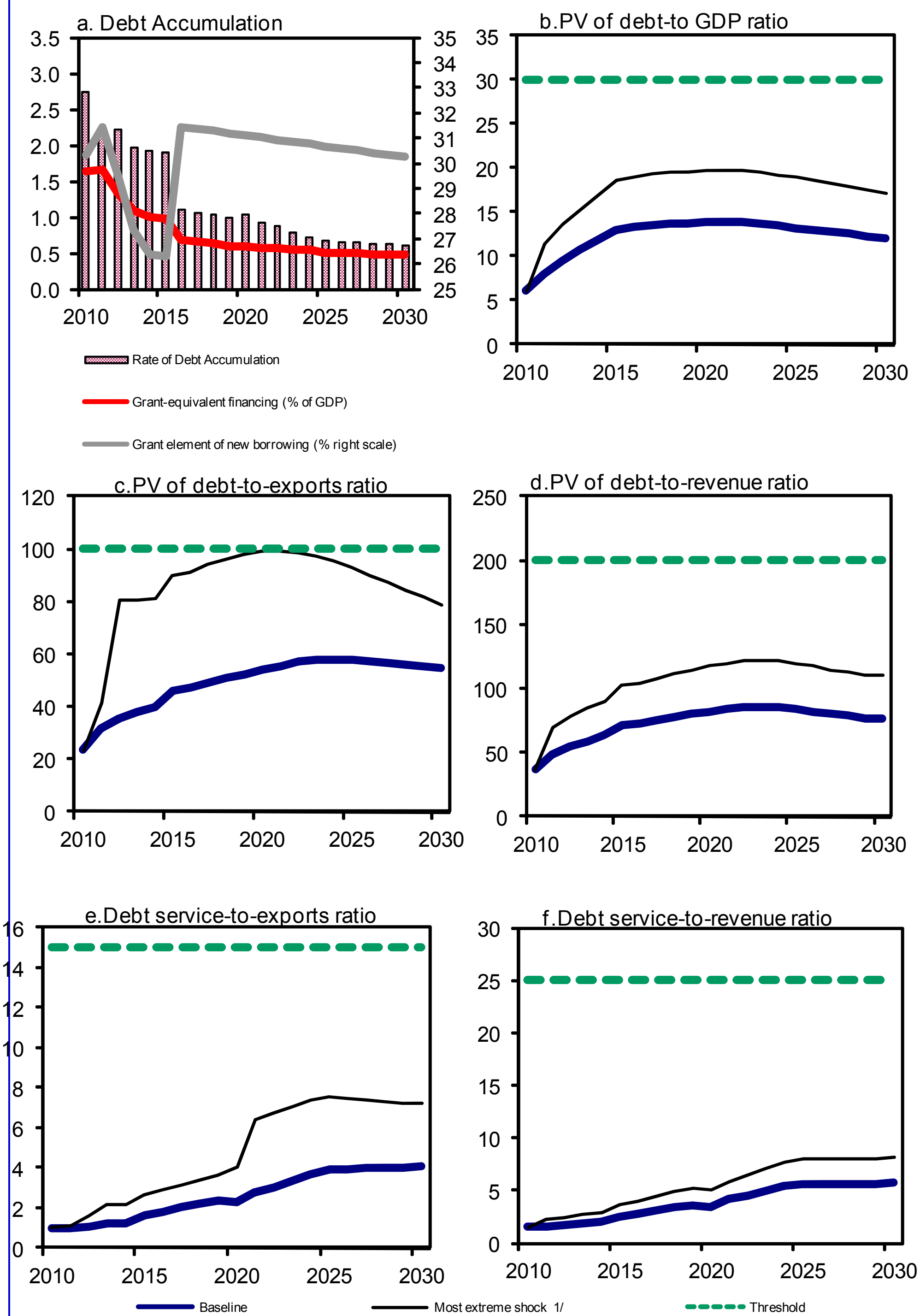
1/ The most extreme stress test is the test that yields the highest ratio in 2020. It corresponds to an Exports shock, except in (b) and (d) w here it is a One-time depreciation shock.

Figure 4. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Figure 5. Cameroon: Indicators of Public and Publicly Guaranteed External Debt under Non-Concessional Borrowing Scenarios, 2010-2030



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock.

