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Cameroon: 2011 Article IV Consultation—Staff Report; Debt Sustainability Analysis; Informational Annex; 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 2011 Article IV consultation with Cameroon, the following documents have been released and are included in this package:

- The Staff Report for the 2011 Article IV Consultation, prepared by a staff team of the IMF, following discussions that ended on March 31, 2011, 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 9, 2011. 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.

- Informational Annex.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 24, 2011 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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INTERNATIONAL MONETARY FUND

CAMEROON

Staff Report for the 2011 Article IV Consultation

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

Approved by Seán Nolan and Dhaneshwar Ghura

June 9, 2011

Consultation and team. The 2011 Article IV Consultation was held in Douala and Yaoundé (March 16–31).The mission team met with Prime Minister Yang, State Minister at the Presidency Esso, Finance Minister Menye, Economy Minister Motaze, BEAC National Director Mani, several other cabinet and parliament members, senior officials, the business community, representatives of labor unions and civil society organizations, and development partners. The team comprised Messrs. Mecagni (head), Nsengiyumva, Garcia-Verdu, and Ms. Bova (all AFR), Mr. Sacasa (MCM), Ms. Funke (FAD), and Mr. Kpodar (Resident Representative). Mr. Bah (OED) and staff of the World Bank and the African Development Bank participated in several meetings.

Background and consultation focus. The economy is recovering from the impact of the global crisis and inflation remains contained. However, problems in public financial management in 2009 recurred on a similar scale in 2010, and usable fiscal buffers have been eroded. The 2011 budget is under pressure from previous years' unsettled payment obligations and other arrears; increasing subsidies to support the freeze in retail fuel prices; and uncertainty in mobilizing domestic financing. Banking sector risks remain elevated because some local banks are financially weak. Policy discussions focused on necessary measures to (i) mitigate the risks to the 2011 budget and preserve fiscal sustainability; (ii) improve public financial management (PFM) practices; (iii) safeguard the stability of the financial system; and (iv) address key constraints to growth.

Policy advice. Recommendations include: (i) minimize 2011 budget risks by implementing a strict treasury plan that takes into account government payment obligations and by initiating the new bond issuance as early as possible; (ii) strengthen public expenditure management, in particular, by conducting a comprehensive audit of government arrears, improving the tracking of spending flows, and enhancing execution capacity for public investment; (iii) closely monitor bank vulnerabilities, in collaboration with the regional supervisor, and define a coordinated strategy to resolve the situation of financially weak banks; and (iv) promote faster economic growth by improving the business climate and tackling infrastructure bottlenecks, while safeguarding debt sustainability with a prudent borrowing policy.

The authorities' position. The authorities were receptive to the staff assessment of fiscal and financial risks. They intend to implement a tight treasury management plan, accelerate the implementation of planned PFM reforms, and closely monitor developments in the banking sector. They were reluctant, however, to consider adjustment measures that could address the financing gap ahead of the October 2011 presidential elections, which will be followed by parliamentary elections in mid-2012.

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ACRONYMS

BEAC	Regional Central Bank (*Banque des Etats de l'Afrique Centrale)*
CBF	Cameroon Business Forum
CEMAC	The Central African Economic and Monetary Community (*Communauté Economique et Monétaire de l'Afrique Centrale)*
CET	Common External Tariff
CFA	African Financial Cooperation (Coopération Financière en Afrique
CGER	Consultative Group on Exchange Rates
CNDP	National Public Debt Committee
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)*
DSA	Debt Sustainability Analysis
FSAP	Financial Sector Assessment Program
IFC	International Finance Corporation
HIPC	Highly Indebted Poor Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MIRAP	Mission for the Regulation of the Supply of Staple Goods
MTEF	Medium-term Expenditure Framework
NFA	Net foreign assets
NOPD	Nonoil primary deficit
NPLs	Non-performing loans
PFM	Public Financial Management
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
RAC-ESF	Rapid Access Component—Exogenous Shocks Facility
REER	Real effective exchange rate
SDR	Special Drawing Rights
SEDEF	Unit for project feasibility studies and evaluation (Société d'Etudes et de Développement)
SME	Small and Medium Size Enterprise
SNH	National Hydrocarbons Company (*Société Nationale des Hydrocarbures*)
SONARA	National Oil Refinery (*Société Nationale de Rafinage*)
SSA	Sub-Saharanl Africa
TOFE	Fiscal Reporting Table
UPOs	Unsettled Payment Orders
VAT	Value-added Tax

I. Background: Weak Growth Performance and Stagnant Poverty Rates

1. **In recent years, Cameroon's growth performance has remained weak and the economy vulnerable to exogenous shocks.** Macroeconomic stability has been preserved, and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) helped firm up debt sustainability. However, there was no growth in per capita terms over the last five years, despite a relatively diversified productive base (Text Table 1 and Figure 1).[1] Poverty rates stagnated at close to 40 percent, with strong regional disparities and 87 percent of the poor living in rural areas (Figure 2). Growth has been constrained by underinvestment in critical infrastructure, an unfavorable business climate, poor public financial management, a shallow financial sector, and weak regional trade integration. The country has remained dependent on commodities for export earnings and fiscal revenues, and is thus vulnerable to external shocks, as shown during the recent global financial crisis.[2] Its nonoil government revenue, as a ratio to nonoil GDP, has remained lower than the average of other sub-Saharan African oil exporters (Figure 3).

Text Table 1. Cameroon: Economic and Social Indicators

	Cameroon	SSA
Economic indicators, average over 2006-10		
Real per capita GDP (U.S. dollars, at 2000 prices)	678.9	671.3
Real GDP growth (percent)	2.8	5.3
Real nonoil GDP growth (percent)	3.3	6.3
Real per capita GDP growth	0.0	3.1
Total investment (percent of GDP)	16.2	22.4
Social indicators, 2009		
Employment to population ratio, 15+, total (%)	59.0	64.0
Primary completion rate, total (% of relevant age group)	73.0	64.0
Ratio of female to male primary enrollment	86.0	91.0
Ratio of female to male secondary enrollment	80.0	79.0
Immunization, measles (% of children ages 12-23 months)	74.0	68.0
Mortality rate, under–5 (per 1,000)	154.0	130.0
Prevalence of HIV, total (% of population ages 15-49)	5.1	5.0
Improved water source (% of population with access)	74.0	60.0

Sources: IMF, African Department and WEO databases; and The World Bank, World Development Indicators database, 2010.

[1] All figures are at the end of the text.

[2] The impact of the crisis was mitigated by (i) measures taken in 2009 to protect distressed sectors (forestry and cotton); (ii) the recovery of world commodity prices as of mid-2009; and (iii) financial support from the IMF under the Rapid-Access Component of the Exogenous Shocks Facility (RAC-ESF).

2. **The political situation is currently stable.** However, social unrest (as seen in 2008) could re-emerge ahead of presidential (October 2011) and legislative (mid-2012) elections, given widespread poverty, youth unemployment, and increasing income and wealth inequalities.

Box 1. Cameroon: Response to Recent Fund Advice

Policy Area	Fund Advice	Outcomes
Fiscal policy and public financial management	(i) Protect priority capital spending; make efforts to mobilize revenues; gradually phase out fuel subsidies; and avoid depleting the fiscal buffer of usable government deposits.	(i) In 2010, the execution rate on capital expenditure remained low (75 percent); nonoil revenues were lower than programmed; fuel subsidies were not phased out; and usable deposits were almost depleted.
	(ii) Strengthen expenditure and cash management.	(ii) A Treasury Management Committee became operational, but domestic arrears problems continued.
	(iii) Establish an effective mechanism to track expenditure flows through the budget execution process.	(iii) An effective mechanism to track expenditure flows is not yet in place.
	(iv) Recognize the constraint imposed by accumulated unsettled payment obligations (UPOs) on resources for the following year budget, and adopt a budgetary treatment for committed spending for which no payment order has been issued (DENOs).	(iv) The 2011 budget program includes an allocation for the clearance of UPOs and foresees a mechanism to control DENOs.
Financial sector stability	In collaboration with the regional bank supervisor, monitor closely bank vulnerabilities and promote a gradual adoption of best practices to mitigate concentration risks.	Little progress has been made in dealing with local banks in weak financial condition.
Other structural reforms	Make the business environment more attractive; strengthen governance; and accelerate regional integration.	Efforts to improve the business climate were pursued by intensifying the dialogue with the private sector and implementing an agreed action plan. No concrete progress on regional integration.

3. **Data provision to the IMF is broadly adequate for surveillance, but important gaps exist in fiscal, external, 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 to be improved. Monetary data availability is subject to unusually long delays. The authorities have adopted and started implementing, with donors' technical assistance, a strategy for improving national statistics.

II. Recent Economic Developments: Gradual Recovery and Low Inflation, but Recurrent PFM Problems in 2010

4. **The economy continues to recover from the global crisis, and inflation remains contained.** Real GDP growth in 2010 is estimated at 3.2 percent, up from 2 percent in 2009, despite a sizeable drop in oil output. The recovery is driven by nonoil, export-oriented sectors, reflecting external demand and tax incentives granted by the authorities to boost production in agriculture and forestry. Average annual inflation was contained at 1.3 percent, compared with 3 percent in 2009 (Figure 4). Food price inflation was 2.3 percent, down from 5.9 percent a year before, with the recent sharp increase in international commodity prices having so far a limited impact.[3]

5. **External accounts have benefited from the rebound in export demand**. This generated an increase in 2010 of 3.5 percent in nonoil export volume. In contrast, import volume growth is estimated at 8.2 percent, in response to domestic demand. The external current account deficit (including grants), at 2.8 percent of GDP, is estimated to have declined by about one percentage point of GDP.

6. **Fiscal accounts on a cash basis show a limited overall budget deficit in 2010.** Domestic revenue was close to the supplementary budget target (16.8 percent of GDP), because the oil revenue windfall generated by the recent oil-price surge compensated for a shortfall in nonoil revenue (0.6 percent of GDP). In terms of composition of spending, current expenditure was higher than budgeted (14.5 against 13.9 percent of GDP), while capital expenditure suffered from delays in issuing government bonds and mobilizing external financing, and from implementation capacity constraints. The deficit on a cash basis, after accounting for the clearing of outstanding government obligations accumulated in previous years, was relatively modest (2.3 percent of GDP) and below the 3.5 percent of GDP targeted in the supplementary budget (Text Table 2 and Table 3).

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[3] This is due in particular to good harvests for certain crops, the freeze of retail fuel prices, and the impact of price controls through understandings signed between the government and economic operators to keep a lid on retail prices and prevent shortages of basic goods.

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

	2008	2009	2010	
			Suppl. budget	Est.
		(In percent of GDP)		
Total revenue, incl. grants	20.8	18.4	17.4	17.4
Oil revenue	7.6	4.8	3.7	4.5
Nonoil revenue	12.3	12.7	12.9	12.3
Grants	0.9	0.8	0.8	0.6
Total expenditure	18.5	18.4	19.3	18.6
Current	13.1	14.2	13.9	14.5
Capital	5.5	4.2	5.4	4.1
Foreign-financed	0.9	0.7	1.4	0.9
Own-resources-financed	4.6	3.5	3.9	3.2
Selected payment obligations	-0.4	-0.2	-1.5	-1.1
Overall balance, incl. grants	2.0	-0.2	-3.5	-2.3
Memorandum Items:		(Percent of nonoil GDP)		
Nonoil revenue, incl. grants	13.7	13.5	13.9	13.3
Nonoil primary balance	-3.4	-4.9	-5.7	-5.7

Sources: Cameroonian Authorites; and IMF staff estimates.

7. **Some efforts were made to deal with the legacy of PFM problems incurred in 2009 and to rein in spending programs.** Budget data were reconciled between departments to assess the nature and level of unsettled payment orders (UPOs). Out of a total stock of CFAF 260 billion (2.5 percent of GDP) of UPOs at end-2009, CFAF 240 billion were cleared in 2010 through cash payment or accounts reconciliation. Most end-2009 arrears to the oil refinery were settled, through borrowing from the BEAC against the proceeds from the general SDR allocation.[4] In addition, a supplementary budget taking into account likely shortfalls in revenue and the need to reduce and reallocate expenditure was adopted by presidential decree in September 2010.

8. **However, budget execution in 2010 was affected by the same problems and on a similar scale** (Text Table 3 and Figure 5):

- Following the decision to keep retail oil prices stable despite the increase in world prices for petroleum products, arrears to SONARA at end-2010 amounted to some

[4]The Treasury made direct transfers to commercial banks in early July 2010, proportionate to each bank's exposure to the oil refinery. This removed a source of systemic risk for most commercial banks. The exposure of these banks had reached 80 percent of their capital on average, and in one case was three times the level of capital.

CFAF 136 billion (1.2 percent of GDP).[5] SONARA in turn accumulated tax arrears close to CFAF 45 billion to the government.

- The flow of UPOs on 2010 operations reached CFAF 250.6 billion (2.3 percent of GDP) by end-year, a level much higher than in 2009. The end-2010 stock stood at CFAF 271 billion (2.4 percent of GDP).
- Fiscal buffers were significantly eroded. The level of government usable deposits at the BEAC declined to the equivalent of 0.2 months of public spending at end-2010, from 1 month at end-2009. The near depletion of usable deposits reflected the lack of budgetary allocations (in the 2010 budget) for the clearance of pre-existing UPOs and the tight liquidity situation associated with delays in the first-time placement of government bonds (Box 2).[6]

Text Table 3. Cameroon: Government Arrears and Other Payment Obligations, 2008–10

	2008		2009		2010	
	Annual flows	End-year stocks	Annual flows	End-year stocks	Annual flows	End-year stocks
			(CFAF billions, unless otherwise indicated)			
A. Audited arrears from 2005-10[1]	-37.3	122.0	-17.0	195.0	-34.7	*178.3*
(In percent of GDP)	*-0.4*	*1.1*	*-0.2*	*1.9*	*-0.3*	*1.6*
B. Other payment obligations						
1. Obligations to SONARA[2]	79.5	93.8	4.5	98.3	*37.9*	*136.2*
(In percent of GDP)	*0.7*	*0.9*	*0.0*	*0.9*	*0.3*	*1.2*
2. Unsettled payment orders (UPOs)[3]	72.2	---	173.4	260.0	*250.6*	270.6
(In percent of GDP)	*0.7*	---	*1.7*	*2.5*	2.3	*2.4*
3. Validated DENOS	---	---	69.0	69.0	---	8.0
(In percent of GDP)			*0.7*	*0.7*	---	*0.1*
Total (B)	151.7	---	246.9	427.3	288.5	414.8
(In percent of GDP)	1.4	---	2.4	4.1	2.6	3.7
Memorandum items						
Payment of previous years' UPOs[4]	204.9		198.1		*240.0*	
(In percent of GDP)	*1.9*		*1.9*		*2.2*	
Government usable deposits[5]	*43.6*	224.9	-71.2	153.7	-120.4	*33.3*
(In months of total expenditure)		*1.4*		*1.0*		0.2

1. The 2009 partial audit unveilled a stock of CFAF 90 billion new arrears. These new arrears are included in end-2009 stock of audited arrears. A new partial audit conducted in 2010 revealed a stock of about CFAF 18 billion new arrears, which are included in end-2010 stock.
2. The government settled CFAF 90 billions of arrears to SONARA in July 2010. This is reflected in end-2010 government's obligations to the company.
3. UPOs accumulated by the central government excluding its decentralized services.
4. Payments of previous years' UPOs accumulated by the central government, including its decentralized services.
5. The end-2010 figure does not include earmarked proceeds from the 2010 bond issuance (CFAF 197.5 billion)

--- means not available.

[5] Out of an allocation of CFAF 120 billion for fuel subsidies in the 2010 supplementary budget, only CFAF 17 billion was paid to SONARA.

[6] Government deposits were boosted in December by the proceeds of the bond issuance (CFAF 197.5 billion, about 1.8 percent of GDP). These proceeds were, however, earmarked to specific infrastructure spending and thus not included as usable deposits.

Box 2: Cameroon's Experience with a First-Time Issuance of Government Bonds

The 2010 budget financing relied on the issuance of government bonds (CFAF 200 billion; about 1.8 percent of GDP) on the regional market. Because of delays in setting up the required infrastructure at the BEAC for such a market, the authorities decided to issue the bonds on the domestic market, through the Douala Stock Exchange. A syndicate of three local banks was selected to promote the operation.

Preparations were slower than expected. The decree authorizing the Minister of Finance to negotiate with the bank syndicate was signed in September, earmarking the proceeds to specific infrastructure projects.

The issuance operation was launched on November 18, and subscriptions were to take place in December. The terms of the issue were a maturity of five years, an interest rate of 5.6 percent, and a one-year grace period for repayment. The subscription outcome was officially validated on December 29 by the Financial Market Commission. Total subscriptions amounted to CFAF 203.2 billion, of which only the CFAF 200 billion authorized by the 2010 Budget Law were accepted. Intermediaries' fees and commissions (CFAF 2.5 billion, or 1.25 percent), left net proceeds of CFAF 197.5 billion, which were deposited in a special treasury account at the BEAC.

Notwithstanding he delays in preparation, the issuance was a success, paving the way for further mobilization of local savings in the future. The operation was however quite expensive, taking into account the relatively high interest rate.

Cameroon: Results of the 2010 Bond Issuance

Subscribers	Number	Amount Subscribed (CFA billions)
By category		
Individuals	649	11.2
Institutions, excl. banks	164	36.1
Banks	28	152.7
Total	841	200.0
By nationality		
Cameroon	817	157.7
CEMAC	16	42.0
Non-CEMAC	8	0.3
Total	841	200.0

9. **Conditions in the banking system are troubled,** reflecting (i) the difficult financial position of 3 out of the 12 commercial banks; (ii) excessive credit concentration and insufficient loan provisioning; and (iii) the impact of government domestic arrears on bank borrowers (Appendix II). Financial sector soundness indicators deteriorated in 2010, as shown by the drop in the system-wide average capital to risk-weighted assets ratio (from about 10 percent in 2009 to 7 percent in 2010), the increase in the ratio of nonperforming loans (NPLs) to total loans (from about 13 percent to 15 percent) and the decline in the ratio of provisions to NPLs (from 79 percent to 75 percent) (Table 6).

III. Medium-Term Outlook: Positive Growth Prospects with Balanced Risks

10. **Economic growth is expected to pick up gradually under current policies**. Real GDP growth in 2011 is projected at 3.8 percent and is expected to increase to 5 percent in 2014 (Text Table 4). The positive outlook is driven by the ongoing recovery of the global economy, the execution of infrastructure programs, and current initiatives to improve the business climate:[7]

- Oil production is expected to contribute to real GDP growth in 2012–14, with National Oil Company (SNH) projections pointing to a sizeable increase in production (about 23 percent on average during that period), followed by a resumption of the declining trend. The projected increase reflects the coming on-stream of ongoing investments, after successful exploration efforts during the last three years.
- Nonoil growth is to be supported by ongoing major projects to boost agricultural productivity and competitiveness, construction related to the public investment program, and implementation of planned measures to improve the business environment (Box 3).

11. **Inflation is expected to remain below the regional convergence criterion of 3 percent**. Ongoing initiatives to boost agricultural production and subsidize imports of food are likely to moderate the impact of world food prices. Inflation could, however, temporarily overstep the convergence target if the current policy of freezing retail fuel prices were to be revisited.

12. **The external current account deficit is projected to remain manageable, within the range of 3 to 4 percent.** The combination of gradual improvement in nonoil exports; a jump in oil production starting in 2012; and persistent high oil prices would tend to offset the expected increase in import volumes. A broadly stable current account deficit is expected to be financed mainly by private flows and new public foreign borrowing.

13. **Medium-term fiscal projections are predicated on continued efforts on the part of the authorities to strengthen revenue mobilization, contain nonpriority spending, and address infrastructure gaps.** A gradual strengthening in revenue mobilization is expected to improve the ratio of nonoil revenue to nonoil GDP by about 1 percentage point from 2011 to 2016. Efforts to tackle infrastructure bottlenecks should result in a sustained increase in capital spending, while maintaining the nonoil primary deficit

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[7] The baseline scenario assumes a gradual moderate increase in private investment from 12.6 percent of GDP in 2010 to 13.8 percent in 2016.

within the range of 5 percent to 6 percent of nonoil GDP to anchor the fiscal stance. A steady flow of oil revenue, resulting from the projected increase in oil production and high international oil prices, would gradually lower the overall budget deficit, turning it into a surplus after 2013. Projected new borrowing would increase total public debt from about 12 percent of GDP in 2010 to 15.5 percent in 2016 without jeopardizing debt sustainability.

14. **Risks to the medium-term outlook are broadly balanced.** These include (i) the uncertain pace and strength of the global recovery; (ii) a vulnerable banking sector that may generate fiscal liabilities and affect the real sector; and (iii) potential delays in the implementation of reforms in a protracted election environment. On the upside, a faster and more effective implementation of the new large public infrastructure projects would generate nonoil sector growth higher than projected under the baseline.

Text Table 4. Cameroon: Selected Macroeconomic Indicators, 2009–16

(Units indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
		Est.			Proj.			
Economic growth and prices								
Real GDP[1]	2.0	3.2	3.8	4.5	4.8	5.0	4.0	4.5
Nonoil real GDP[1]	2.9	4.0	4.4	4.0	4.2	4.4	4.5	4.6
Consumer prices (period average)[1]	3.0	1.3	2.6	2.5	2.5	2.5	2.5	2.5
Cameroon oil export price (US$ per barrel)	58	80	99	96	89	87	86	86
Oil output (thousands of barrels a day)	73	64	56	67	84	105	101	104
Private investment (percent of GDP)	12.4	12.6	13.0	13.2	13.4	13.6	13.7	13.8
Fiscal aggregates[2]								
Total revenue (incl. grants)	18.4	17.4	18.2	18.8	19.1	19.8	19.2	19.0
Of which: oil	4.8	4.5	4.7	5.2	5.4	6.0	5.2	5.0
nonoil[3]	13.5	13.3	13.7	14.0	14.2	14.4	14.5	14.5
Total expenditure	18.4	18.6	19.6	19.1	19.0	18.8	18.8	18.8
Of which: noninterest current	13.9	14.2	13.9	13.3	12.9	12.6	12.6	12.6
capital	4.2	4.1	5.3	5.5	5.8	5.8	6.0	6.0
Overall budget balance (incl. grants)	-0.2	-2.3	-4.8	-0.5	0.0	0.9	0.3	0.1
Nonoil primary fiscal balance[3]	-4.9	-5.7	-6.1	-5.5	-5.3	-5.1	-4.9	-5.0
Nonoil current balance[3]	-0.7	-1.6	-0.8	0.0	0.6	0.9	1.2	1.2
External sector[2]								
Current account (incl. grants)	-3.8	-2.8	-4.0	-3.3	-3.4	-3.0	-3.3	-3.0
Terms of trade[1]	-15.0	18.5	3.3	-1.4	-0.5	0.7	-5.4	-3.8
Total public debt	10.6	12.1	14.4	14.6	15.0	15.0	15.0	15.5
External public debt	5.5	6.5	6.5	7.3	8.5	9.7	11.0	12.2

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

[1] Percentage change.

[2] Percent of GDP.

[3] Percent of nonoil GDP.

IV. Policy Discussions: Maintaining Macroeconomic and Financial Stability and Fostering Growth

15. **The authorities recognize that pressures on the budget, the erosion of fiscal buffers, continued weaknesses in PFM and the financial sector have increased risks to macroeconomic stability.** Policy discussions therefore centered on (i) containing risks to the 2011 budget; (ii) improving PFM conditions; (iii) ensuring stability in the financial system; (iv) addressing infrastructure gaps while preserving debt sustainability; and (v) boosting competitiveness and economic growth.

A. Controlling Risks for the 2011 Budget

16. **The 2011 budget adopted in November 2010 was broadly as discussed with staff in September 2010** (Tables 2 and 3). The budget projects nonoil revenue to reach 14.1 percent of nonoil GDP (up from 13.3 percent in 2010), supported by new administrative and tax policy measures.[8] Expenditure will remain at 2010 levels (18.7 percent of GDP) with a constant level of overall subsidies (3.1 percent of GDP). A large increase in capital spending is compensated by declining current spending, mainly in goods and services. The overall budget deficit (2.6 percent of GDP), together with amortization of external and domestic debt (0.8 percent of GDP), is expected to be financed by (i) external project financing (1.3 percent); (ii) drawings from government deposits (0.4 percent);[9] and (iii) issuance of government bonds (1.3 percent) and treasury bills (0.4 percent).

17. **While the 2011 budget is benefiting from the oil price revenue windfall, it is coming under pressure from multiple factors, including:**[10]

- Arrears to the domestic oil refinery and increasing fuel subsidies. The 2011 budget did not incorporate an allocation to clear the stock of past obligations to the oil refinery (CFAF 136 billion at end-2010). Also, at current world market prices, maintaining the present retail fuel price policy will require a subsidy of about

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[8] The key measures foreseen in the 2011 budget and currently being implemented include (i) reversing temporary rate reductions granted to sectors hit by the global crisis in 2008–09; (ii) enforcing the special tax on tobacco and alcohol products; and (iii) reinstating VAT withholding at source procedures.

