INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/279

CAMEROON

2013 ARTICLE IV CONSULTATION

September 2013

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 2013 Article IV consultation with Cameroon, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 14, 2013 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 12, 2013. 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.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the IMF and the World Bank.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its June 26, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Cameroon.

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

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CAMEROON

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

June 12, 2013

KEY ISSUES

Context: Cameroon's macroeconomic performance, outlook, and risks have not changed fundamentally since the Article IV consultation in 2012. Economic activity has continued to recover gradually from the 2009 slump, and inflation has remained subdued. However, fiscal policy buffers have shrunk, as reflected by moderately rising public debt and depleted government deposits. Further accumulation of domestic arrears, stemming from sizable fuel subsidies, and weak public financial management are risks for medium-term macroeconomic stability. Absent a protracted global slowdown, economic growth is projected to increase progressively to 5½ percent a year in 2018. However, growth would need to be sustained at a much higher pace for Cameroon to achieve its ambition of becoming an emerging market economy by 2035.

Focus of the consultation and risks: The overarching policy issue is how to spur reform momentum to set Cameroon on a higher growth path, while mitigating low but growing risks to macroeconomic stability. The main exogenous risk is a protracted slump in the euro area, whose impact would be low, with temporary effects. Endogenous risks dominate and stem from rising fuel subsidies, contingent liabilities arising from distressed banks and public enterprises, slow progress in raising non-oil revenue, escalating nonconcessional financing, and widespread unemployment."

Key policy recommendations: In light of growing vulnerabilities, there is urgency in implementing the following policies:

- Reprioritize public spending to help close the financing gap in 2013, and adopt a path for the non-oil primary deficit to rebuild fiscal space, preserve medium-term macroeconomic stability, and support external adjustment.
- Adopt a plan to reduce fuel subsidies gradually, accompanied by targeted social programs for the neediest, to free up resources for public investment.
- Strengthen public financial management through improved cash management and expenditure commitment control to prevent further accumulation of arrears.
- Promote higher and more inclusive growth through a better business climate and strengthened capacity to manage a large public investment program.
- Accelerate resolution of distressed banks and enhance the regulatory framework to promote lending.

Approved By
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura

Discussions took place in Douala and Yaoundé during April 29–May 14, 2013. The staff team comprised Mr. de Zamaróczy (head), Mr. Féler, Mr. van Houtte, and Ms. Viseth (all AFR), Ms. Mazraani (FAD), Ms. Yontcheva (resident representative), and Mr. Tchakoté (resident economist). Mr. Ayissi Etoh (OED) and staffs of the World and African Development Banks attended policy meetings. The team met with Prime Minister Yang, Deputy Secretary General at the Presidency Minister Fouda, Finance Minister Mey, Economy Minister Nganou Djoumessi, BEAC Vice-Governor Nguilin, BEAC National Director Mani, several other cabinet members, senior officials, and representatives of the business community, labor unions, civil society, academia, and development partners. Cameroon accepted the IMF's quota and voice reforms.

CONTENTS

TABLES

APPENDICES

ANNEX

Glossary

BEAC	Regional Central Bank (*Banque des États de l'Afrique Centrale*)
CBF	Cameroon Business Forum
CEMAC	Central African Economic and Monetary Community (*Communauté Économique et Monétaire de l'Afrique Centrale*)
CET	Common External Tariff
CFA	African Financial Cooperation (*Communauté Financière de l'Afrique*)
CGER	Consultative Group on Exchange Rates
CNDP	National Public Debt Committee (*Comité National de la Dette Publique*)
COBAC	Regional Supervisory Body (*Commission Bancaire de l'Afrique Centrale*)
CPIA	Country Policy and Institutional Assessment
CSPH	Hydrocarbon Price Stabilization Fund (*Caisse de Stabilisation des Prix des Hydrocarbures*)
DSA	Debt Sustainability Analysis
EITI	Extractive Industries Transparency Initiative
FAD	Fiscal Affairs Department, IMF
FSAP	Financial Sector Assessment Program
GFSM 2001	Government Financial Statistics Manual of 2001
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
MFI	Microfinance Institution
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MTEF	Medium-Term Expenditure Framework
NFA	Net Foreign Assets
NOPD	Non-Oil Primary Deficit
NPL	Nonperforming Loan
PFM	Public Financial Management
PIMI	Public Investment Management Index
PPP	Public-Private Partnership
REER	Real Effective Exchange Rate
SME	Small- and Medium-Size Enterprise
SNH	National Hydrocarbons Company (*Société Nationale des Hydrocarbures*)
SONARA	National Oil Refinery (*Société Nationale de Rafinage*)
SSA	Sub-Saharan Africa(n)
TOFE	Fiscal Reporting Table (*Tableau des Opérations Financières de l'État*)
UPO	Unsettled Payment Order
VAT	Value-Added Tax
WEO	World Economic Outlook