Table 1a.Cameroon: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30
(In percent of GDP, unless otherwise indicated)

	Actual			2000-2009 Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	11.9	9.5	9.6			13.4	14.4	14.5	14.8	14.7	15.1		17.5	18.7	
o/w foreign-currency denominated	5.7	5.4	4.9			6.6	8.6	10.2	11.3	12.3	13.4		15.6	14.8	
Change in public sector debt	-3.8	-2.4	0.1			3.8	1.0	0.1	0.2	-0.1	0.3		0.4	0.0	
Identified debt-creating flows	-5.7	-3.2	0.0			4.0	2.0	0.6	-0.9	-1.5	-0.6		-0.3	0.1	
Primary deficit	-4.8	-2.4	-0.1	-6.2	9.8	2.1	1.6	0.7	-0.3	-0.9	-0.1	0.5	0.4	0.9	0.8
Revenue and grants	20.3	20.8	18.4			17.3	17.1	17.8	18.5	19.1	18.5		17.0	15.7	
of which: grants	1.2	0.9	0.8			0.8	0.7	0.5	0.4	0.4	0.3		0.1	0.0	
Primary (noninterest) expenditure	15.5	18.4	18.3			19.4	18.7	18.5	18.2	18.2	18.4		17.4	16.6	
Automatic debt dynamics	-0.9	-0.8	0.1			0.1	-0.5	-0.6	-0.6	-0.6	-0.5		-0.8	-0.8	
Contribution from interest rate/growth differential	-0.5	-0.6	0.0			-0.3	-0.4	-0.6	-0.6	-0.6	-0.5		-0.8	-0.8	
of which: contribution from average real interest rate	0.0	-0.3	0.2			0.0	0.0	0.0	0.1	0.1	0.0		0.0	0.0	
of which: contribution from real GDP growth	-0.5	-0.3	-0.2			-0.2	-0.4	-0.6	-0.6	-0.7	-0.5		-0.7	-0.9	
Contribution from real exchange rate depreciation	-0.4	-0.1	0.1			0.4	-0.1	-0.1	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			1.7	0.9	0.5	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.9	0.9	0.5	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.9	0.8	0.1			-0.2	-1.1	-0.4	1.1	1.5	0.9		0.7	-0.1	
Other Sustainability Indicators															
PV of public sector debt	9.4	6.2	4.1			12.4	12.7	12.3	12.2	11.9	12.0		14.3	15.9	
o/w foreign-currency denominated	0.0	0.0	0.0			5.6	6.9	8.0	8.8	9.5	10.3		12.3	12.0	
o/w external	...	...	...			5.6	6.9	8.0	8.8	9.5	10.3		12.3	12.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-28.3	-2.2	-0.6			3.3	3.5	2.7	1.2	0.4	1.0		1.3	3.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	46.6	29.8	22.4			72.0	74.2	68.9	65.7	62.3	64.8		84.1	101.0	
PV of public sector debt-to-revenue ratio (in percent)	49.5	31.1	23.4			75.6	77.3	70.8	67.2	63.5	66.0		84.7	101.2	
o/w external 3/	…	…	…			34.1	41.9	46.0	48.3	50.7	56.7		73.2	76.6	
Debt service-to-revenue and grants ratio (in percent) 4/	11.1	12.5	8.9			7.1	10.9	11.2	8.4	6.5	5.9		5.4	13.6	
Debt service-to-revenue ratio (in percent) 4/	27.5	13.3	9.2			7.4	11.3	11.5	8.6	6.6	6.0		5.4	13.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	-0.1	-0.2			-1.7	0.7	0.6	-0.5	-0.8	-0.5		0.0	0.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.2	3.3	2.9	3.5	1.0	2.6	2.9	4.5	4.6	4.7	3.5	3.8	4.6	4.9	4.6
Average nominal interest rate on forex debt (in percent)	1.1	1.4	1.4	3.1	2.0	1.6	1.5	1.5	1.4	1.4	1.3	1.5	1.3	1.2	1.2
Average real interest rate on domestic debt (in percent)	-2.7	0.5	-4.5	-0.9	2.3	-1.7	-0.1	1.2	2.5	3.4	4.4	1.6	5.5	4.2	4.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.9	-6.5	-2.2	-2.5	7.5	4.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.9	1.0	5.5	2.7	2.0	3.2	3.1	3.0	2.8	2.6	2.4	2.9	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	36.9	36.9	35.0	32.7	32.0	31.5	34.1	31.1	30.2	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ Central government excluding C2D (in gross basis).
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 2a.Cameroon: Sensitivity Analysis for Key Indicators of Public Debt, 2010–30