[9] At the time of the preparation of the 2011 budget, drawings from government deposits were projected on the basis of end-August 2010 stock, which was close to 1 percent of GDP.

[10] The authorities' decision in February 2011 to launch a special civil service recruitment of 25,000 new graduates is not among these factors. Staff concurred with the authorities that there is enough space in the budgeted wage bill for 2011 to absorb the cost of the new recruitment (estimated at about CFAF 15 billion).

CFAF 240 billion in 2011, CFAF 108 billion more than foreseen in the budget (Appendix I).

- Resources needed to clear remaining UPOs accumulated in previous years. The clearing of UPOs could require resources as high as CFAF 225 billion (out of a stock of about CFAF 271 billion at end-2010), taking into account the ongoing verification process. The budget provision is less than half of this amount.

- Costs linked to the "Mission for the Regulation of the Supply of Staple Goods" (MIRAP) and not incorporated into the budget. The institutional framework for this initiative is yet to become operational. According to its instituting decree, MIRAP has several mandates, including providing information on food market conditions, building and maintaining stocks, and supplying markets with staple goods at a 'fair' price level.[11]

- Potential expenditure overruns on goods and services spending to cover costs of the election process and other upcoming national events, in light of the 2010 experience (overruns reached 1.2 percent of GDP).

- Contingent claims from the restructuring of distressed banks. At present, these contingent claims are difficult to quantify and dependent on the authorities' ongoing asset recovery efforts.[12] The 2011 budget does not provide resources to cover this kind of expenditure.

- Uncertainty regarding the capacity of the regional market to absorb the second bond issuance.[13] The absorption capacity of the regional securities market is weakened by uncertainty surrounding the enforcement of the prudential standard for risk concentration.[14]

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[11] The fiscal cost of actions under the MIRAP initiative is uncertain at this moment.

[12] Recapitalization needs have been estimated at CFAF 60 billion (0.5 percent of GDP) for one distressed bank and are still uncertain in the case of two smaller banks also in weak financial conditions. Government contribution to the banks' recapitalization has been estimated tentatively at 0.2 percent of GDP in the staff fiscal projections for 2011.

[13] In light of this uncertainty, staff projections assume that one third (CFAF 50 billion) of the budgeted bond issuance could be placed on the regional market and subscribed by banks that did not take part in the first issuance.

[14] Regional regulations would require banks that took part in the first issuance for their own account to be barred from underwriting a second issue without first increasing their capital. Information on the potential impact is not yet available, but banks that have recorded the securities they hold as "transaction securities" have only six months before enforcement of the risk concentration ratios begins. The liquidity of government bonds

(continued…)

18. **Incorporating these risks in fiscal projections implies that there could be a residual financing gap of up to 2.7 percent of GDP**. To reduce the financing needs, staff advised the authorities to (i) clarify with the regional bank supervisor the ambiguous regulatory treatment of sovereign bonds in bank portfolios that could adversely affect demand for the new bonds and start preparing the 2011 issuance as soon as possible; (ii) implement a strict treasury plan and identify nonpriority spending that could be contained; (iii) step up administrative efforts to improve nonoil revenue collection; (iv) in case it becomes evident that the bond issuance is unlikely to be completed this year, start preparing a contingency plan involving postponement of new public projects and addressing the risk of accumulating new arrears, which could undermine future bond issuances; and (v) pursue a reassessment of the fuel price formula and, as soon as political conditions allow, gradually restore the automatic adjustment of retail fuel prices to international prices to reduce subsidies, redeploy the associated resources to achieve higher benefits for the poor through targeted social protection mechanisms, and avoid new arrears to the refinery (Appendix I).

19. **The authorities indicated their determination to implement a tight treasury management plan, but were reluctant to consider the adoption of further corrective measures ahead of the coming elections**. With a tight treasury situation, there is a significant risk of large domestic arrears accumulation and/or of further postponing the realization of public infrastructure projects. If materialized, this risk would result in disorderly fiscal developments, heighten financial sector vulnerabilities, and adversely affect economic growth. BEAC statutory advances remain a last-resort source of financing.[15] However, the use of statutory advances would send inconsistent signals at a time when BEAC is promoting the development of a regional market for government securities.

20. **The mission encouraged the authorities to accelerate the implementation of ongoing administrative reforms to widen the tax base.** Cameroon's nonoil revenue performance is still among the weakest in the region. 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. Actions should therefore be directed to (i) helping taxpayers through improved services offered by the medium- and small-enterprise tax payer centers; (ii) further simplifying tax and customs procedures; and (iii) rationalizing tax incentive schemes by formalizing eligibility criteria, and improving monitoring and evaluation of beneficiaries of such incentives.

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is also limited by the absence of a sizeable secondary market and of an option to refinance the bonds at the BEAC.

[15] Cameroon could still access up to CFAF 335 billion (2.8 percent of GDP).

B. Improving PFM Conditions

21. **Staff encouraged the authorities to strengthen public expenditure management and improve expenditure efficiency.** The authorities concurred that special attention should be paid to (i) tackling the existing stock of arrears and other payment obligations; (ii) preventing further accumulation of government payment obligations; (iii) strengthening cash management; and (iv) enhancing the quality of public spending.

22. **Staff welcomed the start of an exhaustive audit of arrears and other central government payment obligations.** The new audit follows four partial ones implemented in 2005–10, from which a stock of about CFAF 178 billion (1.6 percent of GDP) is outstanding. The mission stressed also the importance of defining and implementing a clear schedule for the gradual settlement of audited arrears.

23. **To prevent further arrears and payment obligations, staff recommended the following actions:**

- Establish a mechanism to monitor the level of commitments by (i) reducing the number of authorizing officers; (ii) recentralizing the management of budget commitments; and (iii) mandating a budget execution reporting system throughout the expenditure chain.
- Implement the 90-day rule for the definition of government arrears as recommended under the CEMAC directive.
- Maintain in future budgets the mechanism introduced in the 2011 budget to control DENOs by requiring that those accumulated by a public entity in the current year be paid the following year through the budget allocation for the entity responsible.
- Pursue ongoing efforts to prepare the monthly fiscal reporting table (TOFE) on a payment order basis, to improve the monitoring of payment obligations.

24. **There is also scope for improving cash management.** Staff recommended revising the current methodology used in preparing cash-flow plans by taking available information on the pipeline of outstanding spending commitments and UPOs into account systematically, in addition to budgeted expenditures. Staff emphasized also the need to abide by the single treasury account rule, notably by limiting the use of the SNH as a payment window for government operations.[16]

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[16] The mission estimated, in the absence of official data, that payments made by SNH on behalf of the government totaled almost 1 percent of GDP in 2010.

25. **The implementation of the medium-term plan for the modernization of public expenditure, adopted in 2009 with the support of donors, should be accelerated.** As progress so far remains insufficient, staff underscored the need to:

- Implement a concrete strategy to improve absorptive capacity for public investment programs, and build continuity for investment financing through multiyear commitment appropriations. Staff thus welcomed the authorities' plan to establish a central unit for project feasibility studies and evaluation (SEDEF), and encouraged using the incoming civil servants' recruitment to strengthen execution capacities.
- Ensure that the public procurement process is competitive and minimize the incidence of single-source contracts.
- Pursue efforts to make the medium-term expenditure framework (MTEF) operational to facilitate the translation of PRSP priorities into annual budgets.

C. Safeguarding Financial System Stability

26. **Staff reiterated the risks to public finances and the economy arising from banking sector vulnerabilities.** It noted that the longer the current situation in financially weak banks persists, the higher could become the costs to the government, and to the credibility of supervisory institutions.

- The authorities indicated their intention to pursue the restructuring of financially weak banks, notably through (i) recovery of loans granted to borrowers related to the main shareholders; (ii) removal of nonperforming loans; and (iii) recapitalization through reputable investors taking a majority share in the capital of banks involved. They underscored, however, the potential social and political costs associated with these restructurings.
- Staff advised the authorities to (i) closely monitor liquidity conditions to avoid any suspension of payments by these banks; (ii) require full loss absorption by previous shareholders; and (iii) pursue maximum recovery of loans owed by related parties to minimize the financial costs to the government.

27. **The authorities agreed on the importance of reviewing the regulatory framework and strengthening the supervision of financial institutions.** Weaknesses in the current framework for dealing with distressed banks have become increasingly apparent with respect to (i) delays in the coordination between regional and national authorities on corrective measures; (ii) lack of clear rules and triggers for intervention; (iii) long delays in legal procedures; and (iv) the significant opportunity for interference afforded to shareholders of insolvent banks. The authorities concurred with staff on the need to engage CEMAC members in (i) strengthening the regional supervisor's capacity; (ii) gradually reducing the prudential ratios for credit risk concentration; (iii) improving regulations on loan

provisioning to allow for earlier recognition of expected losses; and (iv) defining clear rules and decision mechanisms for the treatment of banks in difficulty.

28. **There has been some progress in removing obstacles to access to bank credit.** A central credit registry for banks is now in operation. A law on leasing, which would help improve access of SMEs to credit, was enacted in December 2010. The Ministry of Finance has established the obligation of publishing the list of licensed microfinance institutions. However, work remains to be done on establishing a central credit registry for microfinance institutions and improving contract enforcement by setting up a court for commercial matters and facilitating out-of-court settlements.

29. **Staff and the authorities discussed the risks of creating state-sponsored specialized financial institutions for agriculture and SME financing**. These inherently involve undiversified sectoral loan portfolios and risks of undue interference in their management. The authorities recognized these risks but noted that the current problems of access to credit could justify creating such institutions, with appropriate safeguards to address the weaknesses and avoid the failures experienced in the past.

D. Addressing Infrastructure Gaps while Preserving Debt Sustainability

30. **Efforts are underway to alleviate infrastructure bottlenecks in energy, roads, ports, water supply, and telecommunications.** Projects in these sectors are expected to be financed by a mix of external loans, domestic borrowing, and public–private partnership (PPP).[17] The authorities' agenda to raise public capital spending will initially translate into higher deficits and debt, but the resulting nonoil growth dividends should contribute to maintaining a sustainable fiscal position. Staff analysis indicates that keeping the nonoil primary deficit (in percent of nonoil GDP) in the range of 5 to 6 percent as an anchor for fiscal policy during 2011-16 would be consistent with maintaining a sustainable public debt profile and preserving a low risk of debt distress.

31. **While the DSA suggests Cameroon's risk of debt distress remains low, there are indications of vulnerability to external shocks.** Public debt indicators remain at comfortable levels, and external debt ratios are below the policy-dependent thresholds under the baseline scenario and most stress tests. However, in the case of a large export shock, the present value of external debt to exports ratio would result in small and temporary breach of the threshold.[18] In projecting new external borrowing, the DSA takes into account sizeable

[17] A legal framework on PPPs, in place since 2006, still needs to be improved as it lacks provisions for monitoring fiscal obligations of PPP contracts and for independent audits of PPP projects.

[18] This assessment is slightly different from the 2010 DSA, which found the projected external debt ratios under an export shock to approach but stay below the relevant threshold under the baseline scenario and all the stress tests.

new commitments that have been signed by the authorities in 2010 and in 2011, for which disbursements are assumed to be spread out over several years.[19] The authorities concurred with staff that avoiding renewed debt vulnerabilities would require keeping nonconcessional borrowing in check, strengthening debt management practices, and widening the export base.

32. **The authorities are committed to strengthening public debt management.** In this context, staff therefore emphasized the need to

- Strengthen monitoring by setting up a database on public enterprise debt (with and without government guarantee) and conducting periodic audits of domestic arrears.
- Enhance the capacity of the National Public Debt Committee (CNDP) to coordinate and monitor the implementation of the national public debt strategy.
- Continue to work with regional institutions to make the regional market for government securities fully operational.

E. Boosting Competitiveness and the Business Environment

33. **Staff's estimates based on four methodologies in line with the CGER approaches do not provide compelling evidence of real effective exchange rate (REER) misalignment** (Appendix III). The REER depreciated by about 6 percent in 2010 (annual average) following a depreciation of the nominal effective exchange rate by 4.5 percent (owing to the depreciation of the euro against other major currencies during most of the year) and a negative inflation differential (about 2 percent) between Cameroon and its trading partners. The country's external competitiveness is, however, clearly hampered by nonprice factors, especially a weak business environment.

34. **Staff welcomed the authorities' initiatives to strengthen the dialogue with the private sector, in particular the Cameroon Business Forum.** Efforts under way to improve governance and transparency of the government budget, and to hold managers of public resources accountable, could reduce the uncertainty surrounding the business and regulatory framework (Box 3). Staff emphasized the need to support these efforts with reforms preventing the accumulation of domestic government arrears.

[19] Since the beginning of 2010 through end-April 2011, the authorities have signed 30 borrowing agreements for a total amount equivalent to almost 6 percent of the 2010 GDP. At least fifteen of these new loans (about 4 percent of GDP) are nonconcessional.

Box 3. Ongoing Initiatives to Improve the Business Climate

The authorities' actions have been focused on (i) intensifying the dialogue with the private sector and implementing an agreed action plan; (ii) fighting corruption; and (iii) pursuing public enterprise reforms.

Implementing the action plan to improve business climate. With IFC assistance, the Cameroon Business Forum (CBF), created in 2009 as a platform for dialogue with the private sector, adopted a matrix of measures to be implemented in 2010–11. These include several actions focused on simplifying regulations and procedures for starting a business, paying taxes, dealing with commercial litigation, cross-border trading, obtaining construction permits, and property access and protection. A recent assessment concluded that half of the envisaged actions have been completed. In particular, the number of steps to start a business have been reduced; procedures for paying taxes simplified; services offered by the one-stop window for external trade have been improved; the time required for provision of construction permits has been shortened; laws on e-commerce were enacted; and regional one-stop windows for delivery of property titles were introduced.

Fighting corruption. Efforts in this area have intensified since 2009, leading to prosecution of high-level officials charged with misappropriation of public funds. The authorities also stepped up an anticorruption campaign.[1] These efforts have still to generate tangible results in international rankings.[2]

Public enterprise reforms. Progress has been mixed. The sale of 51 percent of the telephone company (CAMTEL) and the selection of a strategic partner were inconclusive, and a new divestiture strategy is being prepared. The restructuring of the postal service company (CAMPOST) is ongoing, and the government signed a partnership agreement with a foreign company in March 2010. The liquidation of the old public aviation company (CAMAIR) is being completed. A new national airline (CAMAIR CO) launched its operations in March 2011 under new management.

[1]The adoption of the national anti-corruption strategy is, however, pending.
[2]Cameroon's rank on the Corruption Perceptions Index of Transparency International was 146th out of 178 countries in 2010. The World Bank Governance Indicators continue to rank Cameroon in the bottom 25th quartile.

35. **Progress on trade liberalization could help boost a more diversified nonoil export base.** Private investment and productivity growth remain constrained by high customs duties and nonuniform implementation of regional trade regulations.[20] Progress needs to be made in regional negotiations on reducing the level and range of the common

[20] With tariff rates of up to 30 percent and an unweighted average of about 19 percent, the CEMAC CET rates are high in comparison with other countries and country groups, including those in Africa (See Kees Martijn and Charalambos G. Tsangarides, "Trade Reform in the CEMAC: Developments and Opportunities," IMF Working Paper 07/137).

external tariff (CET), harmonizing the rules of products' country of origin, and limiting CET exemptions. The authorities broadly agreed, but noted the slow progress in coming to an agreement with regional partners, and concerns over the potential reduction in customs revenues.

V. Staff Appraisal

36. **The economy is gradually recovering from the global crisis, and inflation remains contained.** While the overall macroeconomic situation is broadly stable, significant risks stem from (i) uncertainty on the strength and duration of the global recovery; (ii) persistent weaknesses in the public finances; (iii) increasing vulnerabilities in the banking sector; (iv) failure to reach the projected increase in oil production; and (v) possible delays in the implementation of needed reforms, given electoral concerns.

37. **Risks to the 2011 budget need to be urgently addressed.** The 2011 budget is under pressure from unsettled payment obligations and arrears to the oil refinery accumulated in 2010, rising subsidies to support the freeze in retail fuel prices, and uncertainty in mobilizing budgeted domestic financing through a second bond issuance. A sizable financing gap could materialize. Fiscal policy in 2011 should be guided by a reprioritization of current and capital spending and strict treasury management in order to close any residual financing gap while avoiding a further accumulation of domestic arrears or an undue compression of public investment.

38. **Improving PFM conditions and nonoil revenue mobilization remain critical to maintaining stability.** The authorities are encouraged to complete a comprehensive audit of outstanding arrears, strengthen treasury management, rebuild fiscal buffers gradually, and establish mechanisms to monitor the level of commitments and to improve the tracking of spending flows through the budget execution process. Scope exists for pursuing higher nonoil revenue by broadening the tax base, streamlining tax exemptions, and further increasing the efficiency of tax and customs administration.

39. **The authorities need to remain vigilant against banking sector risks.** The financially-weak condition of some domestic banks and the accumulation of unsettled payment obligations by the government continue to pose a risk to financial stability. In collaboration with the regional supervisory institution, the authorities are advised to take resolute steps to (i) monitor vulnerabilities through regular analysis of banking sector soundness indicators; (ii) promote a sound and rapid restructuring plan for banks in difficulty, while minimizing costs for the public finances; and (iii) champion a reform of the legal framework for bank resolution.

40. **Strengthening regional financial institutions remains a priority for Cameroon**. Staff encourages the authorities to continue to press for BEAC governance reforms, through their various representatives in the regional bank governance bodies, and to support BEAC's program to strengthen risk mitigating safeguards.

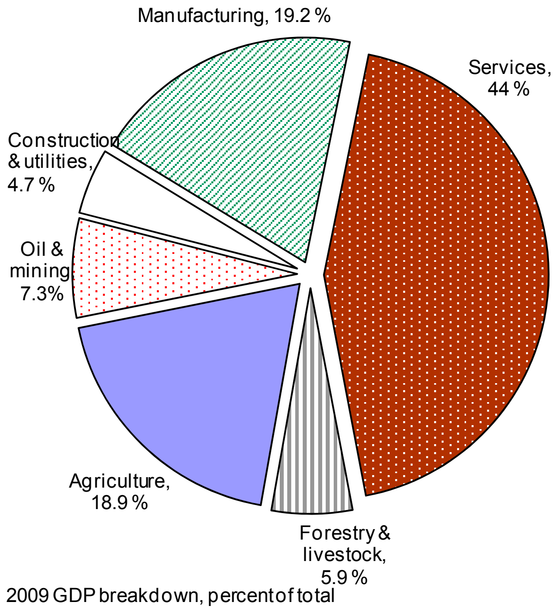
41. **Addressing the severe infrastructure gaps and improving the business climate are critical to achieving higher and sustained growth over the medium term.** Achieving these objectives will require defining and implementing a concrete strategy to raise the execution rate for public investment, deepening the dialogue with the private sector and implementing actions agreed within the Cameroon Business Forum, improving governance, and tackling corruption. Staff estimates do not provide evidence of exchange rate misalignment for Cameroon, but competitiveness remains hampered by a weak business environment and insufficient provision of public services.

42. **Maintaining a prudent borrowing policy is necessary to preserve debt sustainability.** The updated LIC-DSA shows that Cameroon's risk of debt distress remains low. However, the recent surge in nonconcessional borrowing to finance major infrastructure projects, if not used wisely, could jeopardize public debt sustainability in the medium to longer term. The authorities need to rely, to the extent possible, on grants and highly concessional loans for financing their investment program. They are also encouraged to work closely with regional institutions in developing a regional market for government securities, a key step in reducing vulnerability to external financing shocks.

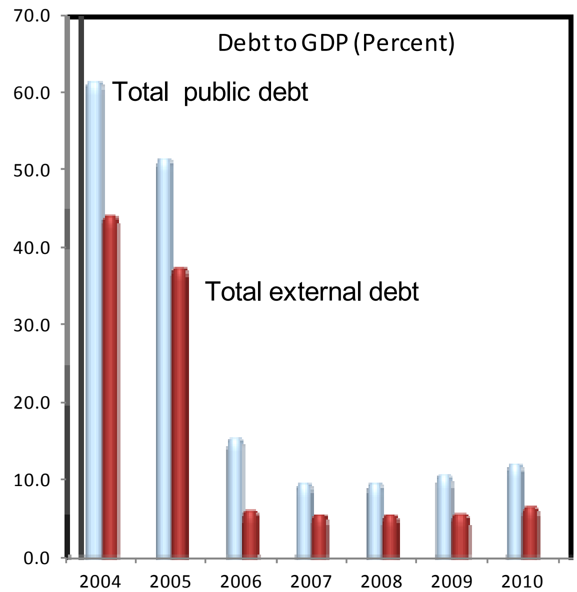
43. Staff recommends that the next Article IV consultation take place within 12 months.

Figure 1. Cameroon: Comparative Indicators and Economic Structure, 1980–2010

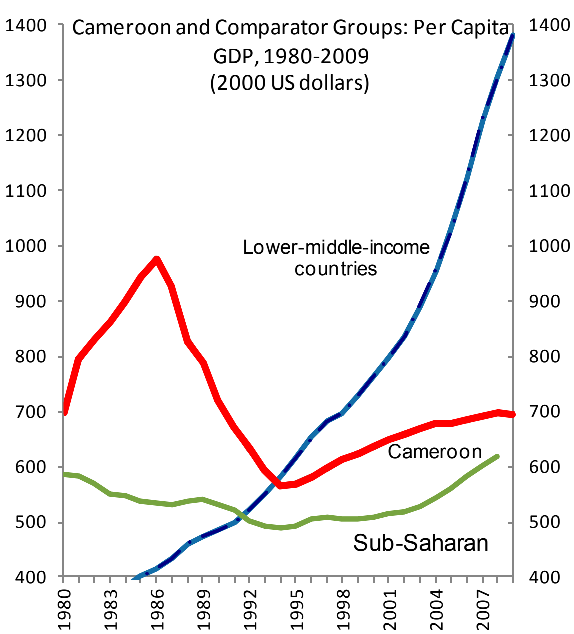
The Cameroon economy is relatively diversified.



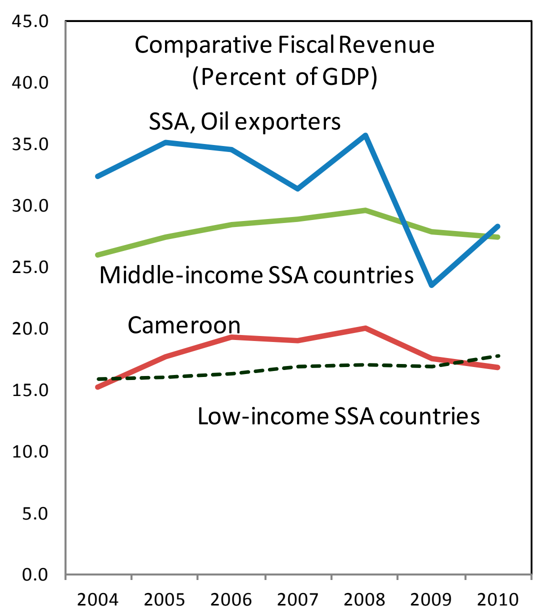
HIPC and MDRI relief obtained in 2006 provided some fiscal pace, ...



... however, growth has lagged increasingly behind comparator countries ...

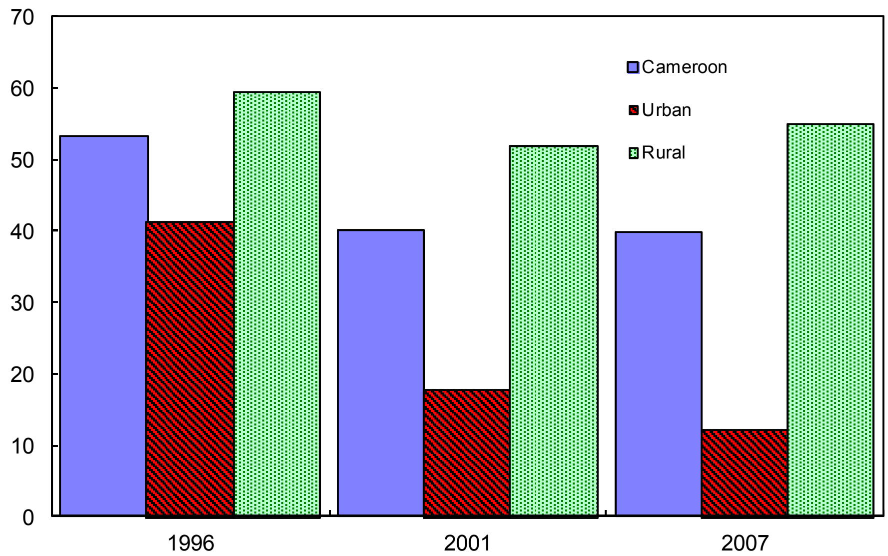


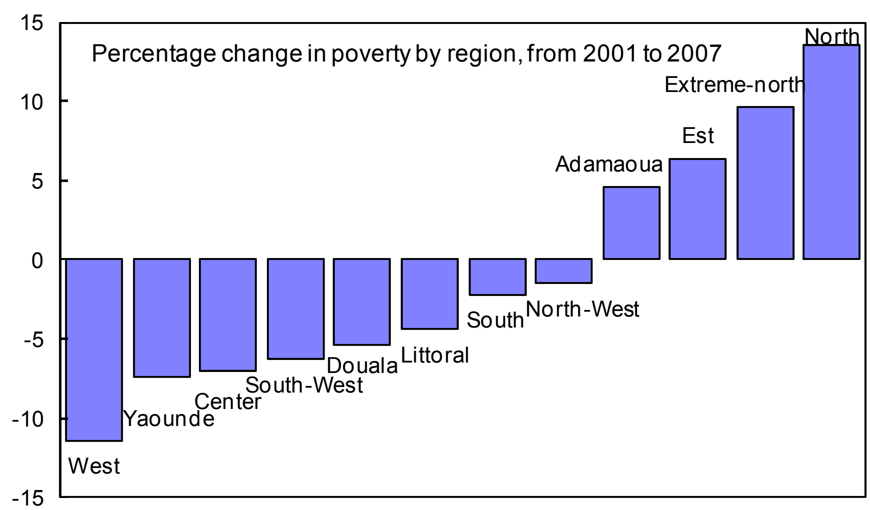
... and revenue collection remains relatively low.