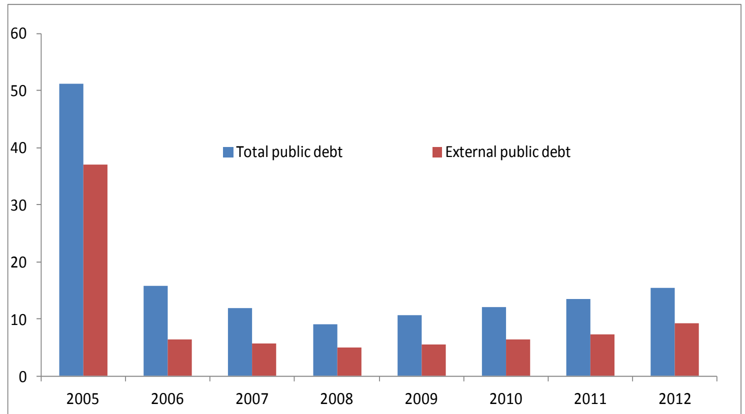
ECONOMIC STASIS

Macroeconomic performance improved in 2012, but it masks persistent vulnerabilities. Growth was again robust, yet insufficient to improve per capita income significantly. The enabling environment for private sector-led growth is slow to materialize, and growth dividends and productivity gains expected from large infrastructure projects are delayed. The recorded lower fiscal deficit is a step in the right direction, but fiscal reserves have been depleted. Untargeted fuel subsidies undermine pro-poor spending, and domestic arrears accumulation and an increase in nonconcessional external financing may compromise desirable fiscal space going forward.

1. **Cameroon has maintained macroeconomic stability, but its robust growth record has fallen short of the authorities' ambition to reach emerging market economy status by 2035.** It also remains vulnerable. Since debt cancellation under the Heavily Indebted Poor Countries initiative in 2006, the risk of debt distress has remained low, and annual inflation has stayed subdued in the context of the CFA franc peg to the euro (the arrangement is classified as conventional peg; Figure 1). However, per capita real GDP and most social indicators have stagnated, despite an abundant and diversified natural resource base (Text Table 1; Figure 2). Private sector development has been constrained by insufficient electricity supply, inadequate public infrastructure, an unpropitious business climate, poor public financial management (PFM), a shallow financial sector, and weak regional economic integration, even within the Central African Economic and Monetary Community (CEMAC). High subsidies, arrears accumulation, and increasingly nonconcessional financing fuel macroeconomic vulnerabilities.

Figure 1. Cameroon: Public Debt, 2005–12

(Percent of GDP)



Source: Cameroonian authorities.

2. **Policy inertia has continued in a context of multiple elections.** A first-time Senate was inaugurated in May 2013, but a date has yet to be set for legislative and municipal elections, which have been postponed since mid-2012. This environment has resulted in policy inertia, notwithstanding major challenges confronting the country, e.g., widespread poverty, youth unemployment, and disparities in wealth distribution. Policy inertia is contributing to vulnerabilities and is a source of potential macroeconomic instability. Past IMF advice has had mixed traction because of the political sensitivities involved in the implementation of some recommendations and the authorities' inclination for a slower pace of reforms (Box 1).

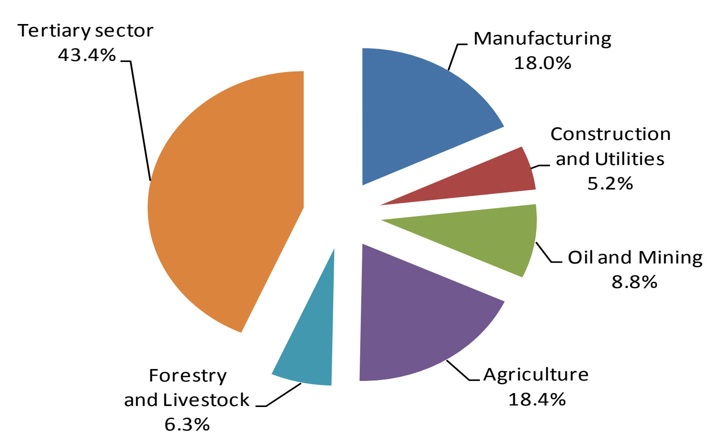
Text Table 1. Cameroon: Economic and Social Indicators

	Cameroon	SSA
Economic indicators, (average over 2007-12)		
Real per capita GDP (U.S. dollars, at 2000 prices)	634.8	681.7
Real GDP growth (percent)	3.4	5.1
Real non-oil GDP growth (percent)	4.0	5.9
Real per capita GDP growth	0.7	2.9
Total investment (percent of GDP)	17.2	22.3
Social indicators, 2011		
Employment to population ratio, ages 15+, total (percent)	67.5	64.3
Primary education completion rate, total (percent of relevant age group)	78.3	70.4
Ratio of female to male primary enrollment	86.8	93.0
Ratio of female to male secondary enrollment	84.5	82.1
Immunization, measles (percent of children ages 12-23 months)	76.0	74.2
Mortality rate, under–5 years of age (per 1,000)	127.2	108.3
Prevalence of HIV, total (percent of population ages 15-49)	4.6	4.9
Improved water source (percent of population with access)	74.0	60.0

Sources: IMF, African Department and WEO databases, 2012; and The World Bank, World Development Indicators database, 2013.

Figure 2. Cameroon: Nominal GDP, 2012

(Percent of total)



Source: Cameroonian authorities.

Box 1. Cameroon: Response to Past IMF Advice

Policy Area	IMF Advice	Response
Fiscal policy and public financial management	Address the risks to the 2012 budget through tight cash management, reduction of fuel subsidies, and expenditure reprioritization.	Cash management was constrained by past payment obligations, fuel subsidies increased, and no notable reprioritization of public expenditure was undertaken.
	Improve non-oil revenue by broadening the tax base, streamlining exemptions, and increasing the efficiency of tax and customs administrations.	Measures to strengthen tax and customs administrations are being implemented, taking into account recommendations from IMF technical assistance.
	Implement measures to prevent new domestic arrears.	Progress has been made in reducing the stock of audited arrears, and the 2013 budget includes an allocation for further reduction. However, new arrears were accumulated.
	Rebuild fiscal buffers, strengthen the budget execution process, and accelerate efforts to operationalize the medium-term expenditure framework.	Usable deposits were depleted, and capital budget execution was constrained by the transition to new procurement processes. Conversely, budget programming was launched, a first in CEMAC.
Financial sector	Monitor banking sector soundness, in collaboration with the regional bank supervisor, press ahead with bank restructuring plans, and promote the reform of the bank resolution framework.	Restructuring plans for four small distressed banks have progressed, but no significant advance has been made in the reform of the regional supervisory, regulatory, and bank resolution frameworks.
Structural reforms	Improve the business climate by tackling governance issues, deepening dialogue with the private sector, and increasing financial intermediation.	A law providing generous tax incentives for a potentially large array of investments was adopted in 2013, without consulting the IMF or the World Bank. The central bank will soon launch three databases to facilitate credit extension.