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
	PV of Debt-to-GDP Ratio							
Baseline	12	13	12	12	12	12	14	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	10	8	7	7	6	5	0
A2. Primary balance is unchanged from 2009	12	11	10	10	11	11	14	6
A3. Permanently lower GDP growth[1]	12	13	12	12	12	13	16	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	12	13	13	13	14	14	18	22
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	12	17	21	21	20	20	21	20
B3. Combination of B1-B2 using one half standard deviation shocks	12	13	13	13	13	14	17	20
B4. One-time 30 percent real depreciation in 2011	12	15	14	14	13	13	15	16
B5. 10 percent of GDP increase in other debt-creating flows in 2011	12	21	21	20	20	19	21	20
	PV of Debt-to-Revenue Ratio[2]							
Baseline	73	74	69	66	62	65	84	101
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	58	44	38	34	0	0	0
A2. Primary balance is unchanged from 2009	72	67	58	56	57	60	82	35
A3. Permanently lower GDP growth[1]	72	75	70	67	65	68	96	139
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	72	75	74	73	71	76	107	141
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	72	99	120	113	106	108	124	130
B3. Combination of B1-B2 using one half standard deviation shocks	72	74	74	72	70	74	100	127
B4. One-time 30 percent real depreciation in 2011	72	86	78	73	69	70	88	104
B5. 10 percent of GDP increase in other debt-creating flows in 2011	72	125	116	108	102	105	122	129
	Debt Service-to-Revenue Ratio[2]							
Baseline	7	11	11	8	6	6	5	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	11	11	1	1	0	0	0
A2. Primary balance is unchanged from 2009	7	10	6	4	2	4	6	4
A3. Permanently lower GDP growth[1]	7	11	11	9	7	6	7	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	7	11	12	9	8	8	8	19
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	7	11	12	20	20	12	8	19
B3. Combination of B1-B2 using one half standard deviation shocks	7	11	11	9	8	7	7	17
B4. One-time 30 percent real depreciation in 2011	7	11	12	9	7	7	7	19
B5. 10 percent of GDP increase in other debt-creating flows in 2011	7	11	14	33	10	17	7	19
	Debt Service-to-GDP Ratio							
Baseline	1	2	2	2	1	1	1	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	2	2	0	0	0	0	0
A2. Primary balance is unchanged from 2006	1	2	1	1	0	1	1	1
A3. Permanently lower GDP growth[1]	1	2	2	2	1	1	1	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	1	2	2	2	2	1	1	3
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	1	2	2	4	4	2	1	3
B3. Combination of B1-B2 using one half standard deviation shocks	1	2	2	2	2	1	1	3
B4. One-time 30 percent real depreciation in 2008	1	2	2	2	1	1	1	3
B5. 10 percent of GDP increase in other debt-creating flows in 2008	1	2	2	6	2	3	1	3

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

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

2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2007–30[1]
(In percent of GDP, unless otherwise indicated)