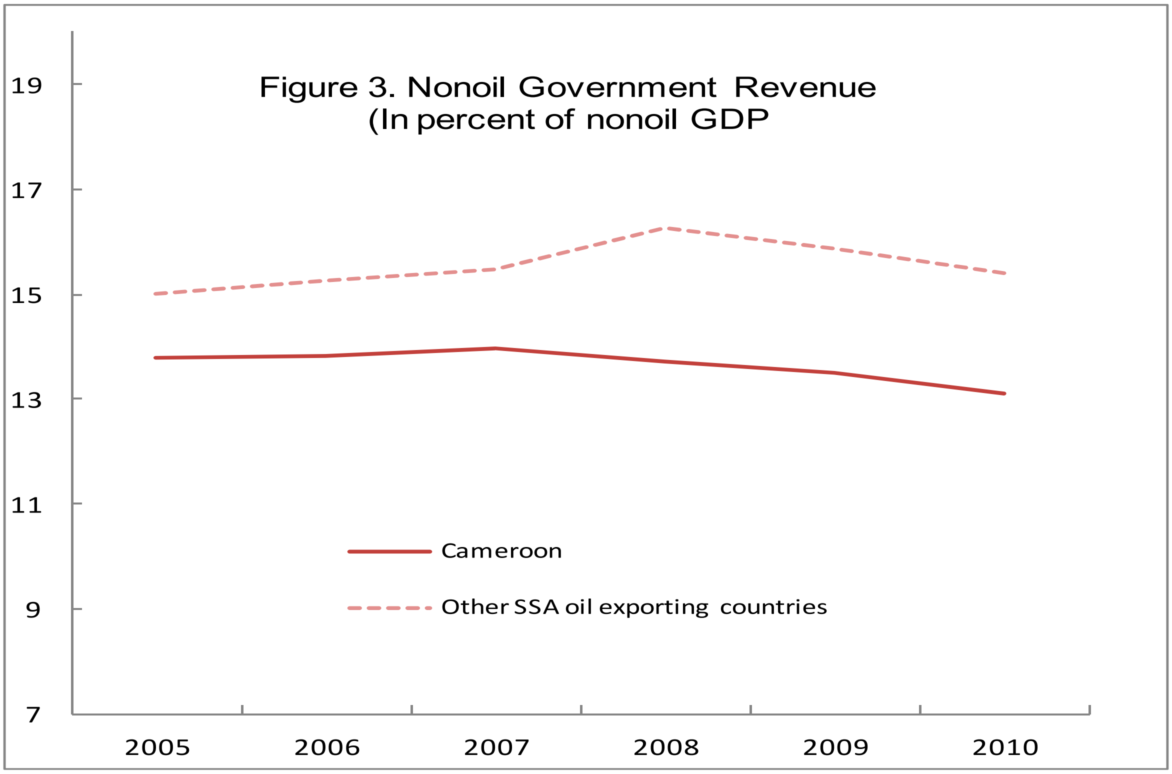
Sources: World Bank (WDI); Cameroonian authorities; and IMF staff estimates.

Figure 2. Cameroon: Evolution of Poverty, 1996-2007

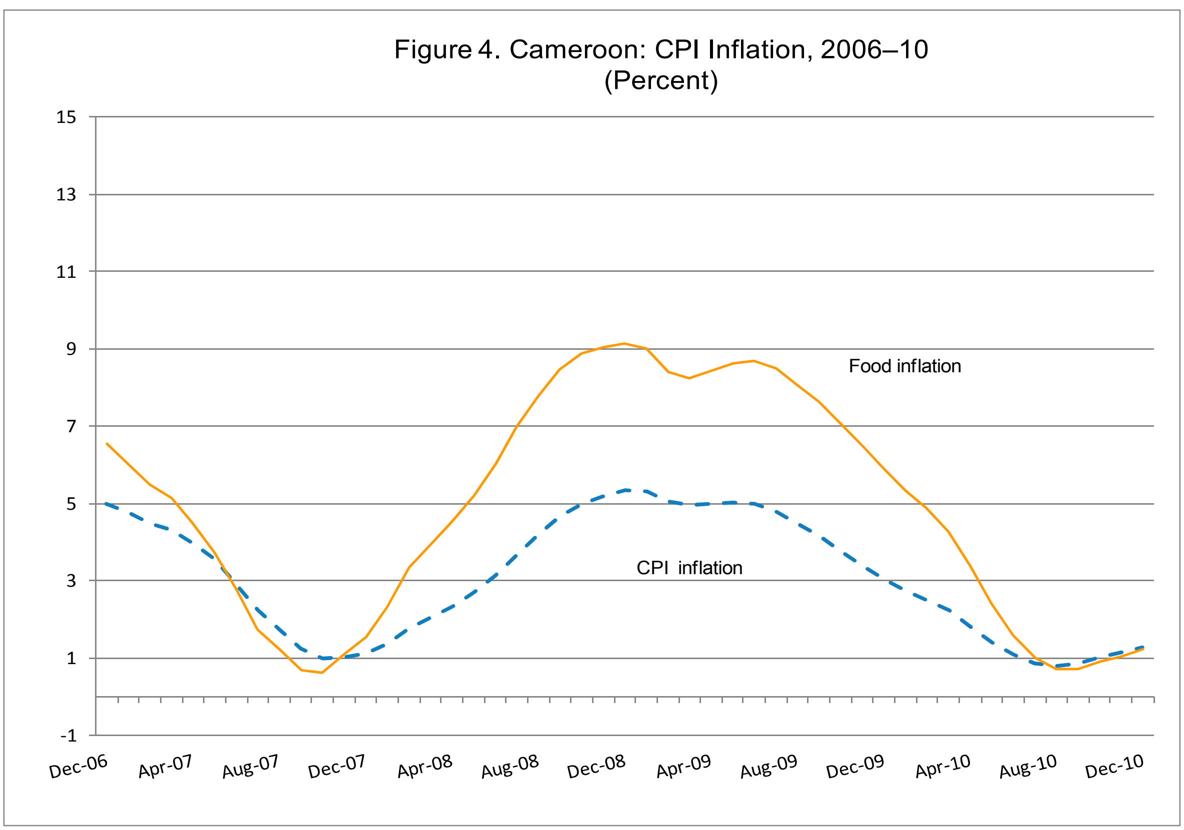




Source: Cameroon, National Institute of Statistics, National Poverty Survey, December 2008

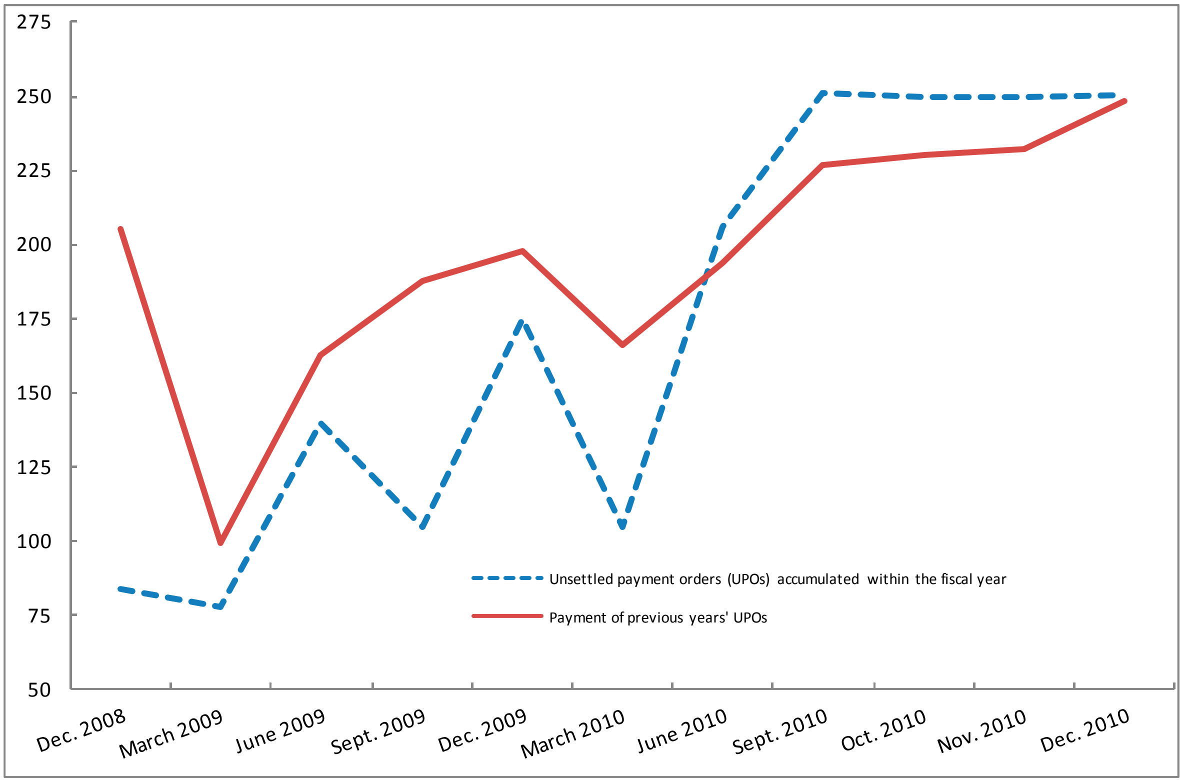


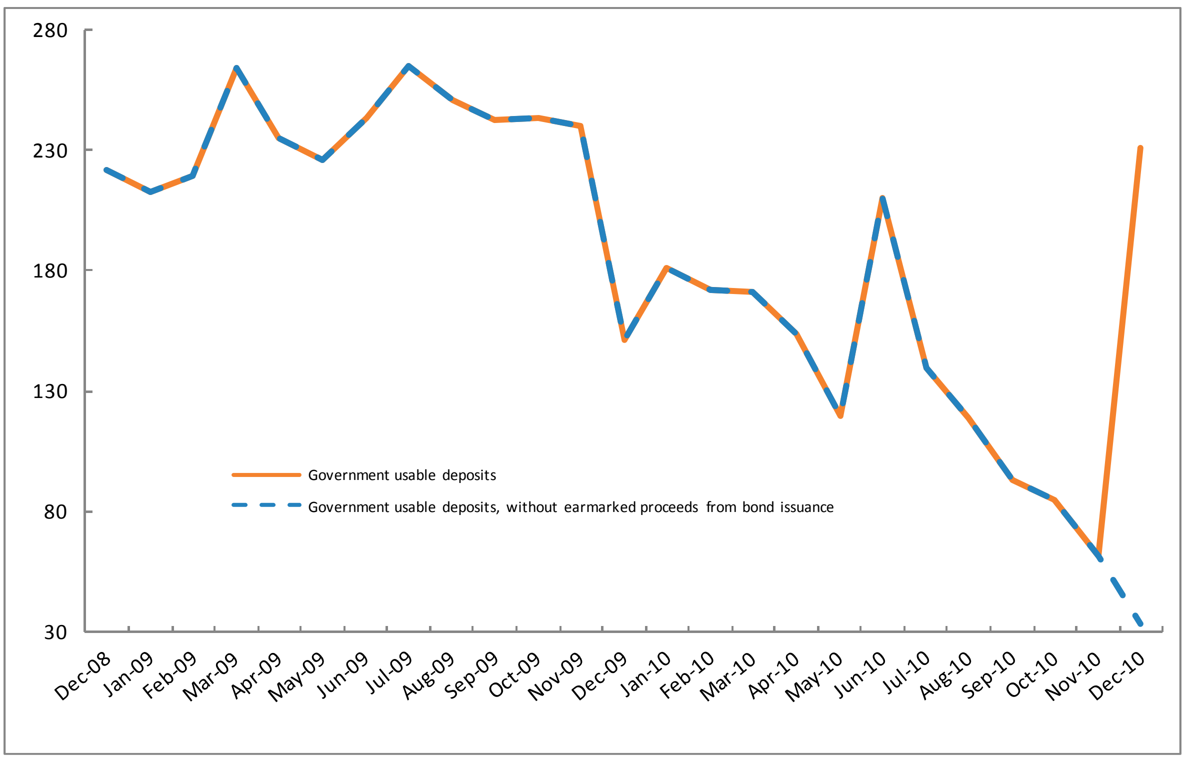
Source: IMF staff estimates.



Source: Cameroon, National Institute of Statistics.

Figure 5. Cameroon: Accumulation and Payment of UPOs and Government Usable Deposits 2008-10 (CFAF billion)





Sources: Cameroonian authorities; and BEAC.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2009–16

	2009	2010		2011	2012	2013	2014	2015	2016
		CR/10/259	Est.			Proj.			
	(Annual percentage changes, unless otherwise indicated)								
National income and prices									
GDP at constant prices	2.0	2.6	3.2	3.8	4.5	4.8	5.0	4.0	4.5
Oil	-13.9	-12.2	-12.3	-11.0	17.6	21.0	18.6	-5.4	2.9
Nonoil	2.9	3.3	4.0	4.4	4.0	4.2	4.4	4.5	4.6
GDP deflator	-3.3	3.2	3.0	4.0	2.2	2.1	2.1	2.0	1.9
Consumer prices (12-month average)	3.0	3.0	1.3	2.6	2.5	2.5	2.5	2.5	2.5
Nominal GDP (CFA F billions)	10,474	11,091	11,134	12,016	12,839	13,738	14,728	15,615	16,636
Oil	605	682	785	823	936	1,045	1,222	1,150	1,182
Nonoil	9,869	10,409	10,349	11,193	11,903	12,693	13,506	14,465	15,454
Oil output (thousands of barrels a day)	73	64	64	56	67	84	105	101	104
External trade									
Export volume	-4.8	-0.3	-0.1	1.6	7.6	9.0	12.2	6.5	8.9
Of which: nonoil sector	-2.4	2.0	3.5	4.6	5.0	5.5	8.5	9.5	10.4
Import volume	-5.2	4.6	8.2	8.6	5.8	9.8	9.1	6.2	5.6
Average oil export price (US$ per barrel)[1]	58.1	69.3	79.6	99.3	96.3	88.8	86.5	85.8	85.5
Nominal effective exchange rate	0.9	...	-4.5	...	...	...	...	...	...
Real effective exchange rate	2.3	...	-6.3	...	...	...	...	...	...
Terms of trade ("-" = deterioration)	-15.0	9.2	18.5	3.3	-1.4	-0.5	0.7	-5.4	-3.8
Money and credit (end of period)									
Net domestic assets[2]	5.2	6.2	8.9	9.3	4.0	2.8	-0.5	4.4	3.6
Net credit to the public sector[2]	3.5	6.3	-1.6	5.0	-0.6	-2.3	-5.6	-0.7	-2.2
Credit to the private sector	9.1	7.1	8.2	7.6	9.6	10.5	9.7	9.6	10.8
Broad money (M2)	6.9	7.0	11.3	7.9	6.3	5.7	6.8	6.1	6.5
Central government operations									
Total revenue	-13.3	-0.7	1.6	12.4	10.8	9.0	11.4	2.9	5.5
Total expenditure	-1.8	12.2	7.1	13.7	4.3	6.4	6.2	6.1	6.6
	(Percent of GDP, unless otherwise indicated)								
Gross national savings	12.9	13.2	13.9	14.4	15.4	15.7	16.3	16.4	16.8
Gross domestic investment	16.6	17.4	16.7	18.3	18.6	19.2	19.4	19.7	19.8
Public investment	4.2	4.9	4.1	5.3	5.5	5.8	5.8	6.0	6.0
Private investment	12.4	12.5	12.6	13.0	13.2	13.4	13.6	13.7	13.8
Central government operations									
Total revenue (excluding grants)	17.6	16.5	16.8	17.5	18.1	18.5	19.2	18.6	18.4
Oil revenue	4.8	3.6	4.5	4.7	5.2	5.4	6.0	5.2	5.0
Nonoil revenue (percent of nonoil GDP)	13.5	13.7	13.3	13.7	14.0	14.2	14.4	14.5	14.5
Total expenditure	18.4	19.5	18.6	19.6	19.1	19.0	18.8	18.8	18.8
Overall fiscal balance, on a cash basis									
Excluding grants	-1.0	-6.0	-2.9	-5.6	-1.2	-0.7	0.3	-0.3	-0.4
Including grants	-0.2	-5.2	-2.3	-4.8	-0.5	0.0	0.9	0.3	0.1
Nonoil primary balance (percent of nonoil GDP)	-4.9	-5.9	-5.7	-6.1	-5.5	-5.3	-5.1	-4.9	-5.0
External sector									
Current account balance (including grants)	-3.8	-4.2	-2.8	-4.0	-3.3	-3.4	-3.0	-3.3	-3.0
Gross official reserves (imputed reserves, bn of US$)									
Imputed reserves (billion of US$)	3.6	3.3	3.6	4.0	4.0	4.1	4.2	4.3	4.3
Imputed reserves (percent of broad money)	68.0	64.2	65.6	61.1	58.7	57.0	55.7	53.5	51.5
Public debt									
Total	10.6	13.4	12.1	14.4	14.6	15.0	15.0	15.0	15.5
External	5.5	6.6	6.5	6.5	7.3	8.5	9.7	11.0	12.2
	(Percent of exports of goods and services, unless otherwise indicated)[3]								
PV of external debt	20.2	21.1	20.0	19.8	22.1	24.4	25.6	28.8	30.3
External debt service	1.3	0.9	0.9	1.0	1.0	1.1	1.1	1.4	1.2
External debt service (as a percent of government revenue)	1.8	1.4	1.4	1.5	1.4	1.6	1.7	2.3	2.2

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

[1]WEO price in US$ per barel, minus a discount for price uncertainty and the quality of Cameroon's oil.

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

[3]Estimations are based on the revised DSA, using the LIC Debt Sustainability Framework methodology.

Note: … = not available.

Table 2. Cameroon: Central Government Operations on a cash basis, 2009–16

(CFAF billion, unless otherwise indicated)

	2009	2010 Suppl. budget	2010 Actual	2011 Budget	2011 Staff Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Total revenue and grants	1,925	1,932	1,940	2,095	2,192	2,416	2,626	2,915	2,998	3,155
Total revenue	1,839	1,842	1,869	1,991	2,101	2,328	2,537	2,828	2,908	3,067
Oil sector revenue	507	407	497	415	569	663	736	882	809	830
Nonoil sector revenue	1,331	1,435	1,372	1,576	1,532	1,665	1,802	1,946	2,099	2,238
Direct taxes	335	…	343	…	371	404	442	470	504	538
Special tax on petroleum products	78	…	83	89	90	95	102	108	116	124
Other taxes on goods and services	601	…	612	…	704	768	835	906	981	1,048
Taxes on international trade	236	…	253	…	277	300	320	341	371	391
Non-tax revenue	82	97	81	97	90	97	102	120	128	137
Total grants	87	90	71	104	91	88	88	88	90	88
Projects	28	29	10	53	40	44	47	48	52	53
Other (debt relief)	59	61	62	51	52	44	41	39	38	35
Total expenditure	1,931	2,151	2,067	2,245	2,351	2,452	2,609	2,770	2,939	3,132
Current expenditure	1,490	1,552	1,611	1,565	1,710	1,750	1,818	1,911	2,009	2,135
Wages and salaries	629	685	634	665	665	734	786	850	909	981
Goods and services	540	476	613	479	515	534	564	601	630	673
Subsidies and transfers	289	353	331	376	487	434	416	410	425	442
Of which: Fuel subsidies	18	120	17	132	240	201	186	183	183	184
Pensions	104	110	117	121	121	129	138	148	159	170
Interest due	33	38	33	45	43	48	51	50	45	39
External	29	31	27	25	28	26	26	27	27	28
Domestic	4	7	6	20	15	22	25	23	18	12
Capital expenditure	441	599	456	680	641	702	791	859	929	997
Domestically-financed investment	356	372	315	429	422	441	454	496	527	571
Foreign-financed investment	73	160	100	206	155	196	272	308	347	371
Rehabilitation and participation[1]	12	67	42	45	65	65	65	55	55	55
Overall balance, excl. payment of govt. obligations										
Excluding grants	-92	-309	-198	-254	-250	-125	-72	58	-30	-65
Including grants	-5	-219	-127	-150	-159	-37	17	145	59	23
Selected payment of government obligations	-17	-172	-125	-158	-419	-26	-22	-20	-16	-10
External	0	0	0	0	0	0	0	0	0	0
Domestic	-17	-172	-124.7	-158	-419	-26	-22	-20	-16	-10
Of which: Audited Arrears	-17	-23	-34.7	-50	-50	-26	-22	-20	-16	-10
Unsettled Payment Orders (UPOs)	…	…	…	-100	-225	0	0	0	0	0
Obligations to SONARA	…	-90	-90	-8	-136	0	0	0	0	0
Other payments (DENOs)	…	-59	…	0	-8	0	0	0	0	0
Overall balance, on a cash basis										
Excluding grants	-109	-481	-323	-413	-669	-151	-94	38	-46	-75
Including grants	-22	-391	-252	-309	-578	-62	-6	125	43	13
Financing	23	391	251	309	253	62	6	-125	-43	-13
External financing, net	-23	53	40	98	60	100	170	203	224	253
Amortization	-68	-57	-60	-55	-55	-52	-55	-57	-71	-65
Drawings	45	110	100	153	115	152	225	260	295	318
Project financing	45	110	90	153	115	152	225	260	295	318
Program financing	0	0	10	0	0	0	0	0	0	0
Domestic financing, net	45	338	212	211	194	-37	-164	-328	-267	-266
Banking system	76	107	-62	50	136	-46	-142	-237	-134	-194
Of which:										
Central Bank, net	7	107	-63	50	137	-45	-140	-235	-118	-154
Use of SDR allocation	…	103	103	0	0	0	0	0	0	0
Amortization of domestic debt	-31	-72	-34	-39	-42	-91	-122	-141	-133	-72
New bond issue	…	200	200	200	100	100	100	50	0	0
Other domestic financing	0	0	5	0	0	0	0	0	0	0
Remaining financing gap	0	0	0	0	324	0	0	0	0	0
Memorandum items										
Primary budget balance[2]	27	-181	-94	-105	-116	11	67	195	105	62
Nonoil revenue	1,331	1,435	1,372	1,576	1,532	1,665	1,802	1,946	2,099	2,238
Nonoil primary balance[2]	-480	-588	-591	-520	-684	-652	-668	-687	-705	-768
Nonoil primary balance excl. investment[2]	-195	-331	-347	-176	-320	-237	-237	-230	-214	-231
Nonoil current balance	-72	-27	-168	115	-86	2	72	122	179	190
Oil price assumption, US$ per barrel [3]	58.1	…	79.6	77.5	99.3	96.3	88.8	86.5	85.8	85.5
Remaining financing gap (US$ million)	0	…	0	0	705	0	0	0	0	0

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

[1] Rehabilitation and participation includes a provision for the recapitalization of a distressed bank in 2011.
[2] Includes grants,but excludes selected payment of government obligations.
[3] WEO price in US$ per barel, minus a discount for price uncertainty and the quality of Cameroon's oil.