3. Economic recovery consolidated in 2012. Growth picked up marginally in 2012, helped by a turnaround in oil production (Tables 1–5 and 8–9). Real GDP is estimated to have grown by 4.4 percent (up from 4.1 percent in 2011; Figure 3). The rise in oil production was partially offset by stagnating electricity supply and a slowdown in the construction and public work sector, in part owing to the transition to new public procurement processes (Text Table 2). Average inflation moderated to 2.4 percent (from 2.9 percent in 2011), notwithstanding a 3.1 percent effective depreciation of the CFA franc, pegged to the euro.

Text Table 2. Cameroon: Sectoral Contribution to Real GDP Growth, 2006–12
(Percent)

	2006	2008	2009	2010	2011	2012
Primary sector	0.6	1.9	0.6	1.4	0.7	0.9
Secondary sector, excl. oil	0.0	0.4	0.1	0.7	0.7	0.7
Oil sector	0.5	-0.1	-0.8	-0.6	-0.3	0.1
Tertiary sector	2.1	1.4	2.0	1.8	3.0	2.7
Real GDP growth	**3.2**	**3.6**	**1.9**	**3.3**	**4.1**	**4.4**

Source: Cameroonian authorities.

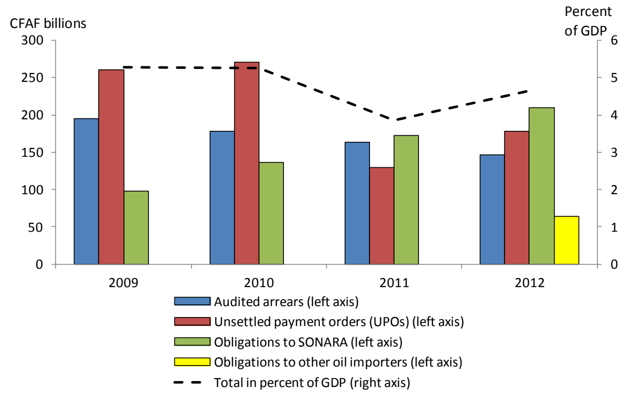
4. The overall fiscal deficit, on a cash basis, contracted. Revenue exceeded budget projections by 1.2 percentage points of GDP, mainly because of higher-than-budgeted oil revenue, while expenditure was broadly in line with budget appropriations. An overrun of 0.5 percentage point of GDP on subsidies and transfers was offset with lower-than-budgeted capital execution. The recorded budget deficit amounted to 2.0 percent of GDP (3.6 percent in 2011). It was financed by external borrowing (half of which came from emerging creditors) and a further drawdown of government deposits at the regional central bank (BEAC) that fell to the equivalent of 0.2 month of expenditure.

5. However, the stock of government arrears and other payment obligations further increased, mainly on account of rising fuel subsidies. The government did settle all outstanding arrears at end-2011 toward the national refinery (SONARA) in 2012 through cash payments, cancellation of taxes owed, and securitization. However, the continued freeze of retail fuel prices at their 2008 level resulted in new, accrued fuel subsidies, representing 3.4 percent of GDP in 2012. Because of insufficient budget appropriations, these subsidies could be settled only partly. Part of the balance was settled through securitization and tax cancellation, and the rest constituted new arrears. The government also settled a large amount of previous years' unsettled payment orders, but also accumulated new ones. As a result, the total stock of the government's arrears and other payment obligations increased from 3.9 percent of GDP at end-2011 to 4.7 percent of GDP at end-2012 (Tables 6 and 7, Figure 4, Appendix I).

Figure 3. Cameroon: Selected Economic Indicators, 2008–12

Sources: IMF African Department Database; and IMF staff estimates.

Figure 4. Cameroon: Government Arrears and Payment Obligations, 2009–12



Sources: Cameroonian authorities; and IMF staff estimates.

6. **Growth in recent years has had no significant impact on poverty, but it has been relatively inclusive.** Overall income poverty has remained virtually unchanged (40.2 percent in 2001 and 39.9 percent in 2007), but its composition has changed—it has decreased by 5.7 percent in urban areas, but increased by 2.9 percent in rural ones. During this period of low per capita growth (0.6 percent per annum), per capita consumption (a proxy for income) has increased by 0.8 percent per annum for all Cameroonians, and by 1 percent for the poorest quartile, thus pointing to somewhat increased inclusiveness. However, inequality remains high: the country-wide Gini coefficient is 0.39. Past policies have had a limited pro-poor focus. A Public Expenditure Review[1] by the World Bank indicated that allocations to social sectors had been losing ground to general state functions since 2005. Reforms of the business environment have not caused enterprises to leave the informal sector, which accounts for 90 percent of economic activity, but does not contribute to tax revenue, escapes regulatory requirements, and does not provide social protection to its workers.