	Actual			2000-2009 Average	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal)[1]	**5.7**	**5.4**	**4.9**			**6.6**	**8.6**	**10.2**	**11.3**	**12.3**	**13.4**		**15.6**	**14.8**	
o/w public and publicly guaranteed (PPG)	5.7	5.4	4.9			6.6	8.6	10.2	11.3	12.3	13.4		15.6	14.8	
Change in external debt	-0.6	-0.3	-0.6			1.7	2.0	1.6	1.1	1.0	1.1		0.4	-0.3	
Identified net debt-creating flows	-3.0	0.6	1.4			3.1	3.1	1.6	0.2	-0.7	0.1		1.8	2.3	
Non-interest current account deficit	**-1.5**	**1.7**	**2.6**	**1.4**	**2.0**	**4.2**	**4.2**	**2.9**	**1.4**	**0.6**	**1.3**		**3.0**	**3.3**	3.4
Deficit in balance of goods and services	1.3	4.7	5.2			6.6	6.8	5.3	3.7	2.7	3.4		4.7	4.8	
Exports	31.0	31.1	24.0			25.9	25.3	26.7	28.4	29.7	28.4		25.7	21.9	
Imports	32.3	35.8	29.2			32.5	32.1	32.0	32.1	32.4	31.8		30.4	26.8	
Net current transfers (negative = inflow)	-2.3	-2.6	-2.2	-1.7	0.6	-2.0	-2.2	-2.0	-1.8	-1.7	-1.7		-1.2	-0.8	-1.1
o/w official	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	-0.4	-0.3	-0.4			-0.4	-0.4	-0.4	-0.5	-0.5	-0.5		-0.4	-0.7	
Net FDI (negative = inflow)	**-0.9**	**-0.4**	**-1.6**	**-0.4**	**0.5**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**		**-0.8**	**-0.5**	-0.7
Endogenous debt dynamics[2]	**-0.7**	**-0.7**	**0.5**			**-0.1**	**-0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.3**		**-0.5**	**-0.5**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.2		0.2	0.2	
Contribution from real GDP growth	-0.2	-0.1	-0.1			-0.1	-0.2	-0.4	-0.4	-0.5	-0.4		-0.6	-0.7	
Contribution from price and exchange rate changes	-0.6	-0.7	0.5			…	…	…	…	…	…		…	…	
Residual (3-4)[3]	**2.4**	**-0.9**	**-2.0**	**-4.7**	**9.8**	**-1.4**	**-1.1**	**0.0**	**1.0**	**1.7**	**0.9**	0.2	**-1.4**	**-2.6**	-2.1
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt[4]	...	...	3.3			5.5	6.9	7.9	8.7	9.5	10.3		12.3	12.0	
In percent of exports	...	...	13.7			21.1	27.1	29.7	30.8	31.9	36.2		48.1	54.7	
PV of PPG external debt	**...**	**0.0**	**3.3**			**5.5**	**6.9**	**7.9**	**8.7**	**9.5**	**10.3**		**12.3**	**12.0**	
In percent of exports	**...**	**0.0**	**13.7**			**21.1**	**27.1**	**29.7**	**30.8**	**31.9**	**36.2**		**48.1**	**54.7**	
In percent of government revenues	**...**	**...**	**18.7**			**33.2**	**41.8**	**45.9**	**48.2**	**50.6**	**56.5**		**73.2**	**76.6**	
Debt service-to-exports ratio (in percent)	**0.9**	**0.8**	**1.3**			**0.9**	**0.9**	**1.0**	**1.1**	**1.0**	**1.4**		**1.3**	**4.0**	
PPG debt service-to-exports ratio (in percent)	**0.9**	**0.8**	**1.3**			**0.9**	**0.9**	**1.0**	**1.1**	**1.0**	**1.4**		**1.3**	**4.0**	
PPG debt service-to-revenue ratio (in percent)	**1.4**	**1.2**	**1.8**			**1.4**	**1.4**	**1.5**	**1.7**	**1.6**	**2.1**		**2.0**	**5.6**	
Total gross financing need (Billions of U.S. dollars)	-0.4	0.4	0.3			0.8	0.8	0.5	0.2	0.0	0.2		1.1	2.9	
Non-interest current account deficit that stabilizes debt ratio	-0.9	2.0	3.2			2.4	2.2	1.2	0.3	-0.4	0.3		2.7	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.3	2.9	2.0	3.3	1.1	2.6	2.9	4.5	4.6	4.7	3.5	3.8	4.6	4.9	4.6
GDP deflator in US dollar terms (change in percent)	10.2	12.9	-8.3	5.9	8.6	-2.8	0.2	2.5	2.3	2.1	1.9	1.0	2.0	2.0	2.0
Effective interest rate (percent)[5]	1.4	1.4	1.6	2.6	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.4	1.3	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	20.4	16.3	-27.7	8.1	16.3	7.6	0.6	13.1	13.5	11.9	0.8	7.9	4.1	6.2	4.9
Growth of imports of G&S (US dollar terms, in percent)	24.7	28.5	-23.5	9.0	14.1	10.8	1.7	6.9	7.1	8.0	3.6	6.4	5.3	5.8	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.9	36.9	35.0	32.7	32.0	31.5	34.1	31.1	30.2	30.8
Government revenues (excluding grants, in percent of GDP)	19.1	20.0	17.6			16.5	16.4	17.3	18.1	18.7	18.2		16.8	15.7	16.5
Aid flows (in Billions of US dollars)[6]	0.2	0.2	0.2			0.6	0.6	0.6	0.5	0.5	0.5		0.5	0.8	
o/w Grants	0.2	0.2	0.2			0.2	0.2	0.1	0.1	0.1	0.1		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.4	0.5	0.5	0.4	0.4	0.4		0.4	0.7	
Grant-equivalent financing (in percent of GDP)[7]	...	...	...			1.6	1.6	1.3	1.0	1.0	0.9		0.6	0.5	0.6
Grant-equivalent financing (in percent of external financing)	...	...	...			54.5	50.6	45.8	44.2	43.0	41.3		36.0	32.1	35.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	20.4	23.7	22.2			22.1	22.8	24.4	26.1	27.9	29.4		40.3	78.0	
Nominal dollar GDP growth	13.8	16.1	-6.5			-0.3	3.1	7.1	7.0	6.9	5.5	4.9	6.7	7.0	6.7
PV of PPG external debt (in Billions of US dollars)			0.7			1.2	1.6	1.9	2.3	2.6	3.0		5.0	9.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.2	1.6	1.6	1.4	1.4	1.4	1.6	1.2	0.6	0.9

Source: Staff simulations.

[1] Includes both public and private sector external debt.
[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
[3] For 2009-2014, includes mostly changes in gross foreign assets and other valuation effects and contributions from prices. Marginal changes in the outer years include also exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
[4] Assumes that PV of private sector debt is equivalent to its face value.
[5] Current-year interest payments divided by previous period debt stock.
[6] Defined as grants, concessional loans, and debt relief.
[7] Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b.Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
	PV of debt-to GDP ratio							
Baseline	5	7	8	9	9	10	**12**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030[1]	5	6	8	10	13	15	**19**	**9**
A2. New public sector loans on less favorable terms in 2010-2030[2]	5	7	8	9	9	10	**12**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	5	7	8	9	10	11	**13**	12
B2. Export value growth at historical average minus one standard deviation in 2011-2012[3]	5	8	14	15	15	16	**17**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	5	7	9	9	10	11	**13**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012[4]	5	8	11	11	12	13	**14**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	5	8	13	13	14	15	**16**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011[5]	5	10	11	12	14	15	**18**	17
	PV of debt-to-exports ratio							
Baseline	21	27	30	31	32	36	**48**	55
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 [1]	21	25	30	36	44	53	**72**	42
A2. New public sector loans on less favorable terms in 2010-2030 [2]	21	27	30	31	32	36	**46**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	21	27	30	31	32	36	**48**	55
B2. Export value growth at historical average minus one standard deviation in 2011-2012[3]	21	36	72	71	70	76	**91**	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	21	27	30	31	32	36	**48**	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012[4]	21	33	40	40	41	45	**61**	59
B5. Combination of B1-B4 using one-half standard deviation shocks	21	32	53	52	52	58	**70**	65
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011[5]	21	27	30	31	32	36	**48**	55
	PV of debt-to-revenue ratio							
Baseline	33	42	46	48	51	57	**73**	77
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 [1]	33	39	46	57	70	83	**110**	59
A2. New public sector loans on less favorable terms in 2010-2030 [2]	33	42	46	48	50	56	**70**	77
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	33	42	47	50	52	58	**75**	79
B2. Export value growth at historical average minus one standard deviation in 2011-2012[3]	33	51	82	82	82	88	**103**	81
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	33	43	50	52	55	61	**79**	83
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012[4]	33	51	62	63	65	71	**85**	76
B5. Combination of B1-B4 using one-half standard deviation shocks	33	49	72	73	74	80	**95**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011[5]	33	60	65	69	72	81	**105**	109