Table 3. Cameroon: Selected Fiscal Indicators, on a cash basis, 2009–16
(Percent of GDP, unless otherwise indicated)

	2009	2010		2011		2012	2013	2014	2015	2016
		Suppl. budget	Actual	Budget	Staff Proj.			Proj.		
Total revenue and grants	18.4	17.4	17.4	17.4	18.2	18.8	19.1	19.8	19.2	19.0
Total revenue	17.6	16.5	16.8	16.6	17.5	18.1	18.5	19.2	18.6	18.4
Oil sector revenue	4.8	3.7	4.5	3.5	4.7	5.2	5.4	6.0	5.2	5.0
Nonoil sector revenue	12.7	12.9	12.3	13.1	12.8	13.0	13.1	13.2	13.4	13.4
Direct taxes	3.2	…	3.1	…	3.1	3.1	3.2	3.2	3.2	3.2
Special tax on petroleum products	0.7	…	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other taxes on goods and services	5.7	…	5.5	…	5.9	6.0	6.1	6.2	6.3	6.3
Taxes on international trade	2.3	…	2.3	…	2.3	2.3	2.3	2.3	2.4	2.4
Non-tax revenue	0.8	0.9	0.7	0.8	0.8	0.8	0.7	0.8	0.8	0.8
Total grants	0.8	0.8	0.6	0.9	0.8	0.7	0.6	0.6	0.6	0.5
Projects	0.3		0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Programs	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (debt relief)	0.6		0.6	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Total expenditure	18.4	19.3	18.6	18.7	19.6	19.1	19.0	18.8	18.8	18.8
Current expenditure	14.2	13.9	14.5	13.0	14.2	13.6	13.2	13.0	12.9	12.8
Wages and salaries	6.0	6.2	5.7	5.5	5.5	5.7	5.7	5.8	5.8	5.9
Goods and services	5.2	4.3	5.5	4.0	4.3	4.2	4.1	4.1	4.0	4.0
Subsidies and transfers	2.8	3.2	3.0	3.1	4.1	3.4	3.0	2.8	2.7	2.7
Of which: Fuel subsidies	0.2	1.1	0.2	1.1	2.0	1.6	1.4	1.2	1.2	1.1
Pensions	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest due	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.2
External	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Domestic	0.0	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Capital expenditure	4.2	5.4	4.1	5.7	5.3	5.5	5.8	5.8	6.0	6.0
Domestically-financed investment	3.4	3.3	2.8	3.6	3.5	3.4	3.3	3.4	3.4	3.4
Foreign-financed investment	0.7	1.4	0.9	1.7	1.3	1.5	2.0	2.1	2.2	2.2
Rehabilitation and participation[1]	0.1	0.6	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.3
Overall balance, excl. payment of govt. obligations										
Excluding grants	-0.9	-2.8	-1.8	-2.1	-2.1	-1.0	-0.5	0.4	-0.2	-0.4
Including grants	-0.1	-2.0	-1.1	-1.3	-1.3	-0.3	0.1	1.0	0.4	0.1
Selected payment of government obligations	-0.2	-1.5	-1.1	-1.3	-3.5	-0.2	-0.2	-0.1	-0.1	-0.1
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.2	-1.5	-1.1	-1.3	-3.5	-0.2	-0.2	-0.1	-0.1	-0.1
Of which: Audited Arrears	-0.2	-0.2	-0.3	-0.4	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1
Unsettled Payment Orders (UPOs)	…	…	…	-0.8	-1.9	0.0	0.0	0.0	0.0	0.0
Obligations to SONARA	…	-0.8	-0.8	-0.1	-1.1	0.0	0.0	0.0	0.0	0.0
Other payments (DENOs)	…	-0.5	…	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance, on a cash basis										
Excluding grants	-1.0	-4.3	-2.9	-3.4	-5.6	-1.2	-0.7	0.3	-0.3	-0.4
Including grants	-0.2	-3.5	-2.3	-2.6	-4.8	-0.5	0.0	0.9	0.3	0.1
Financing	0.2	3.5	2.3	2.6	2.1	0.5	0.0	-0.9	-0.3	-0.1
External financing, net	-0.2	0.5	0.4	0.8	0.5	0.8	1.2	1.4	1.4	1.5
Amortization	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.5	-0.4
Drawings	0.4	1.0	0.9	1.3	1.0	1.2	1.6	1.8	1.9	1.9
Project financing	0.4	1.0	0.8	1.3	1.0	1.2	1.6	1.8	1.9	1.9
Program financing	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, net	0.4	3.0	1.9	1.8	1.6	-0.3	-1.2	-2.2	-1.7	-1.6
Banking system	0.7	1.0	-0.6	0.4	1.1	-0.4	-1.0	-1.6	-0.9	-1.2
Central Bank, net	0.1	1.0	-0.6	0.4	1.1	-0.4	-1.0	-1.6	-0.8	-0.9
Use of SDR allocation		0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-0.3	-0.6	-0.3	-0.3	-0.4	-0.7	-0.9	-1.0	-0.9	-0.4
Other domestic financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New bond issue	…	1.8	1.8	1.7	0.8	0.8	0.7	0.3	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0
Memorandum items			(Percent of nonoil GDP)							
Nonoil revenue	13.5	13.9	13.3	14.1	13.7	14.0	14.2	14.4	14.5	14.5
Nonoil primary balance[2]	-4.9	-5.7	-5.7	-4.6	-6.1	-5.5	-5.3	-5.1	-4.9	-5.0
Nonoil primary balance excl. investment[2]	-2.0		-3.4	-1.6	-2.9	-2.0	-1.9	-1.7	-1.5	-1.5
Nonoil current balance[2]	-0.7	-0.3	-1.6	1.0	-0.8	0.0	0.6	0.9	1.2	1.2
			(Percent of GDP)							
Primary budget balance	0.3	-1.6	-0.8	-0.9	-1.0	0.1	0.5	1.3	0.7	0.4
Stock of total public debt	10.6	…	12.1	…	14.4	14.6	15.0	15.0	15.0	15.5
Stock of external public debt	5.5	…	6.5	…	6.5	7.3	8.5	9.7	11.0	12.2
Nominal GDP (CFA billion)	10,474	11,134	11,134	12,016	12,016	12,839	13,738	14,728	15,615	16,636
Nonoil GDP (CFA billion)	9,869	10,349	10,349	11,193	11,193	11,903	12,693	13,506	14,465	15,454

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

[1] Rehabilitation and participation included a provision for the recapitalization of a distressed bank in 2011.

[2] Includes grants,but excludes selected payment of government obligations.

Table 4. Cameroon: Balance of Payments, 2009-16

	2009	2010	2011	2012	2013	2014	2015	2016
		Est.	Proj.			Proj.		
				(CFA F billions)				
Current account balance	-393	-309	-476	-417	-473	-449	-510	-499
Trade balance	-154	29	-53	-48	-87	15	-168	-222
Exports, goods	1,926	2,309	2,460	2,657	2,894	3,294	3,360	3,558
Oil and oil products	794	952	962	1,094	1,286	1,591	1,540	1,603
Nonoil sector	1,131	1,357	1,497	1,563	1,608	1,703	1,820	1,955
Imports, goods	-2,080	-2,280	-2,513	-2,705	-2,982	-3,279	-3,528	-3,780
Services (net)	-352	-375	-398	-375	-404	-469	-365	-308
Income (net)	-62	-114	-142	-123	-107	-111	-94	-93
Transfers (net)	175	151	117	129	126	115	117	125
Inflows	234	224	193	198	205	207	214	226
Outflows	-59	-74	-77	-69	-79	-93	-97	-101
Capital and financial account balance	462	423	483	457	523	529	550	549
Capital account	28	10	40	44	47	48	52	53
Capital transfers	28	10	40	44	47	48	52	53
Financial account	434	413	443	414	476	481	498	496
Official capital	146	59	84	120	190	225	248	279
Long-term borrowing	213	119	143	172	245	282	319	344
Of which: SDR allocation	111	0	0	0	0	0	0	0
Amortization	-68	-60	-59	-52	-55	-57	-71	-65
Non-official capital (net)	288	354	360	294	286	256	250	217
Oil sector	127	45	56	64	82	87	92	96
Nonoil sector	161	310	304	230	205	169	158	121
Errors and omissions,net	78	0	0	0	0	0	0	0
Overall balance	147	113	7	40	50	80	40	50
Financing	-147	-113	-7	-40	-50	-80	-40	-50
Bank of Central African States	-147	-114	-7	-40	-50	-80	-40	-50
Use of IMF credit (net)	70	0	-1	-1	-2	-3	-17	-40
Use of Fund credit	70	0	-1	-1	-2	-3	-17	-40
Change in imputed reserves (net)	-217	-114	-6	-39	-48	-77	-23	-10
Of which: SDR allocation	-111	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0
				(Percent of GDP)				
Trade balance	-1.5	0.3	-0.4	-0.4	-0.6	0.1	-1.1	-1.3
Imports	19.9	20.5	20.9	21.1	21.7	22.3	22.6	22.7
Non-oil exports	10.8	12.2	12.5	12.2	11.7	11.6	11.7	11.8
Current account balance								
Excluding grants	-4.4	-3.3	-4.4	-3.6	-3.7	-3.3	-3.5	-3.2
Including grants	-3.8	-2.8	-4.0	-3.3	-3.4	-3.0	-3.3	-3.0
Overall balance	1.4	1.0	0.1	0.3	0.4	0.5	0.3	0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percentage change, unless otherwise indicated)				
Export volume	-4.8	-0.1	1.6	7.6	9.0	12.2	6.5	8.9
Crude oil	-13.2	-14.6	-12.9	22.7	26.4	27.1	-4.1	3.1
Nonoil sector	-2.4	3.5	4.6	5.0	5.5	8.5	9.5	10.4
Import volume	-5.2	8.2	8.6	5.8	9.8	9.1	6.2	5.6
Terms of trade	-15.0	18.5	3.3	-1.4	-0.5	0.7	-5.4	-3.8
Nonoil export price index (CFA F)	-5.5	15.8	5.5	-0.6	-2.5	-2.4	-2.4	-1.2
Import price index (CFA F)	-9.8	1.3	1.5	1.8	0.4	0.8	1.3	1.4
Exchange rate (CFA F per US$; period average)	472.1	494.4	---	---	---	---	---	---
Gross official reserves (imputed reserves, bn of US$)	3.6	3.6	4.0	4.0	4.1	4.2	4.3	4.3
In percent of broad money	68.0	65.6	61.1	58.7	57.0	55.7	53.5	51.5

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

Table 5. Cameroon: Monetary Survey, 2009–16

(Billions of CFA francs, unless otherwise noted)

	2009	2010		2011	2012	2013	2014	2015	2016
	Dec	June	Dec.			Proj.			
	Act.	Act.	Act.						
Net foreign assets	1,772	1,742	1,830	1,792	1,862	1,952	2,192	2,252	2,362
Bank of Central African States (BEAC)	1,464	1,424	1,578	1,584	1,624	1,674	1,754	1,794	1,844
Commercial banks	308	318	253	208	238	278	438	458	518
Net domestic assets	691	759	911	1,166	1,283	1,373	1,358	1,514	1,650
Domestic credit	1,029	842	913	1,333	1,450	1,540	1,525	1,681	1,817
Net claims on the public sector	-170	-396	-391	-70	-88	-159	-344	-369	-453
Net credit to the central government	-302	-349	-340	-203	-250	-391	-628	-763	-957
Claims	178	188	207	205	205	204	203	195	179
Deposits	-480	-537	-546	-409	-454	-595	-831	-958	-1,136
Credit to autonomous agencies	15	14	22	24	49	73	110	219	329
Credit to public enterprises	117	122	109	109	113	159	175	175	175
Credit to financial institutions	11	18	18	20	22	24	31	34	38
Credit to the private sector	1,188	1,219	1,285	1,383	1,516	1,675	1,838	2,015	2,232
Other items (net)	-338	-83	-2	-167	-167	-167	-167	-167	-167
Money and quasi-money	2,462	2,501	2,741	2,958	3,145	3,325	3,550	3,766	4,012
Currency outside banks	447	380	501	545	582	618	663	706	755
Deposits	2,015	2,121	2,240	2,414	2,563	2,707	2,887	3,060	3,257
Memorandum items:									
Contribution to the growth of broad money (percentage points)									
Net foreign assets	1.7	2.3	2.4	-1.4	2.4	2.9	7.2	1.7	2.9
Net domestic assets	5.2	12.2	8.9	9.3	4.0	2.8	-0.5	4.4	3.6
Of which: credit to the central government	3.3	4.6	-1.5	5.0	-1.6	-4.5	-7.1	-3.8	-5.2
Private sector credit									
Annual percentage change	9.1	6.4	8.2	7.6	9.6	10.5	9.7	9.6	10.8
In percent of GDP	11.3	11.0	11.5	11.5	11.8	12.2	12.5	12.9	13.4
Broad money (annual percentage change)	6.9	14.5	11.3	7.9	6.3	5.7	6.8	6.1	6.5
Currency	3.9	6.3	12.0	8.7	6.9	6.2	7.3	6.5	7.0
Deposits	7.6	16.1	11.2	7.8	6.2	5.6	6.6	6.0	6.4
Velocity (GDP/average M2)	4.6	4.5	4.2	4.1	4.1	4.1	4.1	4.1	4.1
Government usable deposits[1]									
Nominal (CFAF billion)	151.3	210.3	230.8	94.7	141.1	282.6	519.7	653.9	848.1
In months of total expenditure[2]	1.0	1.3	1.4	0.5	0.8	1.5	2.5	3.0	3.7
Nominal, excluding earmarked proceeds									
From bond issuance in 2010			33.3						
In months of total expenditure[2]			0.2						

Sources: BEAC; and IMF staff estimates and projections.

[1] Deposits that are readily available for government operations.

[2] Excluding foreign-financed investment.

Table 6. Cameroon and CEMAC: Indicators of Banking System Soundness, 2008-10

(In percent, unless otherwise indicated)

	Cameroon			CEMAC		
	2008	2009	2010	2008	2009	2010
Capital Adequacy						
Regulatory capital to risk-weighted assets[1]	10.9	9.6	7.4	25.8	17.9	16.9
Regulatory Tier I capital to risk-weighted assets	10.4	10.3	16.6	25.2	19.9	17.8
Capital (net worth) to assets	5.3	4.9	4.3	7.2	6.4	8.6
Asset quality						
Gross loans/total assets	54.4	54.2	54.9	49.1	48.9	50.6
NPL ratio[2]	11.5	12.9	14.8	9.1	10.6	10.2
NPL ratio net[3]	1.2	3.0	3.7	1.5	2.9	2.5
Provisioning rate	91.1	79.1	75.2	85.4	74.8	75.1
Earnings and profitability						
Personnel expenses/gross income	46.8	39.8	23.3	39.3	26.6	22.2
ROA (return on assets)	2.1	---[4]	0.6	1.7	0.4	1.5
ROE (return on equity)	20.6	---[4]	14.3	23.7	5.1	17.6
Liquidity						
Liquid assets to total assets	38.5	34.9	29.8	43.2	39.6	37.3
Liquid assets to short-term liabilities	224.9	203.3	177.8	235.3	213.3	191.5
Total (non-interbank) loans to customer deposits	66.9	66.0	66.5	61.8	60.8	62.3
Deposits						
Liquid assets to customer deposits	47.4	42.5	47.0	129.3	116.9	54.5

Source: COBAC.

[1]The regulatory capital is sometimes lower than the core or Tier 1 capital if there are significant nonvalues in the bank portfolios.

[2]Gross NPLs/gross loans.

[3]NPLs net of provision/outstanding loans.

[4]Aggregate ROA and ROE are negative.

Table 7. Cameroon: Millennium Development Goals, 1990-2009

	1990	1995	2000	2005	2009
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	59.0	59.0	60.0	60.0	59.0
Employment to population ratio, ages 15-24, total (%)	37.0	37.0	37.0	35.0	33.0
GDP per person employed (constant 1990 PPP $)	3124.0	2407.0	2687.0	2901.0	2991.0
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	..
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
Literacy rate, youth male (% of males ages 15-24)	..	..	88.0	..	88.0
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
Total enrollment, primary (% net)	71.0	..	..	..	88.0
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
Ratio of female to male primary enrollment (%)	86.0	90.0	85.0	84.0	86.0
Ratio of female to male secondary enrollment (%)	69.0	69.0	81.0	79.0	80.0
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	74.0
Mortality rate, infant (per 1,000 live births)	91.0	94.0	96.0	95.0	95.0
Mortality rate, under-5 (per 1,000)	148.0	153.0	156.0	156.0	154.0
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	140.0	132.0	126.0
Births attended by skilled health staff (% of total)	58.0	..	60.0	63.0	..
Contraceptive prevalence (% of women ages 15-49)	16.0	..	26.0	29.0	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	680.0	680.0	660.0	640.0	600.0
Pregnant women receiving prenatal care (%)	79.0	..	75.0	82.0	..
Unmet need for contraception (% of married women ages 15-49)	22.0	..	20.0	3.0	..
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	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	16.0	24.0	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	27.0	52.0	..
Incidence of tuberculosis (per 100,000 people)	81.0	120.0	170.0	200.0	190.0
Prevalence of HIV, female (% ages 15-24)	..	..	..	4.3	4.3
Prevalence of HIV, male (% ages 15-24)	..	..	..	1.2	1.2
Prevalence of HIV, total (% of population ages 15-49)	0.8	4.7	6.2	5.4	5.1
Tuberculosis case detection rate (all forms)	60.0	20.0	20.0	60.0	69.0
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	51.9	49.6	47.3	44.9	44
Improved sanitation facilities (% of population with access)	47	48	47	47	47
Improved water source (% of population with access)	50	57	64	71	74
Marine protected areas (% of total surface area)	..	..	..	..	0
Terrestrial protected areas (% of total surface area)	..	..	..	..	10
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	36.0	32.0	24.0	23.0	27.0
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	13.0	17.0	12.0	10.0	1.0
Internet users (per 100 people)	0.0	0.0	0.3	1.4	3.8
Mobile cellular subscriptions (per 100 people)	0.0	0.0	1.0	13.0	32.0
Telephone lines (per 100 people)	0.0	0.0	1.0	1.0	1.0
Other					
Fertility rate, total (births per woman)	6.0	5.0	5.0	5.0	5.0
GNI per capita, Atlas method (current US$)	860.0	710.0	620.0	910.0	1190.0
GNI, Atlas method (current US$) (billions)	10.6	10.0	9.8	16.3	23.2
Life expectancy at birth, total (years)	55.0	54.0	51.0	51.0	51.0
Literacy rate, adult total (% of people ages 15 and above)	..	..	68.0	..	76.0

Source: World Development Indicators, The World Bank.

APPENDIX I—Fuel Subsidies: Current Issues and the Way Forward

A. Current Issues Regarding Fuel Subsidies

1. **Since the February 2008 social unrest, fuel prices at the pump have not been adjusted to reflect developments in international market conditions.** The price freeze was accompanied by a decision to compensate the domestic oil refinery (SONARA) for the shortfall between the notional retail price derived from the existing oil pricing formula and the administratively fixed price at the pump.[1]

2. **Cameroon exports the bulk of its heavy domestic crude oil production.** SONARA's current processing capacity is approximately 2.1 million tons of light crude.[2] Because its current technology is unsuitable for using Cameroon's crude oil, about 90 percent of processed crude oil is imported from Nigeria and Equatorial Guinea. The refinery produced about 1.8 million tons of refined products in 2009, of which 63 percent was sold domestically. The remainder was sold mostly to other CEMAC countries.[3]

3. **The government has been accumulating substantial arrears on compensating SONARA for the shortfall since 2008.** These arrears amounted to CFAF 98 billion (about 0.9 percent of GDP) at end-2009. In 2010, although the government paid the refinery CFAF 107 billion, cumulative payment obligations to SONARA reached about CFAF 136 billion at year-end (1.2 per cent of GDP).

4. **The fuel subsidy adds a significant burden to the budget.** According to the authorities' calculations, were international fuel prices to remain at March 2011 levels (US$100 a barrel) and the regulated pricing mechanism not revisited (Box 1), the subsidy would amount to CFAF 240 billion (2 percent of GDP) in 2011, markedly exceeding the CFAF 132 billion provision made in the 2011 budget.[4] Putting these data into context, the estimated shortfall for 2011 is equivalent to 10 percent of total government expenditure, more than one third of the public sector wage bill, or half of domestically-financed government capital expenditure.

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[1] SONARA is the only significant supplier to the local market because imports are limited to 20 percent of total consumption. Owing to importers' difficulties in recovering the subsidies, only about one quarter of the import quota has been used.

[2] It is useful to compare SONARA's output of refined oil products with that of the Ivory Coast's refinery, which produces 4 million tons a year, and the smallest French refinery, which produces 10 million tons.

[3] SONARA, Annual Report 2009.

[4] The calculation assumes a monthly consumption of 39, 7, and 49 million liters for gasoline, kerosene, and diesel, respectively.

Box 1: Calculating the Fuel Subsidy

The fuel subsidy is calculated through a pricing formula in place since 2007.[1] In the absence of a competitive local market for fuel products, the formula calculates a local wholesale price for final products (g) by adding to the prevailing world reference price (a):

- international transport and insurance costs (b) to arrive at an import parity price (c);
- an adjustment coefficient (e) of 15 percent of the import parity price to provide compensation (de facto a producer subsidy) to SONARA;[2]
- taxes (d) including a 10 per cent customs duty and 19.25 percent VAT; and
- coastal navigation costs (f).

The notional retail price (j) is calculated by adding distribution costs and margins (h) and a specific tax (i)—for gasoline and diesel only—to the wholesale price. The formula calculates the shortfall (subsidy) per liter of final product (l) as the difference between the notional retail price and the fixed pump price (k).[3]

Table 1. Cameroon Fuel Pricing Formula
March 2011
(In CFAF per liter)

Designation	Gasoline	Kerosene	Diesel
a) World reference price[1]	312.3	355.78	345.81
b) C.I.F.	22.97	24.84	26.27
c) Import parity price C.I.F.	335.27	380.62	372.08
d) Customs (10%) and VAT (19.25%)	106.04	120.21	117.58
e) Adjustment coefficient (margin for SONARA: 15% of (c))	50.29	57.09	55.81
f) Coastal navigation costs	7.92	8.09	8.23
g) Wholesale price (c+d+e+f)	499.52	566.02	553.70
h) Distribution costs and margins	134.34	94.97	118.92
i) Special Tax on petroleum products	120.00	0.00	65.00
j) Notional retail price (g+h+i)	753.86	660.98	737.62
k) Fixed pump price	569.00	350.00	520.00
l) Shortfall (required subsidy)(j-k)	184.86	310.98	217.62
Memorandum item			
Pump Price as a percentage of notional retail price (k/j)	75.48	52.95	70.50

[1] Source: Platts' European Marketscan.

[1]The formula was developed in collaboration with the IMF and is applied to three products: gasoline, kerosene, and diesel. The subsidy per liter is recalculated on a monthly basis.

[2]The adjustment factor reflects mostly the higher costs of the local refinery (SONARA) compared to internationally-competitive refineries. Part of the reason for SONARA's lower efficiency is its low production volume. With significant investment, SONARA intends to increase production capacity to a level that would bring production volumes to the efficiency threshold.

[3]Margins for transport and distribution are de facto fixed.

5. **The fuel subsidy is badly targeted, and the associated resources could be redeployed to generate significantly higher benefits for the poor.** A 2007 IMF assessment showed that more than 70 percent of fuel price subsidies accrue to the richest 40 percent of households.[5] The study also showed that the poorest 20 percent of households receive less than 1 percent of the subsidy for gasoline. And even in the case of kerosene subsidies, which are typically assumed to be pro-poor, the poorest 20 percent of households receive only 13 percent of the subsidy. In addition, the consumption of kerosene is small compared to the consumption of gasoline and diesel. Eliminating subsidies on gasoline and diesel only—at the baseline price of US$100 a barrel—would free resources equivalent to 1.8 percent of GDP for alternative use, including social spending to mitigate the impact of fuel price increases on the poor. The remaining subsidy on kerosene would cost about 0.2 percent of GDP to the budget.

6. **The oil sector remains a net contributor to the government budget, but its contribution is on a declining trend because of the rising cost of the fuel subsidy mechanism**. From 2008 to 2010, revenue from crude oil declined from 7.6 percent to 4.5 percent of GDP. The projected increase in revenue from crude oil in 2011 will be more than offset by the rising cost of the required fuel subsidy under the current fuel price policy (Table 2). Tax revenues on refined petroleum products have contributed on average 1.7 percent of GDP.

Table 2: Net Contribution from Oil Sector to the Budget
(In billions of CFAF)

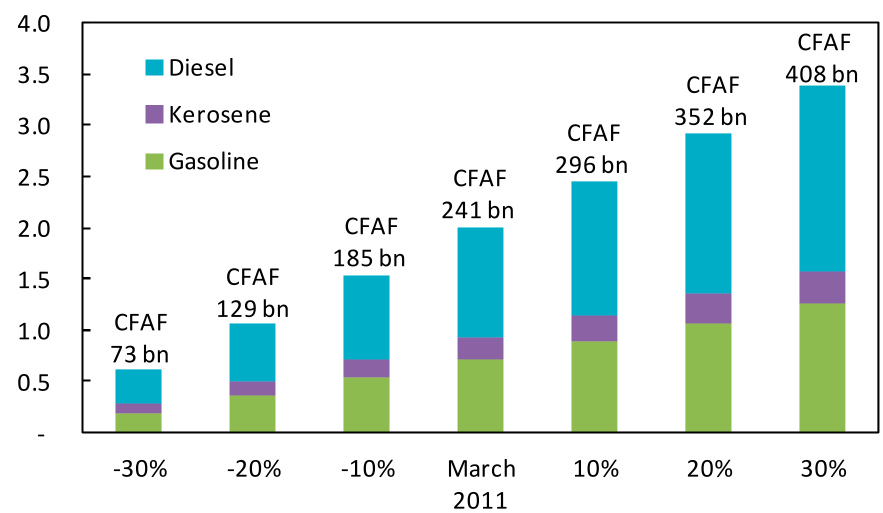
	2008	2009	2010	2011
Revenue from crude oil	810.0	507.0	497.0	572.7
(Percent of GDP)	7.6	4.8	4.5	4.7
Revenue from refined oil	189.0	167.0	199.0	209.0
Of which:				
special tax on petr. products	71.0	78.0	83.0	90.0
customs tax and VAT	118.0	89.0	116.0	119.0
Subsidies	137.0	23.0	145.0	240.0
Net impact	862.0	651.0	551.0	541.7
(Percent of GDP)	8.1	6.2	4.9	4.5

[5] IMF, 2007, PSIA aide-mémoire "Cameroon: Fiscal and Distributional Implications of Alternative Fuel Pricing Policies."