7. **The public enterprise sector has had a lackluster performance.** It comprises about 125 enterprises (21 wholly publicly owned, 46 partially publicly owned, and 58 government administrative agencies in education, health, etc.) The authorities have been carrying out public enterprise reform to reduce the burden on the budget and improve performance, but progress has been slow.

8. **Data provision to the IMF is broadly adequate for surveillance, but important gaps remain in fiscal, external, and financial sector information because of lack of capacity.** Government financial operations on a commitment basis are not available. The quality and timeliness of balance of payments statistics, particularly the capital and financial accounts, need to be improved. Monetary data availability is untimely, and information on bank lending and deposit

[1] "Cameroon—Fiscal Policy for Growth and Development," World Bank, Washington, DC (2010).

rates is lacking. The authorities' strategy for improving statistics with donor assistance led to the publication of the first quarterly national accounts in 2012.

BALANCED OUTLOOK WITH MODERATE RISKS

The medium-term outlook for Cameroon is predicated on a continuation of the authorities' current policies, focusing on the implementation of a number of large public investment projects, pursuing a fiscal path with large financing gaps, and proceeding with ongoing administrative reforms. These policies are expected to deliver somewhat higher real GDP growth, but do not address, as forcefully as needed, still low but growing risks to macroeconomic stability. A possible reform scenario was discussed with the authorities (see below).

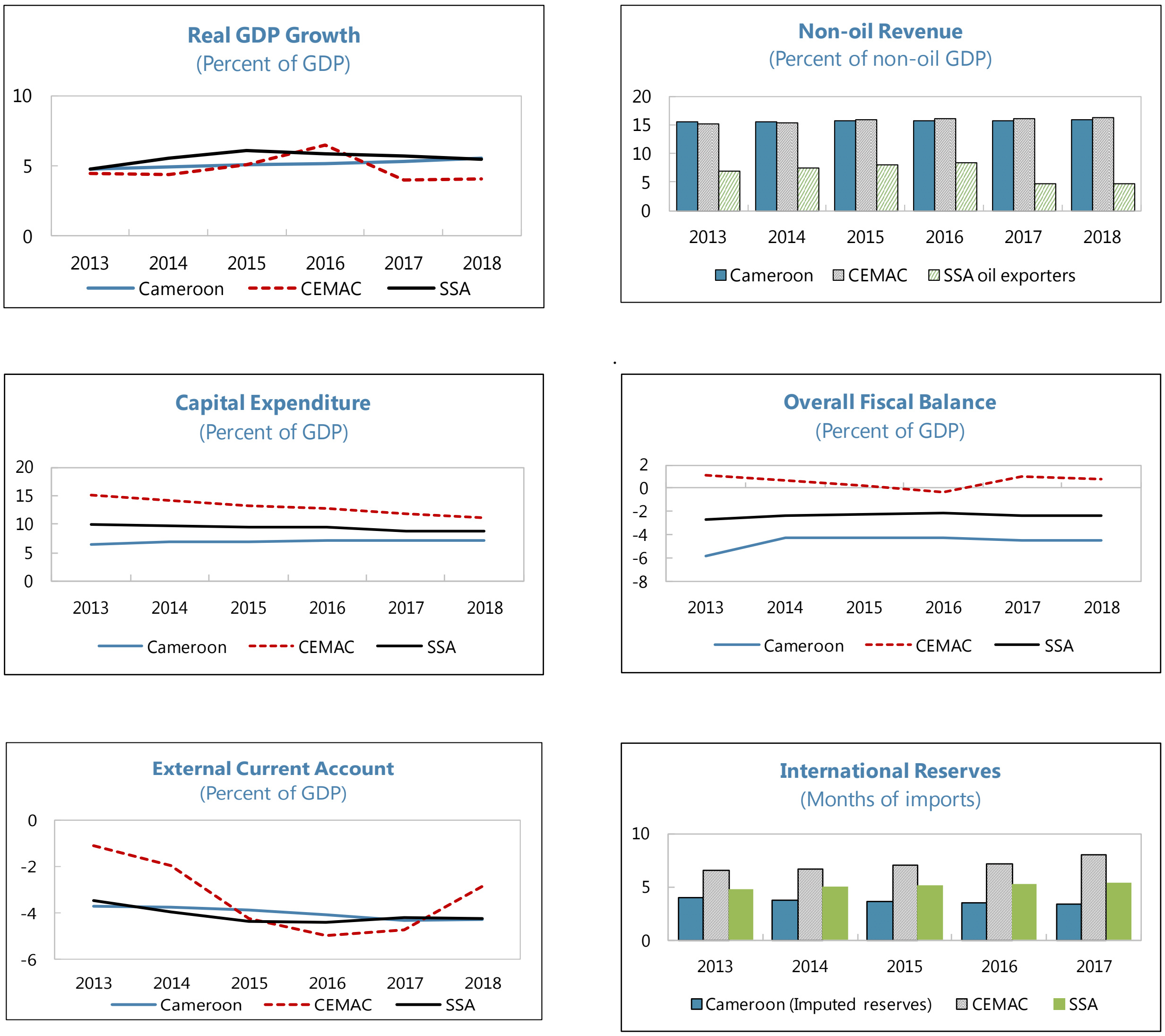
9. Economic growth is projected to increase gradually over the medium term under current policies (Figure 5). Staff projects real GDP growth to increase from 4.4 percent in 2012 to 5.5 percent in 2018. These projections are predicated on cautious expectations about the pace of execution of large infrastructure and power supply projects (Figure 6) and the associated private sector response. The hydrocarbon sector is expected to boost growth, because ongoing investments in oil and natural gas production by the National Hydrocarbons Company (SNH) and private companies are coming onstream. Growth is to be also supported by ongoing efforts to boost agricultural productivity and measures to improve the business environment. The authorities are expecting higher medium-term growth—over 6 percent on average.