Table 3b.Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
	Debt service-to-exports ratio							
Baseline	1	1	1	1	1	1	**1**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030[1]	1	1	1	1	1	1	**1**	5
A2. New public sector loans on less favorable terms in 2010-2030[2]	1	1	1	1	1	2	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	1	1	1	1	**1**	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012[3]	1	1	1	2	2	2	**3**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	1	1	1	1	**1**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012[4]	1	1	1	1	1	1	**2**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	1	1	2	**2**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011[5]	1	1	1	1	1	1	**1**	4
	Debt service-to-revenue ratio							
Baseline	1	1	1	2	2	2	**2**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030[1]	1	1	1	2	2	2	**2**	6
A2. New public sector loans on less favorable terms in 2010-2030[2]	1	1	2	2	2	3	**3**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	1	1	2	2	2	2	**2**	6
B2. Export value growth at historical average minus one standard deviation in 2011-2012[3]	1	1	2	2	2	3	**3**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	1	1	2	2	2	2	**2**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012[4]	1	1	2	2	2	2	**3**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	2	2	2	3	**3**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011[5]	1	2	2	2	2	3	**3**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline)[6]	30	30	30	30	30	30	**30**	30

Source: Staff projections and simulations.

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

[2] Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

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

[4] Includes official and private transfers and FDI.

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

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

INTERNATIONAL MONETARY FUND

CAMEROON

Staff Report for the 2010 Article IV Consultation

Supplementary Information

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

Approved by Seán Nolan and Jan Kees Martijn

July 12, 2010

1. **Significant policy developments have occurred since the Staff Report was issued.** The authorities are taking measures to address a number of problem areas highlighted in the staff appraisal. Staff welcomes these measures, while noting that several important issues remain to be addressed.

2. **On June 15, the government signed with the regional central bank a convention for the use of the 2009 general SDR allocation.** The government used the proceeds to clear CFAF 90 billion of its CFAF 98.3 billion payment obligations to the oil refinery, SONARA. To ensure a reduction of SONARA's exposure to banks, the Treasury in early July made direct transfers to the commercial banks involved, in amounts proportionate to each bank's exposure to SONARA. The remaining government overdue obligations to SONARA are to be cleared in the coming days. With this operation, a source of systemic risk to the banking system has been mitigated.

3. **The authorities are developing a revised 2010 budget that incorporates several recommendations of the staff.** They have revised down current spending on goods and services; made a realistic budgetary provision for subsidies to the oil refinery; postponed the start of some non-priority capital projects; and included a provision for government participation in the recapitalization of a distressed bank. These planned revisions go in the direction recommended by staff, but there is still a projected financing gap of 1.6 percent of GDP, down from 1.9 percent in the staff report. When the revised budget has been finalized, the authorities intend to adopt it by Presidential Decree and present it later to the National Assembly for ratification. Staff is collaborating closely with the authorities, and continues to encourage them to further reprioritize spending programs; to keep a tight control over budget execution; and to conduct a comprehensive audit of all outstanding government obligations.

INTERNATIONAL MONETARY FUND
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Cameroon

On July 14, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cameroon.[1]

Background

Cameroon's macroeconomic stability was strengthened under the PRGF arrangement completed in January 2009, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Reduction Initiatives firmed up debt sustainability. However, despite the country's vast potential, its growth performance in recent years has remained constrained by poor infrastructure, unfavorable business environment; limited absorption capacity; a shallow financial sector; and obstacles to trade. In per capita terms, real GDP stagnated in 2005-09, and the incidence of poverty remained broadly unchanged. Cameroon is highly dependent on commodities for export earnings and fiscal revenues and thus remains vulnerable to external shocks.

The global crisis slowed the pace of Cameroon's economic activity in 2009, mainly via lower demand and prices for some of the main exports. Real GDP growth decelerated to 2 percent, from 2.9 percent in 2008. The impact on external accounts was, however, less than anticipated, in part because some nonoil exports have rebounded. As a result,

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

the external current account deficit widened by about 1 percentage point of GDP and the overall external balance remained positive.