7. **If the international fuel price were to rise by 30 percent, compared to the baseline price, the cost of the subsidy could amount to 3.4 percent of GDP** (CFAF 408 billion). Figure 1 shows the variation in the cost of the subsidy under different assumptions for world oil prices. Staff estimates indicate that international fuel prices would have to fall by about 50 percent on average, compared to the March 2011 level, to eliminate the subsidy.

Figure 1. Fuel Subsidy by Product as a Function of World Market Fluctuations

(Annual amount in billions of CFAF)



8. **The fuel pricing formula also raises two important issues:**

- The margin for SONARA increases with climbing world market prices. Setting the margin on an ad valorem basis leads to increasing government transfers to SONARA as international fuel prices increase, even at constant volumes of domestic consumption.[6]

- The impact of any price fluctuation in world markets on the shortfall is magnified by the link between the world market price, the tax structure, and the margin for SONARA. An increase of 10 percent in the import parity price leads to an increase of at least 23 percent in the shortfall (taking account of the additional impact of customs and VAT as well as the adjustment coefficient for SONARA).

[6] SONARA exports refined products to the extent that they are not absorbed by the domestic market. These products are sold at international market prices.

B. The Way Forward

9. **The government intends to revise the pricing formula to reduce the cost of the subsidy**. Options under consideration include (i) reducing the supplementary margin for SONARA and/or (ii) revising or eliminating other cost factors in the calculation of import parity, for example the cost of using SONARA's port facilities or the dead freight. Staff estimates indicate that if the margin for SONARA had been reduced from 15 percent to 10 percent at end-2010, the estimated shortfall for 2011 would be reduced from CFAF 240 billion to CFAF 218 billion (a reduction of 9 percent).

10. **More comprehensive reforms would be required to significantly reduce the burden of fuel subsidies on the budget, and to use limited resources more efficiently**. These reforms could include

- **Modifying the margin for SONARA and effectively liberalizing imports of refined oil products.** To solve the subsidy problem, the link between local and international price levels should be reestablished. In a first step the supplementary margin should be delinked from international fuel price levels by setting (based on the SONARA cost structure) a specific nominal transfer per liter of final product. In a second step, SONARA should be competing with international providers and thus selling its products domestically at international prices. Any consequent losses should be financed through direct budgetary transfers, preferably within a clear medium-term strategy for reforming the structure of the petroleum product sector. This reform should take into account SONARA's ongoing efforts to reduce its costs by upgrading its equipment.

- **Gradually phasing out the fuel subsidy by moving to automatic price adjustment and establishing an effective social protection mechanism**. A substantially more cost-effective approach to protecting the income of the poor would involve putting in place targeted transfer programs at the same time as fuel prices are increased in line with international price levels. Thus, the automatic pricing mechanism for consumer prices should be reintroduced, removing the subsidies according to a clear timeline. At the same time, targeted mitigating measures should be put in place to compensate the poor for the loss in purchasing power. Given the need to develop the capacity of the various ministries to design and implement effective and well-targeted transfer and expenditure programs, a gradual approach to fuel subsidy reform is warranted.

APPENDIX II—Banking System Vulnerabilities

A. Structure of the Deposit-Taking Financial System

1. **Twelve commercial banks operate in Cameroon and together represent more than 40 percent of assets and deposits in the CEMAC region**. At end-2010, more than half of Cameroon's gross commercial bank credit was concentrated in five subsidiaries of large international banking groups, with the three largest (subsidiaries of French banks, with minority shareholdings by the Cameroon government) accounting for most of that market share (Table 1). Three domestically-controlled banks, including the second largest bank in the country, had a joint market share of 32 percent of banking system credit and about 27 percent of total bank deposits. The remaining 13 percent of the credit market was covered by four relatively small subsidiaries of Nigerian and Togolese banking groups. There are no state-owned commercial banks in Cameroon.

2. **Nonbank deposit-taking institutions play a relatively minor role.** The microfinance sector as of end-2008 comprised 460 institutions with total deposits and loans equivalent to about 11 percent of the corresponding banking system totals. There is also a public nonbank deposit-taking institution, Crédit Foncier du Cameroun (CFC), which was created to finance social housing and was historically financed mostly by a 2.5 percent deduction from public and private sector salaries. Its customer deposits amount to less than 1 percent of banking system deposits.

B. Banking System Soundness and Vulnerabilities

3. **Aggregate bank financial soundness indicators show a significant deterioration during 2010**. On a system-wide average basis, the capital adequacy ratio (CAR) went down from about 10 percent in 2009 to 7 percent in 2010 of risk-weighted assets, partly reflecting the recognition of losses in two financially-weak banks. Nonperforming loans (NPLs) went up from 13 percent to 15 percent of total gross loans, the ratio of total provisions to NPLs fell from 79 percent to 75 percent, leading to an increase in uncovered NPLs (i.e., net of total provisions) from 24 percent to 44 percent of net worth. The low level of coverage of NPLs by provisions at some banks suggests that their reported CARs may overstate their actual capitalization conditions.

4. **A few domestically-or regionally-controlled banks are in weak financial condition.** Two institutions need to be recapitalized and some banks have vulnerabilities stemming from low provisioning for NPLs. In contrast, the five subsidiaries of large international banking groups covering 56 percent of Cameroon's bank credit market appear robustly capitalized. All banks show relatively high liquidity (the ratio of liquid assets to deposits averaged 47 percent in 2010).

5. **Credit concentration with respect to public enterprises is important.** As of end-2010, total risk-weighted credit exposure to the three strategic public enterprises represented more than 70 percent of regulatory capital in five banks.[1] However, risk-weighted credit exposure to individual public enterprises exceeded the regulatory credit concentration limit of 45 percent of regulatory capital at three banks (in all three cases to the oil refinery).

6. **Delays in government payments may be affecting private sector bank borrowers.** Such accumulated government payment obligations amounted to about 2.4 percent of GDP at end-2010. As a result, the repayment capacity of affected borrowers could be compromised. Data were not available to assess the magnitude of these affected exposures to the banking system.

7. **Banking sector vulnerabilities are also heightened by the poor business climate.** Risks in lending to the private sector (especially to SMEs) are increased by uncertain property rights and weak enforcement of creditor rights. The result is a bias toward concentration of credit risks in a few large companies (mostly state-owned) and toward related-party lending.

C. Regional Framework for Bank Regulation, Supervision, and Resolution

8. Important shortcomings in key prudential regulations and in supervisory capacities identified in the 2006 FSAP and 2008 FSAP update remain unaddressed. Provisioning rules allow for up to four years before NPLs are fully provisioned. Moreover, staffing constraints at the regional supervisory institution result in on-site examinations of Cameroonian banks at an average frequency of between three and four years, leaving scope for insufficient loan-loss provisioning and for inadequate identification of risks. Further, the limit on exposure to a single borrower and related parties of 45 percent of the regulatory capital is much higher than best practice (15 percent to 25 percent) and is routinely expanded to up to 90 percent for "strategic enterprises."

9. Weaknesses in the regional bank resolution framework have become more evident through recent difficulties in dealing with distressed banks. These weaknesses relate to (i) the potential for coordination problems between regional and local authorities to delay required prompt corrective action; (ii) the lack of clear rules and triggers for intervention; (iii) excessively long delays before key decisions can be made; and (iv) excessive room for interference by shareholders of insolvent banks in restructuring cases. The regional supervisor is currently working on a reform of the bank resolution framework.

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[1] In 2010, the three companies were the oil refinery (SONARA), the electricity company (AES-SONEL), and the cement company (CIMENCAM).

Table 1. Cameroon: Banking System Structure

	Controlled by			Ownership Participation of Cameroon Government (Percent)	Credit Market Share in		Share in Total Deposits in Cameroon 2010 (Percent)
	Group	Country of HQ	Controlling Share 2009 (Percent)		Cameroon 2010 (Percent)	CEMAC (Group) 2009 (Percent)	
Domestically controlled							
Afriland First Bank	SBF etc.	Cameroon	80.7		21.1	8.0	19.1
CBC	Fotso Group etc.	Cameroon	90.0		7.3	4.1	5.2
NFC	Various	Cameroon	100.0		3.1		2.3
Subtotal					31.5	12.1	26.7
Foreign controled - regional							
Ecobank	Ecobank	Togo	79.6		7.4	3.4	8.6
UBC	Oceanic	Nigeria	54.0		2.3		3.2
BAC	AFG C ET EA	Togo	54.5		1.5		2.1
UBA	UBA Plc	Nigeria	100.0		1.3	0.7	1.8
Subtotal					12.5	4.0	15.7
Foreign controled - other							
BICEC	Banque Populaire	France	52.5	17.5	20.1	10.3	19.6
SGBC	Societé Generale	France	58.1	25.6	19.5	9.4	16.5
CA-SCB	Crédit Agricole	France	65.0	35.0	10.8	5.2	11.9
SCBC	Standard Chartered	UK	100.0		3.7		6.4
Citibank	Citibank N.A.	US	100.0		1.9	1.1	3.2
Subtotal					56.0	25.9	57.6
TOTAL					**100.0**	**42.0**	**100.0**

Sources: COBAC; and staff calculations.

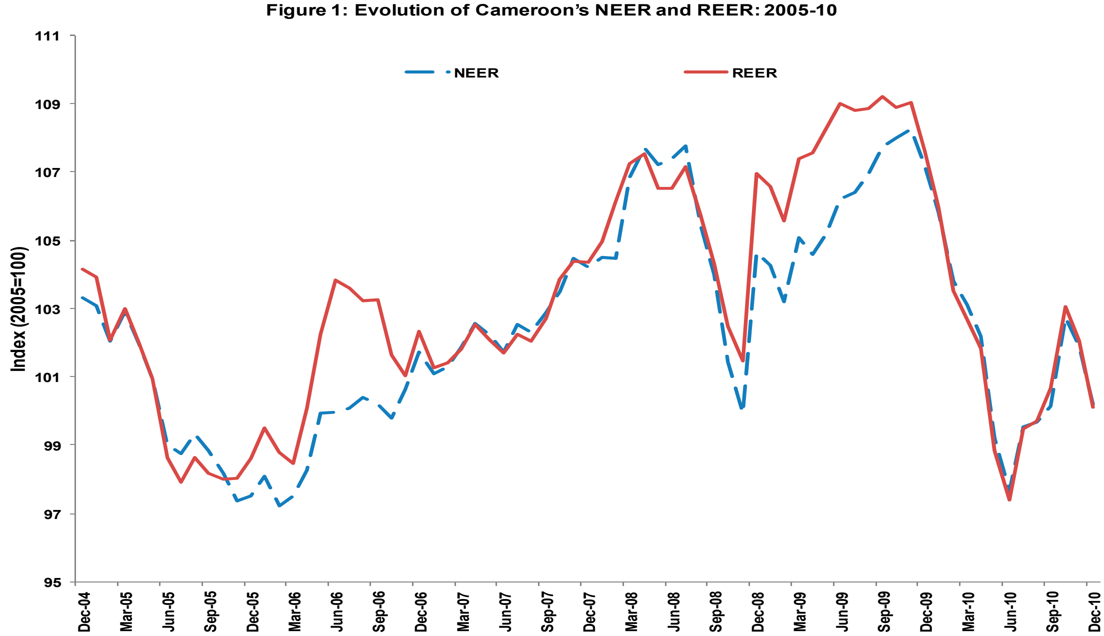
APPENDIX III—External Competitiveness in Cameroon

The results of four different quantitative methodologies used to assess Cameroon's real effective exchange rate (REER) are inconclusive, and the estimates tend to be associated with wide confidence intervals. There is thus no compelling evidence to suggest that Cameroon's REER is misaligned. These methodologies were complemented by a range of survey data, showing that Cameroon's competitiveness remains clearly hampered by structural obstacles, mostly related to a weak business environment, corruption, and high costs of services.

A. REER Assessment

1. During 2010, Cameroon's nominal effective exchange rate (NEER) depreciated by 4.5 percent, while the real effective exchange rate (REER) based on the Consumer Price Index (CPI) depreciated by 6.3 percent. This offset the appreciation registered between 2006 and 2009 (Figure 1). The decline in the NEER primarily resulted from the depreciation of the euro (to which the CFAF is pegged) against other major currencies. Cameroon's REER, as measured using unit labor costs in the manufacturing sector, shows a similar trend, and also registered a depreciation of around 6 percent in 2010.

Figure 1: Evolution of Cameroon's NEER and REER: 2005-10



Source: International Financial Statistics, International Monetary Fund.

2. The exchange rate assessment, using four different methodologies, shows mixed results. The external sustainability and macroeconomic balance approaches point to an overvalued REER, while the equilibrium REER and the Balassa-Samuelson approaches suggest an undervalued

REER.[1] The macroeconomic balance approach estimates a current account norm using some of the fundamental determinants of the current account balance (CAB) to GDP ratio.[2] Staff estimates resulted in a norm equivalent to a current account deficit of 1 percent of GDP. The estimated adjustment necessary in the REER to close the gap between the norm and the staff's projected CAB at the end of the WEO projection period (2016) suggests that a REER depreciation of around 15 percent would be required. However, the 90 percent confidence interval is wide and includes zero.

3. For oil-producing countries, alternative methodologies have been developed to take into account the expected return on oil wealth in deriving the current account norm in the macroeconomic balance approach. While oil continues to be important for Cameroon in terms of exports, accounting for close to 55 percent of total exports during 2000–09, it represents a relatively small share of total output, accounting for around 7.4 percent of GDP in the same period. Moreover, oil production is projected to decline gradually. These two elements make the conclusions in terms of exchange rate misalignment relatively insensitive to the inclusion of the return on oil wealth in the estimation of the current account norm.

4. The external sustainability approach, which estimates the CAB to GDP ratio needed to stabilize the net foreign asset (NFA) position of a country at Cameroon's NFA position in 2009,[3] finds that the REER would need to depreciate by around 13 percent.

5. The equilibrium REER approach, which is based on the estimation of the medium-term relationship between the REER and its fundamentals,[4] suggests that Cameroon's REER is undervalued by almost 13 percent. Again, the 90 percent confidence interval is wide and includes zero.

6. The fourth approach is based on the Balassa-Samuelson effect, according to which countries with higher levels of per capita income experience higher productivity growth in the

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[1]The estimates of each of the four methods are presented in the lines in Figure 2, which shows the point estimates as well as the upper and lower bounds of the 90 percent confidence interval around each of the estimates.

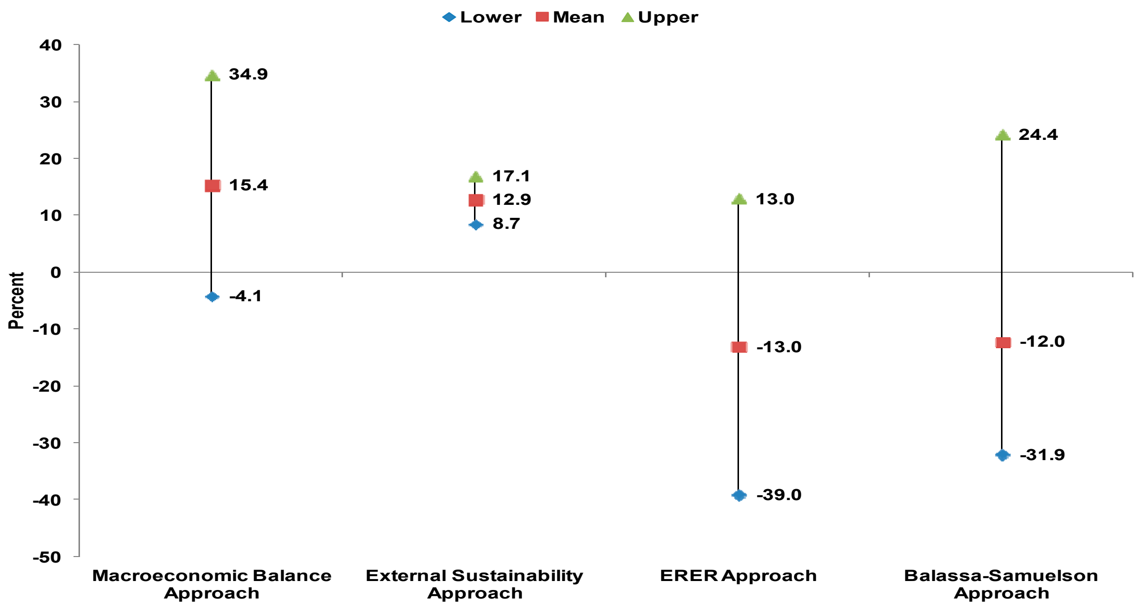
[2]The determinants included in the regression as independent variables are the relative old age dependency ratio, relative population growth, relative income, relative output growth, oil trade balance, relative fiscal balance, initial net foreign assets, aid inflows, and remittance inflows. See Francis Vitek (2011), "Exchange Rate Assessment Tools for Advanced, Emerging, and Developing Economies," mimeo, International Monetary Fund, April 2011.

[3]This NFA position is for Cameroon's economy as a whole, not just for the banking system. Data are taken from the updated and extended version of the Lane and Milesi-Ferretti (2007) dataset. See Lane and Milesi-Ferretti (2007), "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004," *Journal of International Economics*, Vol. 73, November 2007, pp. 223-250. Data for 2010 are not yet available.

[4]The determinants included in the regression as independent variables are the terms of trade, relative productivity, relative government consumption, initial net foreign assets, aid inflows, and remittance inflows. See Vitek (2011), op. cit.

tradable goods sector and thus a more appreciated level of the REER.[5] The results of this approach suggest that the REER in Cameroon is undervalued by 12 percent. Again, the 90 percent confidence interval is very wide and includes zero.

Figure 2. Cameroon: Required change in the REER to bring it to equilibrium level



Source: Staff estimates.

B. Survey Data Analysis

7. Traditional methods for the exchange rate assessment were complemented with a range of survey data, to avoid drawing inferences based on a single, specific indicator.

8. The Global Competitiveness Index (GCI) ranks Cameroon 110 out of 139 surveyed countries. Cameroon ranks lower than the sub-Saharan African (SSA) average for all the dimensions of the index, especially for quality of institutions, degree of local market competition, and financial market development (Figure 3). With respect to the business environment, Cameroon slightly improved its ranking in the 2011 World Bank Doing Business Indicators (to 168, from 171 in 2010), although it again ranks below the SSA average (Table 1). According to the World Bank Enterprise Survey (2009), Cameroonian firms identify practices undertaken by competitors in the informal market, tax administration, and access to finance and to electricity as major constraints (Figure 4). Access to credit, taxation, and corruption are seen as major impediments in the *Recensement General des Enterprises* (2009), conducted by Cameroon's Ministry of Economy. The 2010 Enabling Trade

[5] See a presentation of this approach in Peter Isard, "Equilibrium Exchange Rates: Assessment Methodologies," IMF WP/07/296.

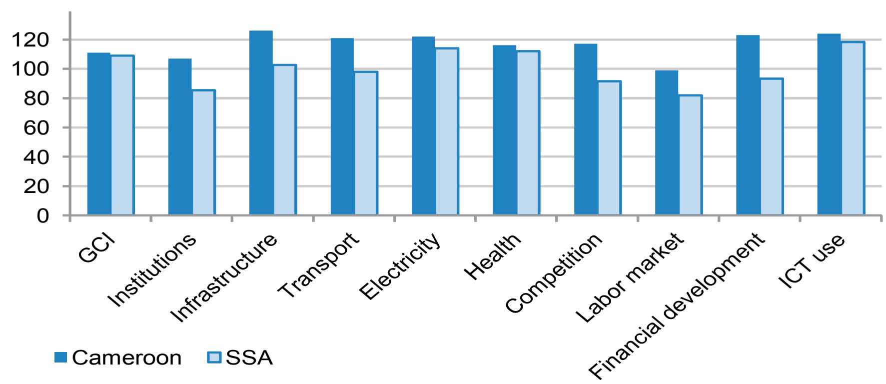
Index (ETI) ranks the country below the SSA average (Figure 5), with transport and communications' infrastructure identified as major constraints.[6]

9. Patterns for cross-country comparisons of infrastructure endowment and costs are mixed. World Bank infrastructure access indicators place Cameroon better than or in line with CEMAC and SSA's LICs for mobile telephone lines but below for internet access (Table 2). The country's road density is, however, substantially lower than the SSA average (Figure 6). In terms of costs of infrastructure, Cameroon has one of the highest tariffs for power and road freight in SSA, while charges for mobile communication, internet access, and container freight are close to the SSA countries' average (Table 3).

10. Data from the World Bank Enterprise Survey indicate that more than 60 percent of Cameroonian firms surveyed identify corruption as a major constraint to business (for all SSA, this share is 35 percent). Most enterprises surveyed claim they are expected to provide informal payments to public officials or to give gifts to secure a government contract, with the incidence of this phenomenon much higher than for all SSA (Table 4).

11. In sum, most of these survey data show that Cameroon's overall business environment is holding back its competitiveness.

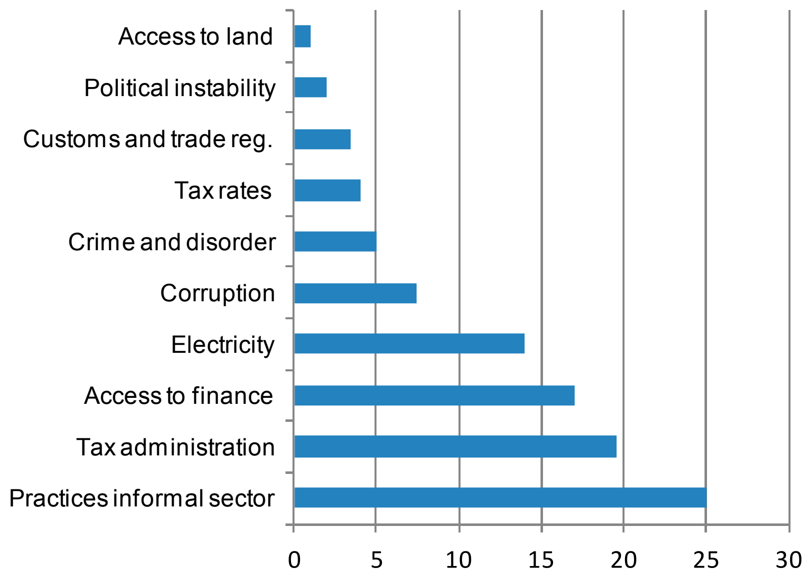
Figure 3. Global Competitiveness Index 2011 (ranking out of 139)



Source: World Economic Forum, 2010

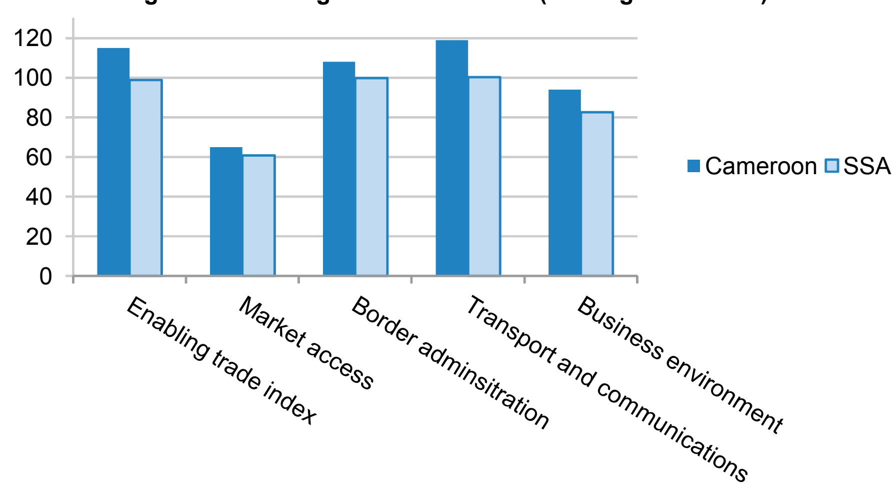
[6] On border administration, the World Bank Enterprise Survey (2009) shows that in Cameroon the average time for import clearance is 24 days, almost the double of the time needed in the rest of SSA countries (12.7 days). Furthermore, regarding the inefficiencies of port administration, a World Bank study indicates that the dwell time in the port of Douala exceeded 20 days on average in 2010, compared to a global benchmark of 3 to 4 days agreed on by sector experts, and 11 days set in the concession contract signed in 2005 with the port management entity. See Refas and Cantens, "Why Does Cargo Spend Weeks in African Ports? The Case of Douala, Cameroon," Policy Research Working Paper 5565, The World Bank, February 2011.