10. Inflation is projected to remain below the 3 percent regional convergence criterion. It is dependent on the prices of foodstuffs, which tend to exhibit larger upward adjustments because the shallowness of markets. Inflation is projected to exceed inflation in the main trading partners (e.g., the euro area) slightly. This should not hamper external competitiveness much in the near term, but may have policy implications over time. This projection is also based on a continued freeze in fuel prices.

11. The external current account deficit is projected to stabilize at around 4 percent of GDP in the medium term. The continued rebound in oil exports is projected to be accompanied by higher non-oil exports, whose competitiveness should benefit gradually from the forthcoming alleviation of the infrastructure and energy gaps. The stronger export performance is expected to offset the projected increase in imports. The external current account deficit is expected be financed mainly by new external borrowing, as well as by foreign direct investment.

12. The medium-term fiscal outlook is turning negative. The overall fiscal deficit in terms of GDP is expected to widen in 2014–18 because of declining revenue, owing to softer international oil prices, and higher capital expenditure, associated with large infrastructure projects. Although non-oil revenue to non-oil GDP is projected to rise by about a ½ percentage point, as a result of ongoing improvement efforts in tax and customs administrations, this increase will not be sufficient to offset the decline in oil revenue. The implementation of the large infrastructure projects will require a further increase in capital expenditure, which is projected to reach 7¼ percent of GDP by 2018.

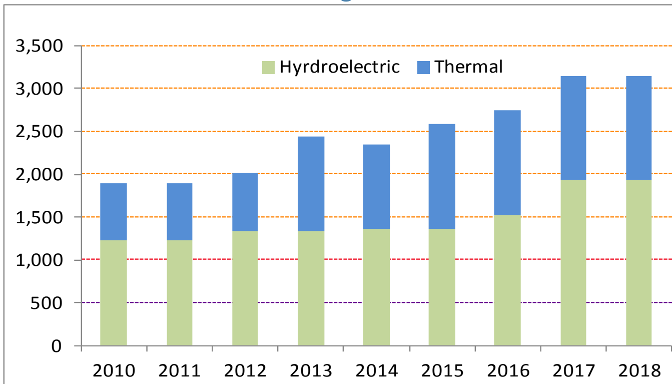
Figure 5. Cameroon: Medium-Term Outlook, 2013–18



Sources: IMF African Department Database; and IMF staff projections.

Figure 6. Cameroon: Power Supply, 2010–18

(Megawatts)



Sources: Cameroonian authorities; and IMF staff projections.

13. **Medium-term macroeconomic stability could be threatened by still low but growing risks** (Risk Matrix). Cameroon's outlook could be adversely affected by exogenous risks, of which the most important is a protracted global slump, especially in the euro area. Endogenous risks include (i) rising fuel subsidies; (ii) contingent liabilities arising from distressed banks and public enterprises; (iii) slow progress in raising non-oil revenue; (iv) escalating nonconcessional financing, (v) excessive credit concentration jeopardizing the banking system and the real sector; (vi) delays in the implementation of the public investment program; and (vii) widespread unemployment.

14. **The risk of debt distress remains low, despite a steady rise in the debt burden.** The joint World Bank-IMF debt sustainability analysis (DSA; companion paper) suggests that all external debt ratios would remain below their respective policy-dependent thresholds, including under standard stress tests, provided the prevalence of nonconcessional debt observed during the last few years is reined in, and borrowed resources are used to finance projects with a sufficient growth payoff.[2] However, the debt burden is likely to rise significantly—taking into account borrowing needed to finance projected budget deficits and the recent trend toward nonconcessional borrowing.

POLICY DISCUSSION: UNLEASHING HIGH GROWTH POTENTIAL

The overarching economic challenge is to set Cameroon on a higher, sustainable, and more inclusive growth path within a stable macroeconomic environment. Cameroon's ambition to become an emerging market economy by 2035 is unlikely to be achieved without an acceleration

[2] See forthcoming IMF Working Paper: "Fiscal Sustainability, Public Investment, and Growth in Natural Resource-Rich, Low-Income Countries: The Case of Cameroon," Washington, DC (2013).

of growth, which requires addressing risks, increasing the efficiency of public spending, and suppressing bottlenecks to boost private sector response.

A. Containing Risks to the 2013 Budget

15. The authorities' 2013 budget is set to expand. It is predicated on an annual growth rate of 6 percent and projects a slightly larger deficit than in the previous year's budget. Revenue is projected to increase by about ½ percentage point of GDP on account of tax and customs administrations reforms. This is to be offset by a larger increase in capital expenditure. The overall budget deficit (2½ percent of GDP) is expected to be fully financed by net external borrowing and a net security issue on the regional market in comparable proportions.

16. The budget is likely to come under stress. Staff projects a deficit twice as large as projected in the budget, resulting in a financing gap of 3¾ percent of GDP because of recurrent stress factors:

- In the absence of significant policy change, revenue is projected more conservatively by staff to remain broadly stable relative to the 2012 outturn.[3]
- As in previous years, the budget incorporates only about half of the expected cost of fuel subsidies, as estimated by the Hydrocarbon Price Stabilization Fund (CSPH).
- There is no provision in the budget for the payment of outstanding obligations to SONARA and other fuel importers at end-2012 (2 percent of 2013 GDP).
- Staff thinks that the likely amount of the security issue will be only 40 percent of the amount targeted in the budget.