The overall budget deficit, on a cash basis, was limited to 0.2 percent of GDP in 2009, despite a shortfall in total revenue. However, the composition of expenditure shifted from capital to current spending. In addition, public financial management worsened significantly as there was a surge in unsettled government payment obligations, including delayed payment for losses incurred by the national oil refinery, unsettled payment orders, and expenditure for which services have been provided but no payment orders issued. Banking system soundness deteriorated, reflecting both public financial management and regulatory problems that have heightened excessive credit concentration, as well as the impact of the global crisis.

Cameroon's economic outlook is likely to improve, as a result of the expected recovery of the global economy, the projected increase in public capital spending, and the ongoing initiatives to improve the business climate. Barring new exogenous shocks, real GDP growth is projected to gradually increase from 2.6 percent in 2010 to above 4.5 percent in 2014, in part reflecting the coming to fruition of recent investments in the oil sector. Inflation is expected to remain below 3 percent, in line with the regional convergence criterion. There are, however, downside risks to these projections, should the global economic recovery prove to be weaker or slower than anticipated.

Executive Board Assessment

Executive Directors welcomed the incipient signs of growth recovery in Cameroon, following the adverse impact of the global financial crisis. Growth is expected to increase but there are significant downside risks arising from uncertain global economic recovery and issues related to the projected fiscal financing gap.

Directors expressed concern about weaknesses in public financial management as reflected in the surge in unsettled government obligations and the use of the National Hydrocarbon Company to fund spending operations. They emphasized that it was critical to strengthen expenditure and cash management to maintain fiscal and financial stability, ensure effectiveness of public spending, and enhance budget transparency. Directors commended the authorities for their efforts to assess the nature and level of outstanding payment obligations and settle a sizeable proportion of these obligations. They called for continued progress toward establishing effective mechanisms to track expenditure flows through the budget execution process and preventing new accumulation of domestic arrears.

Directors welcomed the steps being taken to address concerns about the viability of the 2010 budget. They encouraged the authorities to adopt resolute measures to close the remaining financing gap. In this regard, Directors considered it important to protect priority capital spending, make vigorous efforts to mobilize revenues, and gradually phase out fuel subsidies. They also stressed the need to avoid depleting the fiscal buffer of usable government deposits at the regional central bank.

Directors recognized that it was necessary to scale up public investment to address the severe infrastructure gaps which are constraining growth. They agreed that Cameroon's low risk of debt distress offers some space to accommodate such capital spending. At the same time, Directors underscored the importance of exercising prudence to preserve fiscal sustainability. They encouraged the authorities to work with the central bank to establish a regional security market, and rely, to the extent possible, on concessional resources to meet investment financing needs.

Directors noted that domestic banks were relatively insulated from the global financial crisis. They welcomed the recent corrective steps taken by the authorities to reduce bank exposure to the oil refinery. Given the still excessive concentration of bank exposure in a few large enterprises, protracted delays in settling government payments obligations and inadequate supervisory standards, Directors called for further determined actions to ensure financial stability. They encouraged the authorities, in collaboration with the regional supervisor, to closely monitor the evolution of bank vulnerabilities and promote a gradual adoption of best practices to mitigate concentration risks.

Directors emphasized that concrete measures were needed to tackle the structural impediments to growth. Addressing these challenges will require in particular improving the execution of public investment, making the business environment more attractive, strengthening governance and accelerating regional integration. In addition improving the quality and provision of fiscal, financial, and balance of payments data will be crucial.

Cameroon: Selected Economic and Financial Indicators, 2008–11

	2008	2009	2010	2011
	Act.	Est.	Proj.	Proj.
	(Annual percentage changes, unless otherwise indicated)			
National income and prices				
GDP at constant prices	2.9	2.0	2.6	2.9
Oil	-1.8	-15.3	-12.2	-10.2
Nonoil	3.2	3.0	3.3	3.4
GDP deflator	5.5	-3.3	3.2	3.1
Consumer prices (12-month average)	5.3	3.0	3.0	2.7
External trade				
Export volume	0.7	-4.8	-0.3	3.4
Of which: nonoil sector	1.7	-2.4	2.0	6.5
Import volume	5.8	-5.2	4.6	4.6
Terms of trade ("-" = deterioration)	-2.1	-15.0	9.2…	-4.3
Money and credit (end of period)				
Net domestic assets [1]	1.6	4.2	6.2	4.9
Net credit to the public sector [1]	-6.5	3.5	6.3	1.0
Credit to the private sector	19.6	7.1	7.1	8.1
Broad money (M2)	13.4	6.9	7.0	7.5
Central government operations				
Total revenue (excluding grants)	20.0	17.6	16.5	16.4
Nonoil revenue (percent of nonoil GDP)	13.7	13.5	13.7	13.9
Total expenditure	18.5	18.4	19.5	19.0
Fiscal balance (including net changes in arrears)				
Excluding grants	1.1	-1.1	-6.0	-2.8
Including grants	2.0	-0.2	-5.2	-2.1
Nonoil primary balance (percent of nonoil GDP)	-5.5	-4.9	-5.9	-5.0
External sector				
Current account balance (including grants)	-1.8	-2.7	-4.2	-4.3
imputed reserves (percent of broad money)	63.2	68.0	64.2	62.2
Public debt				
Total	9.5	9.6	13.4	14.4
External	5.4	4.9	6.6	8.6