Figure 4. **Top 10 Constraints to Firm Investment 2009**
(% of firms identifying problem as their greatest obstacle)



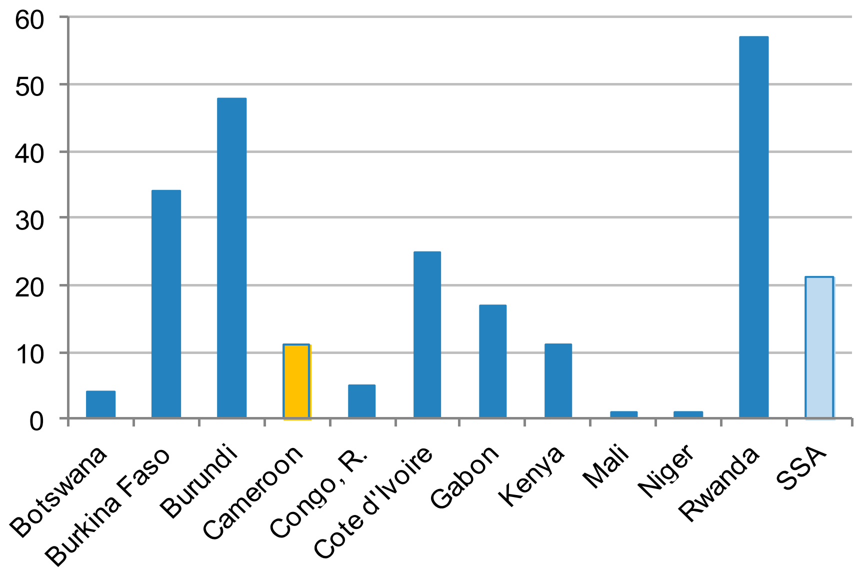
Source: World Bank, Enterprise Survey, 2009

Figure 5. Enabling Trade Index 2010 (ranking out of 125)



Source: World Economic Forum, 2010.

Figure 6. Road Density, 2004 (km of road per 100 sq. km of land area)



Source: World Bank, World Development Indicators, 2010.

Table 1. Doing Business Indicators 2011 (ranking out of 183)

	Cameroon	CEMAC	SSA
Ease of Doing Business	168	172	137
Starting a Business	131	164	126
Registering Property	149	129	121
Getting Credit	138	140	120
Protecting Investors	120	144	113
Paying Taxes	169	170	116
Trading Across Borders	155	160	136
Enforcing Contracts	173	148	118
Closing a Business	141	160	128

Source: World Bank, World Development Indicators, 2011

Table 2. Telecom Access in Cameroon

Indicators	Cameroon	CEMAC	SSA LICs	SSA Resource Rich
Internet subscribers 2008 (per 100 people)	3.8	2.8	5.7	11.8
Mobile subscribers 2008 (per 100 people)	32.3	28.9	25.6	37.3
Main telephone lines 2008 (per 100 people)	1.04	0.7	0.8	0.83

Source: World Bank, Cameroon Economic Update, Issue No 1, January 2011.

Table 3. Cost of Infrastructure in Cameroon

	Cameroon	**CEMAC**	**SSA**
Power tariff rates (US cents per Kwh)	10.9	10.9/30	0.03/0.43
Container cargo handling charge (US$ per TEU)	220.0	120/320	100/320
Road freight tariff rates (US$ per tonne-Km)	0.1	0.13	0.04/0.13
Monthly mobile basket (US$)	14.4	13/18	2.6/21
Monthly internet basket (US$)	48.0	48/110	6.7/148

Source: World Bank; Cameroon Economic Update, Issue No 1, January 2011.

Table 4. Enterprise Survey on Corruption.[1] Percentage of Firms…

	Cameroon	CEMAC[2]	SSA
... identifying corruption as a major constraint	61.3	58.7	34.7
... expected to pay informal payment to public officials	50.8	42.0	35.2
... expected to give gifts to get an operating license	39.6	33.8	19.5
... expected to give gifts in meetings with tax officials	30.8	28.0	18.3
... expected to give gifts to secure a government contract	62.9	53.0	38.3

Source: World Bank, Enterprise Survey, 2009.

[1] Data are for 2006, 2007, and 2009, depending on the economy. For Cameroon these are for 2009.

[2] Excluding Central African Republic and Equatorial Guinea, for which data are not available.

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

Approved by Seán Nolan and Dhaneshwar Ghura (IMF) and
Jeffrey D. Lewis and Marcelo Giugale (World Bank)

June 9, 2011

While Cameroon's risk of debt distress remains low, there are indications of vulnerability to external shocks. This joint IMF-World Bank low-income country debt sustainability analysis (LIC-DSA) follows up on the LIC-DSA prepared in 2010 and integrates the authorities' intentions to increase temporarily infrastructure investment through external borrowing, part of which is to be on nonconcessional terms. Total public debt indicators remain at comfortable levels, and all external debt ratios remain well below the policy-dependent indicative thresholds under the baseline scenario, as well as under three of the four stress tests. A breach in the threshold occurs in the case of an extreme export shock. In addition, there has been a fast pace of accumulation of nonconcessional borrowing commitments since early 2010. These new signs of debt vulnerability call for a cautious approach to nonconcessional borrowing, and stress the importance of strengthening debt management, enhancing nonoil revenue mobilization, and widening the export base in light of the anticipated long-run decline of oil revenues.

I. Background

1. **This report follows up the debt sustainability analysis (DSA) prepared in 2010 (IMF Country Report No. 10/259).** The underlying macroeconomic framework reflects the latest IMF Article IV discussions with the authorities (March 2011). Since the 2010 DSA,

[1] Prepared by IMF and World Bank 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 2011 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 revises the 2010 DSA (IMF Country Report for Cameroon 10/259, available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=24126.0). This DSA is conservatively undertaken on gross (as opposed to net) basis as no data on Cameroon's claims are available.

Cameroon has been slowly recovering from the adverse effects of the global crisis. After declining in 2009, due to the drop in commodity prices and volumes, Cameroonian exports rebounded in 2010. The recovery of nonoil sectors contributed to the increase in the real GDP growth to 3.2 percent in 2010, from 2 percent in 2009.

2. **The DSA is based on end-2010 data provided by the Cameroonian authorities.** The debt data currently cover central government external debt and an estimate of domestic debt. Despite efforts to improve debt statistics, the coverage of liabilities of public enterprises and municipalities, contingent liabilities of financial institutions, and government obligations to parastatal entities remains uneven.[2]

Text Table 1. Cameroon: Stock of Public Debt, 2005-10

	In billions of CFAF				In percent of total				In percent of GDP			
	2005	2008	2009	2010	2005	2008	2009	2010	2005	2008	2009	2010
Total	4,534.4	1,014.6	1,115.2	1,346.4	100.0	100.0	100.0	100.0	51.8	9.5	10.6	12.1
External	3,293.5	577.8	575.1	723.0	72.6	56.9	51.6	53.7	37.6	5.4	5.5	6.5
Domestic	1,240.9	436.9	540.1	623.4	27.4	43.1	48.4	46.3	14.2	4.1	5.2	5.6

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

3. **Cameroon's debt situation has improved in the last five years.** The public debt-to-GDP ratio declined from about 52 percent in 2005 to 10 percent in 2008, thanks to HIPC and MDRI relief in 2006 and prudent borrowing policies since then (Text Table 1). In recent years, the maintenance of low levels of external debt reflects (i) a reduction in external borrowing by public enterprises; (ii) the settlement of most outstanding debt to commercial creditors; and (iii) limited disbursements from commitments owing to low execution rates of public investment.

4. **The authorities' medium-term strategy includes stepping up public investment.** Limited infrastructure is perceived as a major bottleneck to achieving the faster economic growth rates needed to reduce poverty sustainably. Infrastructure spending, especially in transportation and power generation, can play a critical role in stimulating sectors vital to growth in Cameroon.[3] Financing for the additional public spending is expected to come from

[2] A few Cameroonian banks are currently in weak financial condition. Recapitalization needs have been estimated at CFAF 60 billion (0.5 percent of GDP) for one distressed bank and are still uncertain in the case of two weak smaller banks. The authorities are in the process of recovering nonperforming loans and attracting private investors to the weak banks in order to minimize the government's contribution to the banks' recapitalization. Staff has included a tentative government contribution of 0.2 percent of GDP in the fiscal projections for 2011 and factored it into the DSA.

[3] Calderon (2009) suggests for instance that annual real GDP growth in Cameroon could increase by 4 ½ percentage points if the level of its infrastructure were to be upgraded to that of Mauritius (the country having the best infrastructure in sub-Saharan Africa). See Calderón, C. 2009, "Infrastructure and Growth in Africa," Policy Research Working Paper 4914, World Bank, Washington, D.C.

a combination of domestic and external borrowings. While the authorities will continue to seek concessional borrowing, these resources will be insufficient and authorities will be under pressure to turn to nonconcessional sources of financing.

5. **The debt stock has been on an upward trend since 2008.** The rise in external debt has been generated by some increase in external borrowing by the central government and public enterprises. Domestic debt has been boosted by the outcome of the audits completed in 2009 and 2010, and by the issuance of a CFAF 200 billion government bond, of which CFAF 158 billion were subscribed by residents (Figure 1).[4]

6. **Debt indicators are nevertheless lower than projected in the 2010 DSA**. The ratio of total public debt to GDP at end-2010 (12 percent) was lower than envisaged in the 2010 DSA (13.4 percent). The lower ratio is explained by higher-than-projected nominal GDP, and lower than previously anticipated level of new domestic and external borrowing (Text Table 2). The lower new borrowing is mostly due to the fact that the previously projected financing gap was not met with new loans, but was resolved by a compression of public investment spending and by the accumulation of payment obligations, notably to the oil refinery SONARA.

Text Table 2. Public Debt Data, 2009-10 (In billions of CFAF)

DSA 2011	**2009**	**2010**
Total public debt	1,115	1,346
In percent of GDP	11	12
Stock external	575	723
Of which: new external borrowing	…	119
Stock domestic	540	623
Of which: new domestic borrowing	…	158
GDP	10,474	11,134
DSA 2010	**2009**	**2010**
Total public debt	1,010	1,490
In percent of GDP	9.6	13.4
Stock external	511	733
Of which: new external borrowing	…	233
Stock domestic	498	757
Of which: new domestic borrowing	…	304
GDP	10,474	11,091

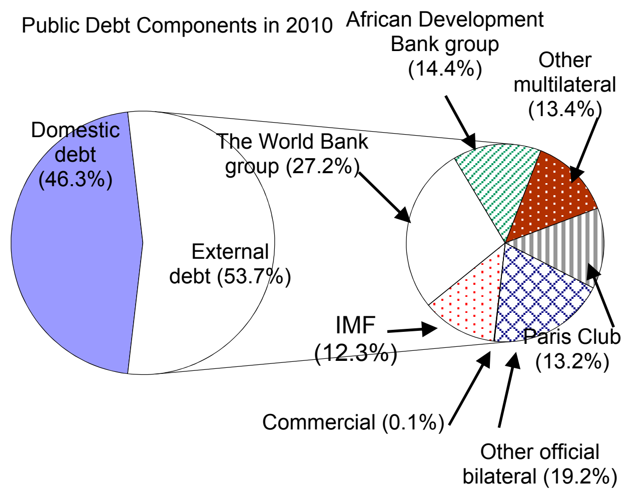
Sources: Cameroonian authorities; and Bank-Fund staffs estimates.

[4] Domestic debt does not include unsettled payment obligations (notably to the oil refinery). These are in fact not recognized as part of domestic debt by the authorities and would increase its level by 3.6 percent of GDP.

Figure 1. Cameroon: Public- and Publicly-Guaranteed Debt Structure, End-2010

Domestic debt components in 2009-10

	(In billions of CFAF)		(% of total)
	2009	2010	2010
Structured debt	**349**	**445**	**71%**
Debt to banking sector	*82*	*95*	*15%*
Securitized debt to commercial banks	82	95	15%
BEAC cash advance to the Treasury	0	0	0%
Non-banking sector debt	*266*	*350*	*56%*
Securitized debt	70	70	11%
o/w new bond	...	158	25%
Non-securitized debt	145	145	23%
Non-structured debt	**102**	**178**	**29%**
2010 audit	...	18	3%
2009 audit	90	90	14%
Previous period audit	...	70	11%
Total stock of debt*	**540**	**623**	**100%**



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

7. **The composition of external public debt is skewed toward multilateral debt.** Following HIPC/MDRI debt relief in 2006, the share of bilateral debt became predominant.[5] However, reflecting the impact of the crisis, the share of multilateral lenders has increased more recently with the provision of Fund assistance under the RAC-ESF facility in 2009 and increased disbursements from IDA and the AfDB in 2010 (Figure 1).[6]

II. THE DSA BASELINE SCENARIO

8. **Relative to the 2010 DSA, the baseline macroeconomic framework incorporates a gradual recovery from the crisis, more optimistic assumptions on the oil price, and higher external nonconcessional borrowing.** Medium-term projections of real GDP growth, fiscal revenue, and exports have been revised upward, on account of an expected

[5] The share of bilateral debt dropped from 53 percent of the total in 2006 to 32.4 percent in 2010.

[6] IDA and AfDB disbursements increased by about CFAF 46 billion and CFAF 32 billion in 2010, relative to 2009.

pick up in oil production. Long-term projections, however, are broadly unchanged (Text Table 3).[7]

9. **Overall outstanding debt is projected to be lower than in the previous DSA for the medium term, while higher in the long term.** A lower level of debt in the medium term reflects that, in contrast to the 2010 DSA, no financing gap is assumed for 2012–16; conversely, higher debt in the longer term is associated with a gradual increase of new external borrowing (including on nonconcessional terms) to help finance infrastructure investments, in line with the authorities' stated intentions. The authorities have developed a list of priority high-return infrastructure projects in key sectors. Growth-enhancing investment projects are also expected to be partly financed through foreign direct investment and other private capital flows financing public-private partnerships (PPPs).

Text Table 3. Cameroon: Key Macroeconomic Assumptions, 2010–31 (DSA 2011 vs. DSA 2010)[1]

	2010-11	2012-16	2017–31
Real GDP growth (percent)			
DSA 2011	3.5	4.6	4.6
DSA 2010	2.7	4.4	4.6
Total revenue (percent of GDP)[2]			
DSA 2011	17.1	18.6	16.2
DSA 2010	16.8	18.5	16.4
Exports of goods and services (percent of GDP)			
DSA 2011	26.5	29.1	24.0
DSA 2010	25.6	28.3	24.0
Oil price (U.S. dollars per barrel) [3]			
DSA 2011	89.5	88.6	78.9
DSA 2010	68.9	74.2	75.3

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

[1] The 2010 DSA covers the period 2010-30.

[2] Total revenue, including grants.

[3] WEO assumptions for 2011-16 and the 2007-16 average price for the period 2017-31, excluding a discount of US$4 for 2011, US$6 for 2012 and US$10 for 2013-31 for the uncertainty on price projections (prudence factor) and US$3 for the quality of Cameroon's oil.

10. **Projections of new external borrowing take into account outstanding commitments at the end of 2010 and new external commitments already signed and expected to be signed during 2011–12.[8]** Based on information received from the authorities on new external commitments signed and under negotiation, staffs project new external

[7] The temporary increase in oil production is projected by the National Hydrocarbon Company (SNH), reflecting the coming on-stream of ongoing investments, after successful exploration during the last three years.

[8] During January 2010–April 2011, the authorities contracted 30 borrowing agreements, equivalent to almost 6 percent of 2010 GDP. At least 15 of these new loans were nonconcessional, with an average grant element of 21.3 percent. Future nonconcessional borrowings are assumed to have an average grant element of 20 percent.

commitments to reach CFAF 855 billion in 2011 (7 percent of GDP) and CFAF 994 billion (7.7 percent of GDP) in 2012 (Text Table 4). These commitments will be mostly aimed at alleviating infrastructure bottlenecks in energy, roads, ports, and water supply. Detailed information provided by the authorities indicates that 78 percent and 75 percent of the new commitments in 2011 and 2012, respectively, would be nonconcessional.[9] Staffs assume that new borrowing commitments after 2012 will decline gradually to 3 percent of GDP by 2016. Concerning disbursements from outstanding commitments, a rate of 15 percent has been assumed for 2011, based on the average of previous years' ratios. For 2012–16, the disbursement rate is projected to be equal to 10 percent in light of the volume of contracts that are at stake, which may challenge absorption capacity, and of the projects involved, which have a long-term realization horizon. Taking into account the composition of outstanding and projected stocks of external commitments, the share of nonconcessional disbursements is projected to increase gradually from 20 percent in 2011 to 60 percent in 2014, and 80 percent in 2031 (Text Table 5).

Text Table 4. Projected External Commitments (In billions of CFAF)

	2010	2011		2012	2013	2014	2015	2016
		Jan-Apr	Jan-Dec			Proj.		
Outstanding commitments at end 2010	757.6							
New external commitments	339	334	855	994	623	595	552	505
In percent of GDP	*3.0%*	*2.8%*	*7.1%*	*7.7%*	*4.5%*	*4.0%*	*3.5%*	*3.0%*
Concessional (as % of total)	*61%*	*15%*	*22%*	*25%*	*30%*	*30%*	*30%*	*30%*
Concessional (as % of GDP)	*1.9%*	*0.4%*	*1.6%*	*1.9%*	*1.3%*	*1.2%*	*1.1%*	*0.9%*
Non-concessional (as % of total)	*39%*	*86%*	*78%*	*75%*	*70%*	*70%*	*70%*	*70%*
Non-concessional (as % of GDP)	*1.2%*	*2.4%*	*5.5%*	*5.8%*	*3.1%*	*2.8%*	*2.5%*	*2.1%*

Sources : Cameroonian authorities (for outstanding commitments at end-2010 and end-April 2011); and Bank-Fund staffs estimates.

Text Table 5. New External Disbursements (n billions of CFAF)

	2011	2012	2013	2014	2015	2011-15	2016-31
New external disbursements, 2011 DSA	143	172	245	282	319	232	401
In percent of GDP	1.2%	1.3%	1.8%	1.9%	2.0%	1.7%	1.6%
Concessional	115	103	122	113	96	110	100
In percent of total	80%	60%	50%	40%	30%	52%	25%
Nonconcessional	29	69	122	169	223	122	302
In percent of total	20%	40%	50%	60%	70%	48%	75%
New external disbursements, 2010 DSA	293	299	266	273	300	286	398
in percent of GDP	2.5%	2.4%	2.0%	1.9%	1.9%	2.1%	1.5%
Concessional	238	244	210	205	217	223	272
In percent of total	81%	81%	79%	75%	72%	78%	68%
Nonconcessional	55	56	56	68	83	63	129
In percent of total	19%	19%	21%	25%	28%	22%	32%

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

[9] Total nonconcessional new borrowing commitments in 2011-12 are projected at CFAF 1,406 billion. This DSA will provide input to World Bank staff in order for them to establish ceilings for nonconcessional borrowing (NCB) in 2011 and 2012, under the IDA's nonconcessional borrowing policies.

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

Higher projected oil prices and the expected rebound in nonoil exports have led to an upward revision of real GDP growth for 2011 to 3.8 percent. Growth is expected to increase gradually to 5 percent by 2014 on assumptions of a temporary rebound in oil output in the near-term and increased capital spending. Longer-term growth is expected to average 4.6 percent for 2016–31, as in the 2010 DSA, and would be driven by the expansion in nonoil sectors. Average consumer price-based inflation is expected to stabilize at about 2.5 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 revenues, which are expected to pick up from 4.5 percent of GDP in 2010 to 6 percent of GDP in 2014 and to steadily decline to about 0.4 percent of GDP by the end of the projection period. Nonoil revenues are projected to rise from about 12.3 percent of nonoil GDP in 2010 to almost 16 percent by 2031, reflecting sustained implementation of measures to strengthen tax and custom administrations. The nonoil primary deficit is projected to stay in the range of 5 percent to 6 percent of nonoil GDP in 2011–16 and to gradually decline, reaching almost zero towards the end of the projected period. Net of public investment spending, the nonoil primary balance would improve from a deficit of 3.4 percent of nonoil GDP in 2010, turning into a surplus in 2021 and reaching 3 percent in 2031. This path is consistent with an expected higher control of current spending, increasing allocations for public infrastructure, and improvements in public financial management, including improving expenditure execution in priority areas.

The external current account deficit, including grants, is projected to remain in the range of 2-4 percent of GDP. The volume growth of nonoil exports is projected, as in the previous DSA, to increase from 4.6 percent in 2011 to an average of more than 9 percent for the rest of the period. The growth in import volume is projected to reflect the acceleration of real GDP growth in 2011-14, and also takes into account the increase in imports of equipment and intermediate goods for the implementation of infrastructure projects. The current account deficit is expected to be financed through foreign direct investment, external public borrowing, and other private capital inflows.

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[1] The baseline scenario uses the latest IMF *World Economic Outlook* assumptions (May 2011).

III. External Debt Sustainability

Baseline Scenario

11. **The LIC debt sustainability framework is guided by country-specific indicative 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. Based on its three-year moving average CPIA score, despite being at the SSA average and above the CEMAC average, Cameroon ranks as a

'weak performer' under the joint IMF/World Bank debt sustainability framework (Text Table 6).[10] 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 percent and 25 percent, respectively.[11]

Text Table 6. Country Policy and Institutional Assessment Ratings, 2006-09

	2006	2007	2008	2009
Cameroon	3.22	3.23	3.21	3.21
CEMAC[1]	2.78	2.74	2.74	2.79
SSA[1]	3.15	3.17	3.15	3.17

[1] Poverty Reduction and Growth Trust (PRGT) eligible countries.
Sources: World Bank-World Development Indicators.

12. **The DSA calculations indicate that Cameroon's external debt is sustainable.** Under the baseline scenario, all debt indicators remain below their thresholds over the projection horizon (Text Table 7 and Figure 2).[12] The gradual rise in the PV of debt-to-exports ratio reflects the assumption that Cameroon will continue to borrow to finance infrastructure, and will also have gradually less access to new borrowing on concessional terms. Figure 2 also shows that debt-service ratios would increase after 2020 but that the debt situation would remain manageable.

[10] The CPIA rating ranges from 1 (weak performer) to 6 (strong performer). Based on a three-year average of the CPIA rating, an average score at or above 3.75 corresponds to strong performance; an average score higher than 3.25 and less than 3.75 reflects medium performance; and an average score at or below 3.25 corresponds to poor policy performance. Cameroon's CPIA rating declined from 3.3 in 2005 to 3.2 in 2006, a rating corresponding to weak performance, and has remained at that level for the last three years. The downgrade was the result of deterioration in the following areas: business regulatory environment, policies and institutions for environmental sustainability, structural policy cluster, and efficiency of revenue mobilization.

[11] The 2011 LIC-DSA template gives the option to add remittances to exports of goods and services and show the present value of external debt to the total of exports of goods and services and remittances, with a threshold of 90 percent. Since for Cameroon the amount of remittances is far below the required 10 percent of GDP (it was estimated at 0.04 percent of GDP during 2007–09), the threshold of PV of external debt to exports of 100 is retained.

[12] The discount rate has been maintained at 4 percent, consistent with the latest LIC-DSA template.

Text Table 7. Cameroon: Baseline Debt Ratios, 2011–31

	Thres-hold	2011	Medium term 2012–15	Long run 2016–31
External				
PV of debt-to GDP	30	5.2	7.2	12.4
PV of debt-to-exports	100	19.8	25.2	51.6
PV of debt-to-revenue	200	29.9	38.6	76.0
Debt service-to-exports	15	1.0	1.1	3.0
Debt service-to-revenue	25	1.5	1.7	4.3
Public				
PV of debt-to-GDP		13.1	13.0	13.9
PV of debt-to-revenue		72.1	68.4	98.0
Debt service-to-revenue		6.4	8.7	9.7

Sources: Bank-Fund staffs estimates.

Alternative Scenario and Stress Tests

13. **Alternative scenarios and bound tests show that debt indicators remain below their thresholds over the projection horizon, except for the large export shock scenario.** The historical 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 historical scenario is not relevant and will not be considered in this analysis, as in the 2010 DSA.

14. **The alternative low-growth scenario indicates that Cameroon's external debt dynamics is sensitive to the assumption on real GDP growth.** An alternative downside scenario assuming a growth rate of 2 percentage points below the baseline is considered for all the projection period (A3 in Table 2a). On a technical level, this scenario could reflect a situation in which the additional infrastructure investment does not produce any substantial impact on growth. This alternative scenario results in a PV of debt-to-GDP ratio of 17 percent by 2031, which is higher than the baseline scenario and highlights the need for institutions to support a sound debt management strategy and create conditions for strong returns on infrastructure investment.