17. The staff encouraged the authorities to contain the 2013 budget deficit and close the projected financing gap. To reduce the financing need and prevent further accumulation of domestic arrears, staff advised to take the following short-term measures (i) reduce excessive tax exemptions; (ii) reprioritize public expenditure and eliminate non-essential expenditure (e.g., subsidies); (iii) start phasing out fuel subsidies; and (iv) start preparing a contingency plan in case the security issue proves unlikely to be completed. Staff encouraged the authorities to transcribe these changes into a revised budget law to be submitted to parliament as soon as possible.

[3] Tables 2 and 3 report revenue for 2011–12 on a net basis (i.e., after cancellation of mutual claims between the government and SONARA), but they show revenue projected from 2013 onward on a gross basis (i.e., without cancellation), consistent with IMF recommendations. In 2012, the cross-cancellation amounted to about 1 percentage point of GDP.

Authorities' views

18. The authorities downplayed staff's concerns about budget risks. They conceded that fuel subsidies were likely to exceed their appropriation again this year. They thought, however, that the shortfall would be addressed by the usual mix of cross-cancellation of mutual debts, securitization, and payment deferrals. They also did not share staff's concerns about the possibility of lower-than-planned security issue. They noted that the issue was meant to finance infrastructure projects and therefore a lower issue would be compensated by lower capital expenditure.

B. Mitigating Risks to Medium-Term Fiscal Sustainability

19. Under the baseline scenario, further financing gaps could threaten medium-term fiscal sustainability. The medium-term baseline projections assume a small improvement in non-oil revenue mobilization, a continued freeze in retail fuel prices, and execution of the government's growing investment program. On this basis, the non-oil primary deficit (NOPD) is projected to remain at about 9 percent of non-oil GDP in the medium term, and annual financing gaps of about 2¾ percent of GDP would persist, leading to a significant increase in the public-debt-to-GDP ratio, which would rise from 16 percent at end-2012 to 34 percent at end-2018.

20. Staff made the following recommendations on structural measures to buttress medium-term fiscal sustainability:

- Strengthen revenue mobilization through improved tax collection capacity and a widening of the tax base, because marginal tax rates are already high. To increase non-oil revenue, reforms need to be accelerated to simplify and modernize complex tax procedures,[4] strengthen human resources of tax and customs administrations, improve tax centers' information technology systems, and widen the list of tax payers, through the creation of additional tax centers and regional surveys.

- Gradually phase out fuel subsidies and eliminate arrears to SONARA through a combination of cash transfers and securitization. As a first step, streamline the fuel price formula and replace SONARA's markup in the price structure with direct budget transfers to improve budget transparency, as recommended by FAD technical assistance. These changes may be done without affecting pump prices. A gradual pump price adjustment mechanism, including some smoothing feature to dampen volatility, should then be adopted as soon as possible, to ensure full cost recovery over time. The price of kerosene, mostly used by the most vulnerable segments of the population, would not need to be adjusted initially. These measures would need to be accompanied by appropriate communication and the development of well-targeted programs to limit their impact on the neediest groups.

[4] The 2013 World Bank Doing Business Indicators ranked Cameroon among the worst 10 performers of 185 countries in terms of the processes related to "paying taxes."

- Curb transfers to public enterprises while improving their supervision and fostering greater efficiency. The authorities should complete pending reforms, in particular for telecommunications, postal service, and air transport, to reduce subsidies and to improve the quality of service. Staff recommended strengthening the monitoring of public enterprises' contingent liabilities through a comprehensive database on public enterprise debt.

- Adopt a path for the NOPD as a fiscal anchor to preserve fiscal sustainability, taking public investment needs for infrastructure into account. Staff analysis indicates that an NOPD below 6 percent of non-oil GDP would be consistent with maintaining a low risk of debt distress.[5]

- Issue regional securities in amounts and at a pace consistent with market absorptive capacity and regional financial sector stability. Such issues will need to be restricted to projects with a high growth payoff.

- Rebuild the government's cash deposits to at least the equivalent of one month of public expenditure to be able to respond to spending contingencies.

- Avoid the reemergence of debt vulnerabilities by (i) contracting new external loans on as concessional terms as possible, including through open competition among potential creditors; (ii) limiting nonconcessional external financing to worthy projects; (iii) enhancing the oversight power and capacity of the national public debt committee; (iv) entrusting the power to contract public debt only to the Minister of Finance; (v) evaluating and monitoring contingent liabilities of public enterprises; and (vi) conducting periodic audits of all outstanding payment obligations.

Authorities' views

21. The authorities acknowledged the need to rebuild fiscal buffers and ensure fiscal sustainability over the medium term. They reiterated their commitment to improve non-oil revenue mobilization, as reflected in the revisions made to their reform plans for tax and customs administrations, in line with the recommendations of recent FAD technical assistance. The authorities, however, did not see merit in following a tighter NOPD rule given the large public infrastructure gap. They recognized that rising fuel subsidies were unsustainable, and should be reined in through efficiency gains at SONARA and gradual adjustments in pump prices. They agreed that these reforms needed to be well prepared and accompanied by appropriate mitigating measures to build consensus, limit inflationary impact, and preserve social peace. They would not specify a timeline for these reforms though, especially in the run-up to elections.

[5] The NOPD is an indicator of fiscal sustainability when applying the Permanent Income Hypothesis (PIH) fiscal rule, which stipulates that earnings from oil are saved during the years of high production, and drawn down as oil production falters in the outer years, to smooth public spending. For further discussion of the NOPD as a fiscal anchor, see Appendix III on public investment and fiscal sustainability in the 2012 Article IV Consultation staff report (IMF Country Report No.12/237).