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

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

Statement by Laurean W. Rutayisire, Executive Director for Cameroon

July 12, 2010

On behalf of my Cameroonian authorities, I would like to express my appreciation to the Executive Board and Management for their assistance to Cameroon in 2009 under the Exogenous Shocks Facility to help them cope with the adverse effects of the global financial and economic crisis on the Cameroonian economy. I would also like to communicate my authorities' appreciation to staff for their continued constructive policy dialogue and advice. They share the view that the staff report reflects the fruitful exchanges that took place in Cameroon in March-April and pursued in Washington DC in late April 2010.

Cameroon strengthened its macroeconomic performance under the last PRGF arrangement which was completed in January 2009. Following debt relief in 2006 under the HIPC Initiative and the MDRI, Cameroon has managed to maintain low ratios of external and total debt owing to prudent borrowing policies. Careful fiscal policy allowed a significant build up of government deposits at the regional central bank (BEAC) while enabling the authorities to raise investment and normalize relations with creditors. Nevertheless, Cameroon continues to face daunting growth challenges due to limited infrastructure and declining human capacity. Growth performance falls below the potential of the economy, which also remains vulnerable to exogenous shocks given the dependence of its exports on external demand and world prices. As a result of insufficient growth performance, economic indicators depict a fragile situation, even though efforts on the social front place Cameroon above the Sub-Saharan Africa averages in social indicators.

Addressing the infrastructure and human capacity needs will require significant investments in roads, electricity and telecommunications, as well as training and skills development, notably in the areas of agriculture and engineering. In particular, my authorities put great emphasis on the need to boost agricultural production, facilitate transport of products within the country and towards neighboring countries, thereby enhancing exports and nonoil growth and revenue. They also aim at promoting private sector development through efforts to clear arrears and enhance financial intermediation through financial sector deepening. These objectives and strategy have been laid out in their new poverty reduction strategy paper and are consistent with the recommendations by the Fund's Executive Board during the completion of the 2009 Article IV consultation.

In view of achieving their long-term objectives, my authorities are already taking steps to address the weaknesses identified in public financial management (PFM) and deal with the capacity constraints facing the economy. Regarding PFM, my authorities have pursued reforms in tax and customs administrations, notably by streamlining tax exemptions, improving the computerized customs system and introducing a GPS-based mechanism to track merchandise in transit and reduce tax evasion. Fully cognizant of the fiscal burden stemming from the current fuel subsidies, my authorities are reflecting on its overhaul, with the view to better target the most vulnerable segments of the population, while at the same time stressing the importance of garnering the necessary social consensus in order to prevent the king of social unrest that took place in 2008. On financial sector stability, my authorities acknowledge delays in settling payment obligations due to cash flow tensions. Building on the lessons learned, they continue to work closely with the regional supervisor (COBAC) to find an adequate and durable solution for the distressed bank with systemic importance, by seeking an investor with track record in banking activity. As regards structural reforms, steps have been taken in restructuring public companies in air transportation and postal services. My authorities have also stepped up efforts to improve governance and enhance the business environment with the involvement of the private sector, including through concrete measures designed during a forum for government-private sector dialogue. Moreover, they pursue discussions with regional partners within the CEMAC to further advance trade liberalization. My Cameroonian authorities will pursue their policy and reform agenda, fully recognizing the remaining weaknesses in the areas of PFM, data provision, and human capacity. They hope they can count on Fund's enhanced technical assistance to help them address these deficiencies. Furthermore, to help support the implementation of their overall agenda, my authorities intend to strengthen their cooperation with the Fund, in the form of a medium-term program which they need to reflect upon going forward.

I – RECENT DEVELOPMENTS AND PERFORMANCE

The global crisis has slowed the pace of economic activity in Cameroon, through trade and financial channels. This resulted in real GDP growth decelerating to 2 percent in 2009 from about 3 percent in 2008. To deal with the crisis, my authorities have used fiscal space to protect priority spending (investment, health, education) and support sectors in distress (forestry, cotton and agriculture) while containing the overall fiscal deficit. They have responded to the crisis by obtaining Fund assistance under the rapid access component of the ESF, and putting in place a three-pronged strategy aimed at reducing the vulnerability of the economy to exogenous shocks while maintaining macroeconomic stability. This strategy include: (i) stepping up efforts to increase nonoil revenue; (ii) improving PFM in order to achieve savings that can be reallocated to priority outlays; and (iii) developing alternative sources of domestic financing, notably through a domestic bond market, while strengthening the debt management capacity to preserve Cameroon's sustainable debt profile.