15. **An export shock would be a source of increased debt vulnerability, resulting in a small and temporary breach of the threshold.** The export stress test suggested in the DSA template (exports growth in US$ terms in 2012–13 at 1 standard deviation below the 10-year historical average) could be associated with a large drop in oil price or in external demand in the nonoil exports coming from a new global crisis. The stress test assumes a

drop of 6.7 percent in the value of exports in both 2012 and 2013 and a return to the growth rates assumed in the baseline scenario thereafter.[13] Although the drop is less than in the previous DSA, the magnitude of the shock is much larger than before because of the stronger export performance projected in the baseline for 2012–13. Hence, the amount of new borrowing required to compensate for the effects of the shock is higher than in the 2010 DSA, leading to a breach in the threshold of less than 5 percent over 2020–25 (Figure 2).

IV. PUBLIC SECTOR DEBT SUSTAINABILITY

16. **The DSA baseline shows that public debt sustainability will continue to be preserved.** It is assumed that new domestic debt will be generated only by issuance of government securities and bank financing of half of the projected financing gap in 2011. New government securities issuance in the domestic market started in 2010 (consistent with authorities' plans), and amounted to CFAF 200 billion (1.7 percent of GDP), of which CFAF 158 billion were subscribed by non-residents. New bond issuances are projected to amount to up to CFAF 100 billion each year during 2012–14.[14] In the baseline scenario, the public debt ratio rises gradually in the medium term to 17.8 percent of GDP by 2021, driven by both new domestic and external borrowings. The level of public debt would then gradually decline to near 14 percent in 2031. The PV of debt-to-GDP and of debt-to-revenue ratios are expected to rise until 2023 and start declining thereafter (Figure 3 and Table 1a).

17. **Alternative scenarios and bound tests indicate that all debt sustainability indicators remain broadly on stable paths and do not reveal particular vulnerabilities** (Table 2a). However, the bound test stressing growth at one standard deviation below its historical average shows the most sensitive debt dynamics relative to the baseline. Also, in the scenario of an unchanged primary balance from 2011, the PV of debt and the debt-service-to-revenue ratios deviate substantially from the baseline providing support for the envisaged fiscal adjustment over the medium term.

18. **Cameroon continues to strengthen its debt management framework, though more efforts are required going forward**. Following joint Bank-Fund technical assistance, the authorities are working to implement a new debt management strategy aligned with CEMAC guidelines. Since 2009, a quarterly report is published on the country's debt situation. The authorities have started producing a DSA and have formulated a medium-term debt management strategy for central government debt, which has been annexed to the 2011

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[13] The 2010 DSA had a drop of 8.2 percent, corresponding to the average growth rate of exports in 2000-09 minus 1 standard deviation below the 10 year historical average.

[14] A new issuance of bonds for CFAF 150 billion and of Treasury bills for CFAF 50 billion has been budgeted for 2011. The macroeconomic framework underlying the DSA retained one-third of the amount for the bond issuance as prospects for issuing the total are still uncertain.

budget law. The National Debt Committee instituted in 2008 is now in place, although not yet operational. The last partial audit of domestic arrears was conducted in 2010. The authorities are also working on a reform plan that would strengthen the country's debt management capacity by improving the information system, cash management, and human resources. As next steps, the government would need to ensure that the mandate given the National Debt Committee, and the reform plan, are effectively implemented.

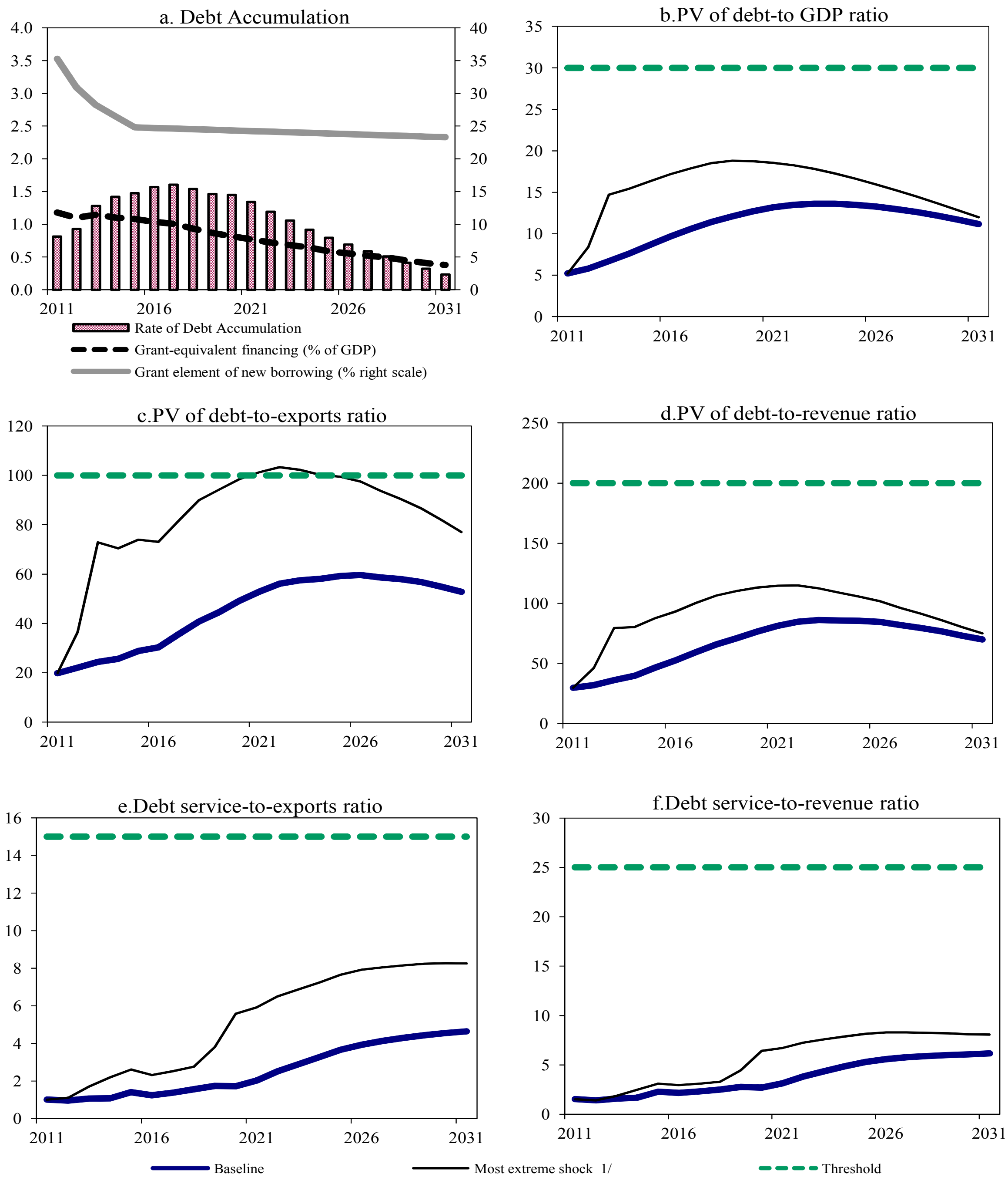
V. CONCLUSION

19. **Cameroon's risk of debt distress remains low, but there are signs of some greater vulnerability, compared to the 2010 DSA.** All debt ratios remain below the policy-dependent thresholds in the baseline. However, ongoing and projected new domestic and external borrowings will push debt indicators to levels higher than in the 2010 DSA. Debt indicators rise under alternative scenarios and bound tests; and in the extreme case of an export shock, external debt indicators slightly breach the country-specific debt burden threshold during 2020–25. In all other cases, debt indicators remain at a comfortable level. Moreover, while some uncertainty exists regarding the amounts and the terms, the quite rapid pace of accumulation of nonconcessional borrowing commitments in 2010–11 is a source of concern, as is the large stock of unsettled payment obligations. The associated risk needs to be managed carefully, including through an annual DSA exercise.

20. **The authorities broadly shared the risk assessment, while pointing to the scarcity of concessional financing available to realize the projects which are aimed at removing key infrastructure deficiencies.** The authorities see the current debt vulnerability level as providing some space for a reasonable increase in debt-financed investment and they are cognizant of the need to finance infrastructure projects with concessional financing to the extent possible. Thus, they envisage moderate use of nonconcessional borrowing for projects where concessional financing may not be available.

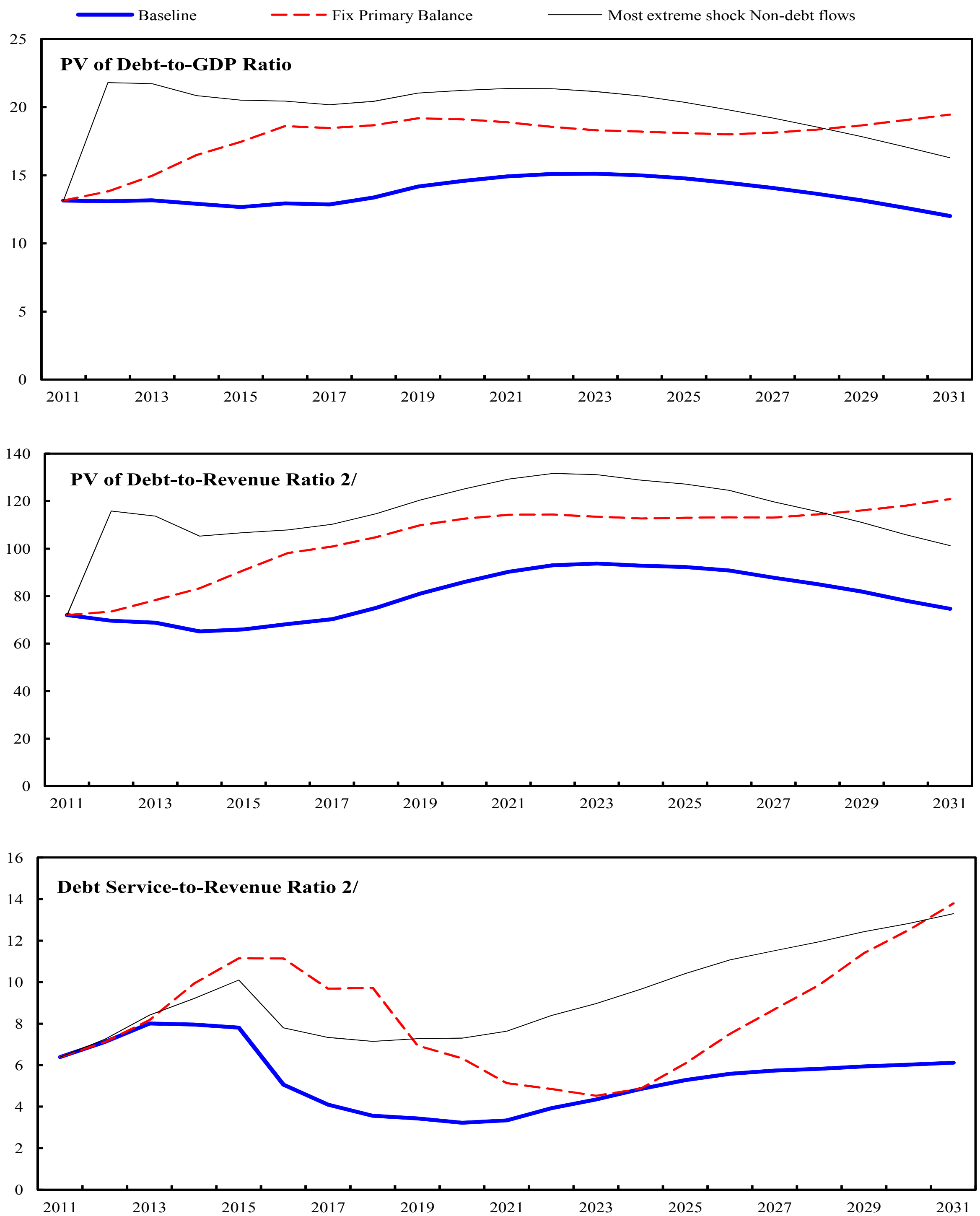
21. **However, persistent weakness in public financial management and insufficient data coverage suggest caution in assessing Cameroon's debt vulnerabilities.** These vulnerabilities include quasi-fiscal liabilities of state-owned enterprises and recurrent build-up of domestic arrears. The authorities' 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. Staffs remain of the view that continued efforts to improve nonoil revenue mobilization and to widen the export base would be advisable, given the expected long-run decline in oil revenues.

Figure 2. Cameroon: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2011-2031



1/ The most extreme stress test is the test that yields the highest ratio in 2021. This coincides with the export shock for all figures.

Figure 3.Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined inclusive of grants.

Table 1a.Cameroon: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average	Standard Deviation	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	9.5	10.6	12.1			14.4	14.6	15.0	15.0	15.0	15.5		17.8	13.9	
o/w foreign-currency denominated	5.4	5.5	6.5			6.5	7.3	8.5	9.7	11.0	12.2		16.1	13.1	
Change in public sector debt	-2.4	1.1	1.4			2.3	0.2	0.4	0.0	0.0	0.5		0.3	-0.7	
Identified debt-creating flows	-3.2	0.0	0.8			2.6	-0.3	-0.8	-1.7	-0.9	-0.7		0.7	-1.0	
Primary deficit	-2.4	-0.1	1.0	-2.7	2.2	1.1	0.3	-0.1	-1.0	-0.4	-0.1	0.0	1.6	-0.3	0.8
Revenue and grants	20.8	18.4	17.4			18.2	18.8	19.1	19.8	19.2	19.0		16.5	16.1	
of which: grants	0.9	0.8	0.6			0.8	0.7	0.6	0.6	0.6	0.5		0.4	0.1	
Primary (noninterest) expenditure	18.4	18.3	18.4			19.4	19.1	19.0	18.8	18.8	18.9		18.1	15.8	
Automatic debt dynamics	-0.8	0.1	-0.2			-1.2	-0.6	-0.6	-0.7	-0.5	-0.6		-0.8	-0.7	
Contribution from interest rate/growth differential	-0.6	0.0	-0.4			-0.5	-0.6	-0.7	-0.7	-0.5	-0.6		-0.8	-0.7	
of which: contribution from average real interest rate	-0.3	0.2	0.0			-0.1	0.0	0.0	0.0	0.0	0.0		-0.1	-0.1	
of which: contribution from real GDP growth	-0.3	-0.2	-0.3			-0.4	-0.6	-0.7	-0.7	-0.6	-0.6		-0.8	-0.7	
Contribution from real exchange rate depreciation	-0.1	0.1	0.2			-0.6	0.0	0.0	0.1	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			2.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			2.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.8	1.1	0.6			-0.3	0.5	1.1	1.7	0.9	1.2		-0.4	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	10.9			13.1	13.1	13.2	12.9	12.7	12.9		14.9	12.0	
o/w foreign-currency denominated	...	...	5.3			5.2	5.8	6.7	7.6	8.7	9.7		13.2	11.2	
o/w external	...	...	5.3			5.2	5.8	6.7	7.6	8.7	9.7		13.2	11.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-0.6	0.7	6.0			2.3	1.6	1.4	0.6	1.1	0.9		2.1	0.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	62.7			72.1	69.6	68.8	65.2	66.0	68.2		90.2	74.7	
PV of public sector debt-to-revenue ratio (in percent)	…	…	65.1			75.2	72.2	71.2	67.2	68.0	70.2		92.2	75.3	
o/w external 3/	…	…	31.7			29.9	32.1	36.2	39.7	46.5	52.5		81.5	70.0	
Debt service-to-revenue and grants ratio (in percent) 4/	8.9	4.3	29.0			6.4	7.1	8.0	8.0	7.8	5.1		3.3	6.1	
Debt service-to-revenue ratio (in percent) 4/	9.2	4.5	30.1			6.7	7.4	8.3	8.2	8.0	5.2		3.4	6.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.1	-1.2	-0.4			-1.2	0.1	-0.5	-1.0	-0.4	-0.6		1.3	0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.6	2.0	3.2	3.3	0.8	3.8	4.5	4.8	5.0	4.0	4.5	4.4	4.6	4.7	4.6
Average nominal interest rate on forex debt (in percent)	1.4	1.6	1.5	2.3	1.5	1.2	1.3	1.3	1.4	1.4	1.5	1.3	1.6	1.7	1.6
Average real interest rate on domestic debt (in percent)	-4.8	4.3	-1.6	0.0	2.7	-1.4	0.1	0.6	0.5	0.4	-0.1	0.0	-1.0	...	-1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.5	1.5	3.9	-3.7	5.0	-10.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.8	-3.3	3.0	1.7	2.5	4.0	2.2	2.1	2.1	2.0	2.0	2.4	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.0	0.0	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)	...	...	...	…	…	35.3	30.9	28.2	26.5	24.8	24.7	28.4	24.2	23.3	...

Sources: Country authorities; and staff estimates and projections.
1/ Indicate general government gross debt.
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 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	**13**	**13**	**13**	**13**	**13**	**13**	**15**	**12**
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	11	9	8	6	5	0	0
A2. Primary balance is unchanged from 2011	13	14	15	17	18	20	20	22
A3. Permanently lower GDP growth 1/	13	13	13	13	13	13	16	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	13	14	15	15	16	16	21	21
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	13	13	13	12	12	12	15	12
B3. Combination of B1-B2 using one half standard deviation shocks	13	12	11	12	12	13	17	18
B4. One-time 30 percent real depreciation in 2012	13	15	15	14	14	14	16	13
B5. 10 percent of GDP increase in other debt-creating flows in 2012	13	22	22	21	21	20	21	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	**72**	**70**	**69**	**65**	**66**	**68**	**90**	**75**
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	58	48	40	32	0	0	0
A2. Primary balance is unchanged from 2011	72	75	81	87	95	104	120	138
A3. Permanently lower GDP growth 1/	72	70	69	66	68	71	100	103
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	72	73	77	76	81	87	127	132
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	72	67	66	63	63	66	88	73
B3. Combination of B1-B2 using one half standard deviation shocks	72	63	58	58	62	68	105	111
B4. One-time 30 percent real depreciation in 2012	72	81	78	73	73	75	95	82
B5. 10 percent of GDP increase in other debt-creating flows in 2012	72	116	114	105	107	108	129	101
Debt Service-to-Revenue Ratio 2/								
Baseline	**6**	**7**	**8**	**8**	**8**	**5**	**3**	**6**
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	7	8	2	2	0	0	0
A2. Primary balance is unchanged from 2011	6	7	8	11	12	12	6	16
A3. Permanently lower GDP growth 1/	6	7	8	8	8	5	4	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	6	7	8	9	10	8	8	13
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	6	7	8	7	7	5	3	6
B3. Combination of B1-B2 using one half standard deviation shocks	6	7	8	5	5	5	6	10
B4. One-time 30 percent real depreciation in 2012	6	7	9	9	9	6	6	12
B5. 10 percent of GDP increase in other debt-creating flows in 2012	6	7	10	29	10	15	5	11

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal)	**5.4**	**5.5**	**6.5**			**6.5**	**7.3**	**8.5**	**9.7**	**11.0**	**12.2**		**16.1**	**13.1**	
o/w public and publicly guaranteed (PPG)	5.4	5.5	6.5			6.5	7.3	8.5	9.7	11.0	12.2		16.1	13.1	
Change in external debt	-0.3	0.1	1.0			0.0	0.8	1.2	1.2	1.3	1.2		0.5	-0.6	
Identified net debt-creating flows	-0.3	3.5	2.4			3.5	2.7	2.9	2.4	2.6	2.2		1.9	1.6	
Non-interest current account deficit	**0.8**	**3.7**	**2.7**	**1.7**	**1.9**	**3.9**	**3.2**	**3.4**	**2.9**	**3.1**	**2.8**		**2.6**	**2.12**	2.4
Deficit in balance of goods and services	3.7	5.7	4.4			5.2	4.5	4.6	4.1	4.2	3.9		3.6	2.7	
Exports	31.1	24.0	26.7			26.3	26.3	27.4	29.8	30.0	32.0		24.9	21.2	
Imports	34.8	29.8	31.1			31.5	30.8	32.0	33.8	34.3	35.9		28.5	23.9	
Net current transfers (negative = inflow)	-2.6	-1.7	-1.4	-1.5	0.6	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8		-0.6	-0.4	-0.5
o/w official	-0.7	-0.6	-0.3			-0.2	-0.1	-0.1	-0.1	-0.1	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	-0.3	-0.4	-0.4			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.3	-0.3	
Net FDI (negative = inflow)	**-0.4**	**-0.6**	**-0.3**	**-0.3**	**0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**		**-0.3**	**-0.2**	-0.2
Endogenous debt dynamics 1/	**-0.7**	**0.5**	**0.0**			**-0.1**	**-0.2**	**-0.2**	**-0.3**	**-0.2**	**-0.3**		**-0.4**	**-0.4**	
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	-0.1	-0.1	-0.2			-0.2	-0.3	-0.3	-0.4	-0.4	-0.5		-0.7	-0.6	
Contribution from price and exchange rate changes	-0.7	0.5	0.1			…	…	…	…	…	…		…	…	
Residual (3-4) 2/	**0.1**	**-3.5**	**-1.4**			**-3.5**	**-1.9**	**-1.7**	**-1.2**	**-1.3**	**-1.0**		**-1.4**	**-2.2**	
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	...	...	5.3			5.2	5.8	6.7	7.6	8.7	9.7		13.2	11.2	
In percent of exports	...	...	20.0			19.8	22.1	24.4	25.6	28.8	30.3		52.9	52.8	
PV of PPG external debt	**...**	**...**	**5.3**			**5.2**	**5.8**	**6.7**	**7.6**	**8.7**	**9.7**		**13.2**	**11.2**	
In percent of exports	**...**	**...**	**20.0**			**19.8**	**22.1**	**24.4**	**25.6**	**28.8**	**30.3**		**52.9**	**52.8**	
In percent of government revenues	**...**	**...**	**31.7**			**29.9**	**32.1**	**36.2**	**39.7**	**46.5**	**52.5**		**81.5**	**70.0**	
Debt service-to-exports ratio (in percent)	**0.8**	**1.3**	**0.9**			**1.0**	**1.0**	**1.1**	**1.1**	**1.4**	**1.2**		**2.0**	**4.7**	
PPG debt service-to-exports ratio (in percent)	**0.8**	**1.3**	**0.9**			**1.0**	**1.0**	**1.1**	**1.1**	**1.4**	**1.2**		**2.0**	**4.7**	
PPG debt service-to-revenue ratio (in percent)	**1.2**	**1.8**	**1.4**			**1.5**	**1.4**	**1.6**	**1.7**	**2.3**	**2.2**		**3.1**	**6.2**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.9	0.7			1.1	1.0	1.1	1.0	1.2	1.1		1.5	2.9	
Non-interest current account deficit that stabilizes debt ratio	1.0	3.6	1.7			3.9	2.4	2.2	1.7	1.9	1.6		2.1	2.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.6	2.0	3.2	3.3	0.8	3.8	4.5	4.8	5.0	4.0	4.5	4.4	4.6	4.7	4.6
GDP deflator in US dollar terms (change in percent)	13.2	-8.3	-1.6	6.2	8.1	11.7	2.5	1.2	1.2	1.1	1.1	3.2	2.0	2.0	2.0
Effective interest rate (percent) 3/	1.4	1.6	1.5	2.3	1.5	1.2	1.3	1.3	1.4	1.4	1.5	1.3	1.6	1.7	1.6
Growth of exports of G&S (US dollar terms, in percent)	16.3	-27.7	12.6	9.4	16.1	14.5	7.3	10.4	15.3	6.2	12.5	11.0	2.6	6.1	3.9
Growth of imports of G&S (US dollar terms, in percent)	25.0	-20.0	6.0	8.9	12.7	17.5	4.9	10.1	12.2	6.6	10.8	10.4	3.4	6.3	3.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	35.3	30.9	28.2	26.5	24.8	24.7	28.4	24.2	23.3	24.0
Government revenues (excluding grants, in percent of GDP)	20.0	17.6	16.8			17.5	18.1	18.5	19.2	18.6	18.4		16.2	15.9	16.2
Aid flows (in Billions of US dollars) 4/	0.2	0.2	0.3			0.4	0.4	0.5	0.4	0.4	0.4		0.4	0.3	
o/w Grants	0.2	0.2	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.1	
o/w Concessional loans	0.0	0.0	0.2			0.2	0.2	0.3	0.2	0.2	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 5/	...	...	...			1.2	1.1	1.1	1.1	1.1	1.0		0.8	0.4	0.7
Grant-equivalent financing (in percent of external financing) 5/	...	...	...			60.5	54.3	47.3	43.9	41.3	40.0		37.3	33.1	36.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	23.7	22.2	22.5			26.1	28.0	29.7	31.5	33.2	35.0		48.1	93.0	
Nominal dollar GDP growth	16.1	-6.5	1.5			16.0	7.1	6.0	6.2	5.2	5.7	7.7	6.6	6.8	6.7
PV of PPG external debt (in Billions of US dollars)			1.2			1.4	1.6	2.0	2.4	2.9	3.4		6.3	10.4	
(PVt-PVt-1)/GDPt-1 (in percent)						0.8	0.9	1.3	1.4	1.5	1.6	1.2	1.3	0.2	0.9
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	5.3			5.2	5.8	6.7	7.6	8.7	9.7		13.2	11.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	19.9			19.8	22.0	24.3	25.6	28.8	30.2		52.8	52.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.9			1.0	1.0	1.1	1.1	1.4	1.2		2.0	4.6	

Sources: Country authorities; and staff estimates and projections.