C. Strengthening Public Financial Management

22. The authorities have embarked upon an ambitious PFM modernization plan.

- They identified the main reforms needed for the gradual introduction of the six PFM directives adopted by the CEMAC in December 2011 into Cameroon's legal framework.[6] Among the plan's priorities are the adoption of GFSM2001 standards and the strengthening of external controls and parliamentary oversight.

- The authorities have initiated program budgeting with the 2013 budget. However, some transitional technical difficulties arose in adapting budget and accounting information systems to programmatic classifications and multiyear spending authorizations.

23. The government's development strategy critically hinges on the efficiency and effectiveness of the public investment program. This program requires a strengthened PFM framework to avoid misuse of, and improve returns on, investment spending. Some progress was made in recent years in increasing the transparency of procurement, but significant governance concerns remain. To address this issue, a ministry of public procurement was established last year, but it is too early to determine whether it has improved the governance of procurement. In addition, the quality of capital expenditure remains impaired by weak project appraisal and evaluation capacity, and accumulation of payment obligations to private contractors.

24. Staff recommended the following measures to strengthen PFM over the medium term:

- Address the issue of domestic arrears by (i) clearing all arrears to SONARA to avoid serious implications for the banking system; (ii) completing a comprehensive audit of government payment obligations; (iii) updating a multiyear plan to settle validated arrears; (iv) limiting the level of unsettled payment orders (UPOs) by strengthening forecasting and cash management; and (v) budgeting the full cost of fuel subsidies in future budgets.

- Improve fiscal reporting and budget transparency by (i) moving toward a single treasury account rule and avoiding spending commitments outside normal budget procedures; (ii) projecting and reporting taxes and subsidies on a gross basis, instead of relying on ad hoc cross-cancellations; (iii) preparing monthly fiscal data on a commitment basis along with improving the financial information management system to track the flow of funds through the four stages of the expenditure chain; and (iv) reconciling differences in reporting oil sector revenue between the budget and the SNH.

- Build capacity for investment planning, evaluation, and execution, because adequate appraisal and management capacity are a prerequisite for efficient infrastructure investment.

[6] The CEMAC directives focus on the budget law and the medium-term fiscal framework: government accounting; payroll management; implementation of GFSM2001; metadata related to the budget system; value-added tax law; and transparency and governance code.

Authorities' views

25. The authorities noted that improving PFM was a complex reform process that would have to be sustained over several years. They indicated that the technical difficulties encountered when initiating budget programming were being worked out, and emphasized that this important reform was all the more challenging because it required a fundamental change in administrative culture. They were hopeful that this reform would lead to stronger PFM in the years to come.

D. Promoting Sound Financial Intermediation

26. Conditions in the banking sector have somewhat improved, but the situation varies across banks (Appendix II). Capital adequacy has improved somewhat across the banking system, but remains weak in problem banks. Aggregate numbers hide a wide disparity in prudential ratios.[7] Prudential indicators are improving, albeit slowly, at a larger troubled bank and a long-overdue restructuring plan for a medium-size regional bank is coming closer to implementation. However, three other small banks still show negative equity. The rest of the banking system is sound, but vulnerable to a concentration on a few sectors and corporations. In addition, persistent government arrears to SONARA translate into a substantial credit risk for the banking sector. In parallel, the authorities are in the process of creating a new specialized bank to assist small and medium-size enterprises.

27. The staff urged the authorities to take swift action to resolve financial problems at the troubled banks. In one case, this involves a recapitalization from public funds and the creation of a separate entity that would take on impaired assets. Going forward, staff recommended that the government recover as much as possible of the bad assets and seek private investors for taking over the recapitalized bank. The other three non-systemic banks require prompt resolution or liquidation to protect depositors. The government should avoid increasing public deposits at troubled banks. The staff agreed with the regional bank regulator (COBAC) that it will be of paramount importance to provide close supervision (i) to the newly created public bank to avoid possible contingent liabilities, as has been the case in the past; and (ii) to large microfinance institutions, whose activities are expanding.

28. Further institutional reforms are necessary to improve the legal framework of credit. The launching in June 2013 of three databases on payment incidents, and financial statements from non-financial enterprises and microfinance institutions will help assess the creditworthiness of potential creditors and encourage lending. Nonetheless, further reforms are needed, including (i) improving procedures for recording and enforcing guarantees; (ii) improving the operations of land and commercial registries; and (iii) strengthening creditor rights enforcement by enhancing the effectiveness of the courts.

[7] Four banks presented negative equity at end-March 2013. Their combined assets represented about 8 percent of the assets of the banking system.

29. Staff encouraged the authorities to engage other CEMAC member states in strengthening the regional bank crisis prevention and resolution framework. Staff stressed the need for a new regional regulation on crisis resolution, whose preparation could benefit from IMF technical assistance. This regulation should (i) allow the authorities to intervene early in bank resolution; (ii) define clearly the responsibilities of regional and national bodies and the scope of judicial review; and (iii) prevent shareholders of insolvent banks from participating in restructurings. The recruitment underway at COBAC needs to be completed to allow COBAC to monitor the increasing number of financial institutions and to boost the frequency and intensity of its inspections.

Authorities' views

30. The authorities recognized that the concentration of bank credit was a source of vulnerability. Liquidity problems at large common borrowers—typically SONARA and other state-owned enterprises—partly because of delays in the government settling its obligations, could jeopardize the health of the banking system. In their view, a solution to this issue resides in better PFM.