While recognizing that more efforts are needed to fully implement this medium-term agenda, my authorities share a more optimistic view than staff, and they view the implementation thus far of the related measures as being encouraging. In a difficult external environment and challenging domestic social conditions, they have maintained nonoil revenue in 2009 at around their level before the impact of the crisis (at 13.6 percent of nonoil GDP) and limited overall fiscal deficit at 0.2 percent of GDP; achieved some gains in PFM as indicated earlier; streamlined the number of tax forms; and strengthened efforts in the governance area, notably by stepping up cases of prosecution against misappropriation of public funds. They have also managed to preserve Cameroon's low risk of debt distress.
My authorities acknowledge however the deficiencies in PFM identified by staff as well as the resulting deterioration in the banking system soundness due to a permissive regional bank regulatory framework. As indicated earlier, my authorities seek a durable solution to the distressed bank for which an audit was completed and a restructuring plan is under consideration. More broadly, my authorities recognize the macroeconomic policy challenges

facing the Cameroonian authorities, and they continue to seek Fund technical assistance and policy advice in addressing them.

II – MEDIUM-TERM POLICY AND REFORMS

Going forward, my authorities strive to tackle the remaining PFM weaknesses—hoping to count on sustained Fund and other donor assistance—and reduce impediments to stronger growth by promoting a healthy and stable financial sector, favoring the development of a local bond market, boosting infrastructure, enhancing human resources and ensuring an investment climate conducive to the expansion of the private sector.

Public Financial Management

The authorities share staff's view on the need to correct the weaknesses in expenditure and cash management. In this vein, they have already undertaken adequate actions, notably a reconciliation of fiscal data between government departments with the view to gauge the level and nature of unsettled payment orders accumulated in recent years, and the settlement of a large part (70%) of those payment orders. They intend to use the SDR allocation to settle other payment obligations, notably those due to the national oil refinery, SONARA.

Furthermore, the authorities will address existing budget execution problems by implementing their medium-term plan for the modernization of PFM adopted in 2009. In the same context, they pursue efforts to enhance transparency, accountability and efficiency in the use of public resources.

To ensure realism of the budget, my authorities stand ready to make the necessary adjustments when required. For 2010, they are preparing a supplementary budget to take into account notably the need to prevent any further accumulation of arrears to the oil refinery, the government's participation in the recapitalization of the distress bank, the country's absorption capacity in the execution of public investment projects, and the limited depth of the domestic financial market in the issuance of government bonds. Following its approval by the government, the supplementary budget will be submitted to the Parliament in September for adoption.

Fiscal and Debt Sustainability

To ensure fiscal sustainability in the face of the considerable infrastructure needs which need to be addressed, my authorities emphasize the need to increase nonoil revenue through broadening the tax base, and in this vein, they share the recommendations laid out by staff in the areas of taxation of large enterprises and SMEs, tax and customs procedures, elimination of tax exemptions and special tax regimes, customs fraud and VAT compliance and refunds.

The space provided by the authorities' prudent debt management since the HIPC completion point allows for increased external borrowing to meet the country's public investment needs. At the same time, the authorities remain vigilant to ensure that the low risk of debt distress is preserved. In this vein, they have stepped up efforts to strengthen the debt management framework in accordance with the CEMAC guidelines and consistent with joint Bank-Fund technical assistance. They will put in place the National Debt Committee which has already been instituted.

Financial Sector Stability and Deepening

On financial sector stability, my authorities broadly agree with staff on the urgency of mitigating the risks posed by the protracted arrears to state-owned enterprises, which are compounded by the bank regulatory framework. Besides seeking solution to the unsettled payment orders mentioned above, they continue to work with COBAC in closely monitoring the evolution of banking sector vulnerabilities, notably systemic risks and bank exposures to major borrowers. They also engage the COBAC in strengthening the prudential ratios on risk concentration.

Moreover, my Cameroonian authorities will accelerate the implementation of their action plan—based on the recommendations of the 2007 FSAP update—to deepen financial intermediation. In the vein of mobilizing alternative sources of funding, they also pursue their plan to develop a local bond market.

Infrastructure and Capacity Building, Structural Reforms, and Economic Growth

Enhancing growth is the key pillar of Cameroon's new PRSP. In this vein, the authorities intend to tackle forcefully the key impediments, notably underinvestment in infrastructure, under-spending in human capacities, weaknesses in the business environment and insufficient trade integration. On the latter issue, they agree with staff advice to reduce the level and range of the common external tariff (CET), harmonize the rules of origin in supporting regional integration, streamline CET exemptions, and conclude a regional economic partnership agreement with the EU. They will continue to push forward issues of regional trade liberalization with their CEMAC partners.

III – CONCLUSION

My Cameroonian authorities continue to make progress in the implementation of reforms, in spite of a challenging international environment and difficult social conditions. To pursue their structural agenda, they intend to move to a new Fund-supported program articulated around the country's new PRSP. They view such medium-term program as the reflection of a homegrown strategy which needs to garner the broadest domestic consensus possible. In pursuing their objectives, my Cameroonian authorities continue to count on their close cooperation with the Fund and other development partners.