1/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
2/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
3/ Current-year interest payments divided by previous period debt stock.
4/ Defined as grants, concessional loans, and debt relief.
5/ 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, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	5.2	5.8	6.7	7.6	8.7	9.7	**13.2**	11.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	5.2	4.5	4.0	3.9	3.7	3.8	**4.0**	2.2
A2. New public sector loans on less favorable terms in 2011-2031 2/	5.2	5.8	6.8	7.9	9.1	10.2	**14.2**	12.6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	5.2	5.9	6.9	7.9	9.0	10.1	**13.7**	11.6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	5.2	8.4	14.7	15.4	16.3	17.2	**18.6**	12.0
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	5.2	6.0	7.2	8.2	9.3	10.4	**14.1**	12.0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	5.2	6.0	7.1	8.0	9.0	10.0	**13.4**	11.2
B5. Combination of B1-B4 using one-half standard deviation shocks	5.2	6.9	10.6	11.5	12.5	13.4	**16.0**	11.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	5.2	8.2	9.4	10.7	12.2	13.6	**18.6**	15.7
PV of debt-to-exports ratio								
Baseline	19.8	22.1	24.4	25.6	28.8	30.3	**52.9**	52.8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	19.8	17.1	14.4	13.0	12.2	11.8	**16.2**	10.4
A2. New public sector loans on less favorable terms in 2011-2031 2/	19.8	22.1	24.9	26.5	30.1	31.9	**57.1**	59.5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	19.8	22.0	24.3	25.5	28.7	30.2	**52.7**	52.6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	19.8	36.6	72.8	70.5	73.9	73.1	**101.3**	77.1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	19.8	22.0	24.3	25.5	28.7	30.2	**52.7**	52.6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	19.8	22.9	25.8	26.9	30.1	31.4	**53.8**	52.8
B5. Combination of B1-B4 using one-half standard deviation shocks	19.8	27.4	43.2	43.1	46.5	47.1	**72.1**	62.8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	19.8	22.0	24.3	25.5	28.7	30.2	**52.7**	52.6
PV of debt-to-revenue ratio								
Baseline	29.9	32.1	36.2	39.7	46.5	52.5	**81.5**	70.0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	29.9	24.8	21.4	20.1	19.8	20.5	**24.9**	13.8
A2. New public sector loans on less favorable terms in 2011-2031 2/	29.9	32.1	36.9	41.1	48.6	55.4	**87.9**	78.9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	29.9	32.6	37.6	41.3	48.3	54.6	**84.6**	72.7
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	29.9	46.2	79.6	80.3	87.7	93.2	**114.7**	75.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	29.9	33.4	38.9	42.7	49.9	56.4	**87.5**	75.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	29.9	33.3	38.4	41.7	48.5	54.5	**82.9**	70.0
B5. Combination of B1-B4 using one-half standard deviation shocks	29.9	38.3	57.3	59.7	66.9	72.8	**99.2**	74.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	29.9	45.1	51.0	56.0	65.5	74.0	**114.7**	98.6

Table 3b.Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031 (continued)
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	1.0	1.0	1.1	1.1	1.4	1.2	2.0	4.7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	1.0	0.9	0.9	0.8	1.0	0.8	**0.5**	1.0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	1.0	1.0	1.1	1.1	1.4	1.2	**2.0**	4.6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	1.0	1.1	1.7	2.2	2.6	2.3	**5.9**	8.3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	1.0	1.0	1.1	1.1	1.4	1.2	**2.0**	4.6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	1.0	1.0	1.1	1.1	1.4	1.3	**2.2**	4.7
B5. Combination of B1-B4 using one-half standard deviation shocks	1.0	1.0	1.3	1.5	1.9	1.7	**3.6**	6.1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1.0	1.0	1.1	1.1	1.4	1.2	**2.0**	4.6
Debt service-to-revenue ratio								
Baseline	1.5	1.4	1.6	1.7	2.3	2.2	**3.1**	6.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	1.5	1.4	1.4	1.3	1.7	1.4	**0.8**	1.3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	1.5	1.4	1.7	1.8	2.4	2.3	**3.3**	6.4
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	1.5	1.4	1.9	2.5	3.1	3.0	**6.7**	8.1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	1.5	1.5	1.7	1.8	2.5	2.3	**3.4**	6.6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	1.5	1.4	1.6	1.7	2.3	2.2	**3.3**	6.3
B5. Combination of B1-B4 using one-half standard deviation shocks	1.5	1.4	1.7	2.1	2.7	2.6	**4.9**	7.2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1.5	2.0	2.2	2.4	3.2	3.1	**4.4**	8.7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24.2	24.2	24.2	24.2	24.2	24.2	**24.2**	24.2

Sources: Country authorities; and staff estimates and projections.
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

CAMEROON

Staff Report for the 2011Article IV Consultation

Informational Annex

Prepared by the African Department

Approved by Seán Nolan and Dhaneshwar Ghura

June 10, 2011

Contents Page

I. RELATIONS WITH THE FUND

(As of April 30, 2011)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	185.70	100.00
Fund Holdings of Currency	184.83	99.53
Reserve Tranche Position	0.87	0.47
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	177.27	100.00
Holdings	17.23	9.72

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF RAC Loan	92.85	50.00
ECF Arrangements	18.31	9.86

V. Latest Financial Arrangements:

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

[1]Formerly PRGF.

VI. Projected Payments to Fund[2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.53	1.59	2.39	3.45	22.28
Charges/Interest	0.61	1.14	1.14	1. 13	1.09
Total	1.14	2.73	3.52	4.58	23.37

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

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Oct 2000
Assistance committed	

by all creditors (US$ million)[1]	1,267.00
Of which: IMF assistance (US$ million)	37.04
(SDR equivalent in millions)	28.62
Completion point date	April 2006
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	28.62
Interim assistance	11.25
Completion point balance	17.37
Additional disbursement of interest income[2]	5.05
Total disbursements	33.67

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

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

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR million)[1]	173.26
	Financed by: MDRI Trust	149.17
	Remaining HIPC resources	24.09
II.	Debt relief by facility (SDR million)	

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

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

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

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

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

IX. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings of this assessment indicated that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control was limited, and that the changing risk profile of BEAC foreign exchange holdings required further actions to strengthen safeguards at BEAC. Subsequent to revelation of Paris office fraud, a series of measures and longer term safeguard measures were agreed between the IMF and BEAC in order to continue with country programs. Consequently, BEAC adopted an action plan for 2010 with the aims of reforming its governance and strengthening key safeguards. Implementation of the action plan is ongoing, and BEAC is adopting additional measures to address the weaknesses highlighted by the special audit on headquarters operations.

X. Exchange Arrangements:

Cameroon participates in a currency union with five other members of the CEMAC and has no separate legal tender. Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro. Local currency equivalent: CFAF 735.39=SDR 1, as of May 26, 2011. Effective January 1, 2007, the exchange arrangement of the CEMAC countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.
Cameroon maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision 144-152/51.

XI. Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on July 14, 2010.

An Article IV consultation mission visited Cameroon during March 16-31, 2011.

XII. FSAP Participation and ROSCs:

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

The first Report on the Observance of Standards and Codes (ROSC) on fiscal transparency and transparency of monetary and financial policies for Cameroon was issued in June 2000. A fiscal ROSC reassessment mission visited Yaoundé, Cameroon during May 6-18, 2009. Its report was issued in June 2010.

XIII. Technical Assistance:

2011

April 2011: STA mission on national account statistics

March 2011: FAD mission on tax administration diagnostic

January 2011: FAD mission on PFM

2010

November 2010: STA mission on quarterly national account

November 2010: FAD mission on implementation of the new budget law

October 2010: AFRITAC mission on PFM (incl. Procurement Plan)

September 2010: FAD mission on tax administration peripatetic

August 2010: AFRITAC mission on public financial management (TOFE)

June 2010: FAD mission on implementation of the new budget law

May 2010: AFRITAC mission on tax administration

April 2010: FAD and AFRITAC Central mission on implementation of the Organic Budget Law

2009

December 2009: STA mission on national account statistics

September 2009: FAD mission on strengthening revenue administration

September 2009: AFRITAC Central mission on strengthening treasury management

February 2009: FAD mission on strengthening revenue administration

July 2009: MCM mission on public debt management

XIV. **Resident Representative**:

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. The current Resident Representative, Mr. Ekué G. Kpodar, has been in his post since August 10, 2009.

II. Bank-Fund Joint Managerial Action Plan, 2011–12

Products	Mission timing	Expected delivery
A. Mutual Information on Relevant Work Programs		
The Fund work program		
Strategy: Fund's policy advice and technical assistance will focus on helping Cameroon preserve fiscal sustainability and economic stability, while expanding priority spending to accelerate growth and poverty reduction.		
2011 Article IV consultation	March 2011	Board discussion in June 2011
Staff visit	September 2011	Aide-mémoire at the end of the mission
2012 Article IV consultation	March 2012	Board discussion in June 2012
TA to be offered by FAD/AFRITAC		
Follow-up mission(s) on implementing new Budget System Law	TBD	Aide-mémoire at the end of the mission
Mission(s) on program budgets	TBD	Aide-mémoire at the end of the mission
Mission(s) on public expenditure management	TBD	Aide-mémoire at the end of the mission
Mission(s) on tax and customs administrations	TBD	Aide-mémoire at the end of the mission
TA to be offered by STA		
Mission(s) on improving national accounts and BOP statistics	TBD	Aide-mémoire at the end of the mission
TA to be offered by MCM		
Mission(s) on debt management strategies and institutional coordination	TBD	Aide-mémoire at the end of the mission
The World Bank program		
Strategy: The new Country Assistance Strategy will aim at improving governance and accelerating growth. The World Bank will help to stimulate growth by improving the competitiveness through (i) increased infrastructure investment in the energy, transport, and telecommunications sectors; (ii) activities geared toward ensuring the transparent, equitable, and sustainable use of natural resources; and (iii) promotion of high potential value chains and improved business climate. It will also focus on service delivery with a particular emphasis on (i) human development (education, health); (ii) social protection, to help develop an effective safety net system based on targeted programs; and (iii) local development, where the focus will be on increasing access to basic services through infrastructure upgrading and capacity building for improved local governance.		

Competitive value chains	Two missions (May and October 2011)	Aide-mémoire at the end of the mission
Cross-border trade—analytical work	TBD	Report
Transparency and accountability capacity building: TA and policy dialogue	Possibly three missions by end-2011: dates to be decided	Aide-mémoire at the end of the mission
Political economy analysis of mining, telecom, and fisheries – analytical work	TBD	Report, round-table discussions
Fiscal decentralization	TBD	
Debt management capacity	Mission in April, 2011	Aide-mémoire
Country Health Status	TBD	Report
Governance diagnosis of local health delivery	TBD	Report
B. Requests for work program inputs		
Fund request to Bank		
Periodic update on World Bank program in Cameroon		
Periodic economic update		
Bank request to Fund		
Periodic update of the macroframework		
C. Agreement on joint products and missions		
DSA update	March-April 2011	Board discussion in June 2011
DSA update	March-April 2012	Board discussion in June 2012

III. Table of Common Indicators Required for Surveillance

(As of May 31, 2011)

	Date of latest observation	Date received	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates	April 2011	April 2011	M	M	M
International reserve assets and reserve liabilities of the monetary authorities[2]	Dec. 2010	April 2011	M	M	M
Reserve/Base money	Dec. 2010	April 2011	M	M	M
Broad money	Dec. 2010	April 2011	M	M	M
Central bank balance sheet	Dec. 2010	April 2011	M	M	M
Consolidated balance sheet of the banking system	Dec. 2010	April 2011	M	M	M
Interest rates[3]	May 2011	May 2011	M	M	M
Consumer price index (main cities)	February 2011	April 2011	M	M	M
Consumer price index (national)	Dec. 2011	March 2011	Q	Q	Q
Revenue, Expenditure, Balance and Composition of financing[4] – General government[5]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of financing[4]– Central government	February 2011	May 2011	M	M	Partial data published monthly
Stocks of central government and Central government-guaranteed debt[6]	Dec. 2010	March 2011	M	M	M
External current account balance	2010	March 2011	A	A	NA
Exports and imports of goods and services[7]	Dec. 2010	March 2011	M	M	NA
GDP/GNP	Dec. 2010	March 2011	A	A	NA
Gross external debt	Dec. 2010	March 2011	A	A	A
International investment position	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

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FOR IMMEDIATE RELEASE
June 30, 2011

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

IMF Executive Board Concludes 2011 Article IV Consultation with Cameroon

On June 24, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cameroon.[1]

Background

Cameroon preserved macroeconomic stability conditions, and debt relief under HIPC and MDRI firmed up debt sustainability. However, there has been no growth in per capita income in the past five years, despite the productive base being relatively diversified. Growth has been constrained by underinvestment in critical infrastructure, an unfavorable business climate, poor public financial management, a shallow financial sector, and weak regional trade integration.

[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 country remains dependent on commodities for export earnings and fiscal revenues and is thus vulnerable to external shocks, as seen during the recent global financial crisis.

The economy continues to recover from the impact of the global crisis, and inflation remains low. Real GDP growth in 2010 is estimated at 3.2 percent, up from 2 percent in 2009, despite a drop of about 12 percent in oil output. Average annual inflation was contained at 1.3 percent, compared with 3 percent in 2009. Food price inflation was 1.2 percent in 2010, and the recent sharp increase in international commodity prices has so far had a limited impact. The external accounts have benefited from the global economic recovery. The current account deficit (including grants) declined to 2.8 percent of GDP, from 3.8 percent in 2009.

The fiscal accounts show a limited overall budget deficit in 2010. Total revenue was close to the supplementary budget target, because the oil revenue windfall generated by the recent oil price surge compensated for a shortfall in nonoil revenue. Nonetheless nonoil government revenue, as a ratio to nonoil GDP, remains among the lowest of sub-Saharan African oil exporters. Some efforts were made in 2010 in terms of arrears clearance to deal with the legacy of PFM problems incurred in 2009.

In terms of the composition of spending, current expenditure was higher than budgeted, while delays in issuing government bonds and mobilizing external financing negatively affected capital expenditure. The deficit on a cash basis, after accounting for the clearing of outstanding government obligations accumulated in previous years, was relatively modest (2.3 percent of GDP). The banking sector, however, continues to have pockets of vulnerability.

Economic growth is expected to pick up gradually under current policies. Real GDP growth in 2011 is projected at 3.8 percent and is expected to gradually increase to 5 percent in 2014. The positive outlook is conditional on the expected recovery of the global economy, the execution of infrastructure expenditure, and ongoing initiatives to improve the business climate. Inflation is projected to remain below the regional convergence criterion of 3 percent.

Executive Board Assessment

Executive Directors welcomed Cameroon’s economic recovery, low inflation, and positive economic prospects. At the same time, Directors noted risks from a slower global recovery, lower-than-projected oil production, and budgetary pressures. Important challenges remain in improving fiscal management, promoting a sound banking sector, and raising competitiveness and long-term growth.

Directors emphasized the need to address the risks to the 2011 budget through tight treasury management, reduction of fuel subsidies, and spending reprioritization. They encouraged further efforts to improve non-oil revenue by broadening the tax base, streamlining exemptions, and increasing the efficiency of tax and customs administration.

Directors expressed concern over the recurrence of systemic problems in public financial management as reflected in spending overruns on goods and services and large-scale accumulation of payment obligations. They welcomed the ongoing audit of outstanding arrears and encouraged the authorities to implement the planned measures to prevent new arrears. Directors also emphasized the need to rebuild fiscal buffers, strengthen the budget execution process, and accelerate efforts to operationalize the medium-term expenditure framework.

Directors welcomed that Cameroon's risk of debt distress remains low, but noted the recent surge in nonconcessional borrowing to finance infrastructure projects. They encouraged the authorities to rely, to the extent possible, on grants and concessional loans to finance their investment program. They stressed the importance of working closely with regional institutions in developing a government securities market, which can reduce vulnerability to external financing shocks and, over time, lead to a more competitive financial system.

Directors noted with concern the banking sector vulnerabilities, which have been exacerbated by inadequate supervisory standards and protracted delays in settling government payment obligations. They encouraged the authorities to take resolute steps, in collaboration with the regional bank supervisor, to monitor vulnerabilities through regular analysis of banking sector soundness, press ahead with bank restructuring plans while containing budgetary liabilities, and promote the reform of the bank resolution framework.

Directors underscored the importance of redoubling efforts to address the severe infrastructure gap and improve the business climate and competitiveness. They saw the need to raise the execution rate of public investment projects, deepen the dialogue with the private sector, and improve public institutions and governance. Directors encouraged the authorities to improve the quality and timeliness of economic and financial data required for surveillance.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Cameroon: Selected Economic and Financial Indicators, 2009–12

	2009 Act.	2010 Est.	2011 Proj.	2012 Proj.
	(Annual percentage change, unless otherwise indicated)			
National income and prices				
GDP at constant prices	2.0	3.2	3.8	4.5
Oil	-13.9	-12.3	-11.0	17.6
Non-oil	2.9	4.0	4.4	4.0
GDP deflator	-3.3	3.0	4.0	2.2
Consumer prices (12-month average)	3.0	1.3	2.6	2.5
External trade				
Export volume	-4.8	-0.1	1.6	7.6
Of which: non-oil sector	-2.4	3.5	4.6	5.0
Import volume	-5.2	8.2	8.6	5.8
Terms of trade ("-" = deterioration)	-15.0	18.3	3.3	-1.4
Money and credit (end of period)				
Net domestic assets [1]	5.2	8.9	9.3	4
Net credit to the public sector [1]	3.5	-1.6	5.0	-0.6
Credit to the private sector	9.1	8.2	7.6	9.6
Broad money (M2)	6.9	11.3	7.9	6.3
	(Percentage of GDP, unless otherwise indicated)			
Central government operations				
Total revenue (excluding grants)	17.6	16.8	17.5	18.1
Non-oil revenue (percent of non-oil GDP)	13.5	13.3	13.7	14.0
Total expenditure	18.4	18.6	19.6	19.1
Overall fiscal balance (including payments of arrears)				
Excluding grants	-1.0	-2.9	-5.6	-1.2
Including grants	-0.2	-2.3	-4.8	-0.5
Non-oil primary balance (percent of non-oil GDP)	-4.9	-5.7	-6.1	-5.5
External sector				
Current account balance (including grants)	-3.8	-2.8	-4.0	-3.3
Imputed reserves (percent of broad money)	68.0	65.6	61.1	58.7
Public debt				
Total	10.6	12.1	14.4	14.6
External	5.5	6.5	6.5	7.3

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

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

Statement by Kossi Assimaidou Executive Director for Cameroon

June 24, 2011

I-Introduction

I would like to thank staff and management for the constructive discussions held in Douala and Yaoundé with my Cameroonian authorities under the 2011 Article IV consultations. My authorities broadly share the thrust of the staff report, which underscores the key challenges facing the country in achieving higher and sustainable economic growth, reducing poverty and enhancing Cameroon's competitiveness.

The implementation of prudent macroeconomic policies has led the Cameroonian economy to gradually recover from the recent global crisis. The authorities are determined to step up their efforts with a view to significantly increasing economic growth in per capita terms, reducing the economy's vulnerability to shocks, and deepening regional integration. In this respect, they remain committed to pursuing the implementation of their economic program through further improvement in the fiscal situation and reforms focused on safeguarding the stability of the financial system, preserving public debt sustainability and boosting the competitiveness of the economy. In their efforts, the authorities are hopeful that they will continue to benefit from policy advice and support from the Fund and the international community.

II-Recent Economic Developments

Despite the fall of oil production and uncertainty surrounding the global recovery, economic growth is estimated to have reached 3.2 percent in 2010 against 2.0 percent in 2009. This encouraging performance is mainly attributed to growth in the non-oil sectors, notably the agriculture and forestry activities. Due in particular to the substantial decrease in food prices, average annual inflation was contained at 1.3 percent compared with 3 percent a year earlier.

On the fiscal side, domestic revenue mobilization reached the supplementary budget objective while current expenditure was higher than budgeted. In this context, the fiscal deficit on cash basis stood at 2.3 percent of GDP, well below the 3.5 percent of GDP targeted in the supplementary budget. In addition, substantial efforts were made in 2010 to clear the outstanding government obligations accumulated in previous years. This step was part of the authorities' efforts to deal with public finance management problems incurred in 2009 and their determination to rein in spending. It is also important to note that in November 2010 the authorities issued for the first time on the national and regional market a government bond whose proceeds will finance public infrastructure projects.

To address the vulnerabilities stemming from the weak financial condition of some domestic banks, the authorities in close collaboration with regional institutions are committed to review the regulatory framework and strengthen the supervision of financial institutions.

III. Policies and Reforms in 2011

Fiscal and Debt Policies

The authorities' efforts will be strengthened in 2011 to further improve the public finance management and preserve debt sustainability. To this end, ongoing reforms in the fiscal area will be aimed at increasing revenue mobilization, and containing non-priority spending. The 2011 budget projects nonoil revenue to reach 14.1 percent of nonoil GDP mainly supported by new administrative and tax policy measures. Expenditure will be maintained at 2010 levels with a large increase in capital spending compensated by cuts in outlays for goods and services. The overall budget deficit is projected at 2.6 percent of GDP, which will be financed through a combination of drawings from government deposits and issuance of government bonds.

Although the 2011 budget is benefiting from the increase in world oil prices, the authorities are facing considerable fiscal pressures, notably arrears to the domestic oil refinery, fuel subsidies, contingent claims from the restructuring of distressed banks, and uncertainties regarding the capacity of the market to absorb the second bond issuance. To address these issues, the authorities will pursue the reassessment of the fuel price formula and reduce subsidies to retail fuel prices by gradually restoring the automatic adjustment of retail fuel prices to world prices over the medium-term. They will also implement a tight treasury management plan to avoid new domestic arrears. In addition, the authorities have undertaken an exhaustive audit of arrears and other government payments obligations. Efforts to further improve cash management, improve expenditure efficiency will be further pursued. In this regard, my authorities will implement—with the support of donors—the modernization of public expenditure.

On the revenue side, my authorities are determined to accelerate the implementation of ongoing fiscal reforms with a view to widen the tax base. The tax administration reform, including measures to simplify tax and customs procedures and rationalize tax incentives schemes is a key priority as such reform will help raise Cameroon's nonoil revenue.

My authorities welcome the debt sustainability analysis prepared by staff. They share the view on the need to maintain a prudent borrowing policy. In this respect, their efforts will be geared towards widening the exports base and rely to the extent possible on grants and highly concessional loans for the financing of public investments. Furthermore, they intend to work closely with regional institutions in developing a regional market for government securities and therefore reduce vulnerabilities to external financing shocks.

Financial Issues

The Cameroonian authorities are determined to develop a vibrant financial sector and improve access to finance. To this end, efforts to finalize the restructuring of financially weak banks will be pursued notably with (i) the recovery of loans granted to borrowers related to main shareholders, and (ii) banks' recapitalization through reputable investors.

The authorities will push further, under the regional currency cooperation, for reviewing the regulatory framework and strengthening the supervision of financial institutions. In particular, the CEMAC institutions will be involved in strengthening the regional supervisor's capacity and improving regulations and rules governing mechanisms for the treatment of banks in difficulty.

As regards access to credit, encouraging progress has been made in improving the regulatory framework. Not only a central credit registry has been established and is operational but also a law on leasing was enacted in December 2010 to help the SMEs have access to credit. The authorities intend also to establish specialized financial institutions to finance agricultural and SME activities. The development of these activities will help reduce youth unemployment. The management of such specialized financial institutions will be based on market rules with appropriate safeguards put in place.

Competitiveness and Structural Reforms

Improving the competitiveness of the Cameroonian economy remains a key priority of the authorities. In this regard, they agree on the necessity to improve the business environment in the context of the economic and monetary union. Their efforts will continue to focus on removing the non-price factors that hamper the business environment, fighting corruption and reforming public enterprises.

With the support of the IFC, the authorities established in 2009 the Cameroon Business Forum as a platform for dialogue with the private sector. Under this Forum, measures to simplify regulations and procedures for starting a business, enhance cross border trading, promote access to, and protection of, property have been successfully implemented.

The authorities are also addressing the infrastructure needs of the country and the insufficient provision of public services. They are intensifying their efforts under the CEMAC framework to further liberalize customs duties and accelerate regional trade liberalization.

IV. Conclusion

Macroeconomic stability continues to be preserved while the recovery of the Cameroon economy is underway. The authorities are determined to consolidate this recovery and intend to speed up their reform efforts towards better fiscal management, greater competitiveness, stronger growth and poverty reduction. In these endeavors, they will seek the support of the international community, including the Fund, with a view to formulating and implementing the needed policies and reforms.