31. The authorities committed to limiting the risks linked to the new bank. They opined that the bank aimed at helping fill a void in financing worthwhile small and medium-size enterprises. The bank would rely on long-term resources, including its paid-in capital of US$20 million, to grant guarantees to bank credit, purchase equity participation, and provide direct loans.

E. Fostering Higher Growth

32. Estimates do not point to a substantial real effective exchange rate (REER) overvaluation (Appendix III). The REER depreciated by 3.7 percent in 2010–12, in line with the depreciation of the euro. This depreciation did not, however, offset the cumulative appreciation of the REER in 1994–2009 (24 percent). Model-based estimates suggest a possible overvaluation of Cameroon's REER between 5½ percent and 16 percent at end-2012. This estimate is consistent with the finding of the last Article IV consultation with the CEMAC, which suggests an overvaluation of about 11 percent.

33. The evolution of non-price indicators of external competitiveness has been mixed. Cameroon's ranking under the Global Competitiveness Index improved, but its ranking under the World Bank's "Doing Business" indicators deteriorated, with the most ground lost in access to credit, investor protection, property registration, and tax payment procedures. Not surprisingly, foreign direct investment has remained relatively low in non-oil sectors.

34. The staff warned the authorities about the potential pitfalls of a new law aimed at providing tax incentives to new investments. Provisions for tax incentives under this law are general and discretionary, thereby creating a presumption that tax packages will be negotiated on a case-by-case basis. Such practices could result in significant losses of tax revenue and undermine ongoing efforts to improve governance, while providing only limited results in terms of increased investment.

35. The staff encouraged the authorities to help foster greater regional economic integration, especially among CEMAC member countries. In particular, harmonizing the rules of products' country of origin, and removing non-tariff barriers and administrative hurdles to travel among CEMAC countries could contribute to developing intraregional trade.[8]

Authorities' views

36. The authorities felt confident that Cameroon's competitiveness would greatly benefit from the completion of large public investment projects. They stressed that financing for most of these projects has already been mobilized or was under negotiation with external creditors. The planned security issue in 2013 and beyond was also intended to finance these and future infrastructure projects, which would then contribute to higher growth.

37. The authorities concurred with the need to strengthen Cameroon's external competitiveness and remove obstacles to trade. They took note of the reservations expressed by staff about the new investment incentive law, and welcomed comments on the law.[9] However, they noted that the private sector was keen on enacting the law to spur investment. The authorities expressed their strong determination to meet the mid-August 2013 deadline for Cameroon to be declared conforming by the Board of the Extractive Industries Transparency Initiative (EITI). Although they saw greater regional integration as a desirable objective, the authorities noted the generally difficult process of coming to agreements with other CEMAC partners.

F. Reform Scenario

38. A moderate reform scenario was discussed with the authorities, building on the policy advice reported above (Text Table 3, and Tables 10–12).[10] The scenario's main tenets are (i) an acceleration of private sector-led growth through faster improvements in the business environment and alleviation of infrastructure and energy bottlenecks; (ii) the creation of fiscal space through a gradual fuel subsidy reform[11] and a redirection of unproductive resources (e.g., subsidies to public enterprises) toward investment; (iii) acceleration of PFM reforms, and improved tax and customs administrations and project appraisal and execution; and (iv) improved financial sector

[8] A planned reduction in the common external tariff is awaiting an economic impact study.

[9] Comments were sent by FAD shortly after the mission. The thrust of FAD's comments was to suggest limiting the application of the law both in terms of the sectors it covers, and the tax incentives it provides.

[10] No significant reform is likely before parliamentary elections due in 2013; it is thus assumed that reforms will start in 2014.

[11] The moderate reform scenario contemplates a price increase for gasoline of 20 percent and 10 percent over 2014 and 2015, respectively; and a price increase for diesel of 15 percent and 5 percent over 2014 and 2015, respectively.

intermediation and access to credit. The scenario assumes gradual adjustment of gasoline and diesel pump prices to international oil prices (as illustrated in Scenario A, Appendix I), the intensification of public enterprise reform to improve efficiency, and the acceleration of tax reforms to modernize complex procedures and reduce the burden on small and medium-size enterprises.

Text Table 3. Cameroon: Selected Macroeconomic Indicators, 2013-18

(Units as indicated)

	2013	2014	2016	2018	2014	2016	2018
	Common	Baseline Scenario			Reform Scenario		
Economic growth and prices [1]							
Real GDP	4.8	5.0	5.2	5.5	5.5	5.9	6.5
Non-oil real GDP	4.4	4.9	5.1	5.4	5.4	5.8	6.4
Consumer prices (period average)	2.5	2.5	2.5	2.5	3.0	3.0	3.0
Fiscal aggregates							
Total revenue (incl. grants) [2]	19.9	19.8	19.5	19.3	20.2	20.1	20.1
Of which: Oil [2]	5.2	5.1	4.7	4.3	5.1	4.6	4.2
Non-oil [3]	15.5	15.5	15.7	15.8	15.9	16.4	16.8
Total expenditure, cash basis [2]	23.5	23.9	23.8	23.8	22.4	21.6	21.4
Of which: Non-interest current	16.8	16.5	16.1	15.9	14.9	13.9	13.2
Capital	6.3	6.9	7.0	7.2	7.0	7.2	7.8
Overall budget balance, cash basis (incl. grants) [2]	-5.8	-4.3	-4.3	-4.5	-2.4	-1.6	-1.4
Non-oil primary balance [3]	-9.2	-9.5	-9.0	-8.7	-7.4	-6.1	-5.4
External sector [2]							
Current account (including grants)	-3.7	-3.7	-4.1	-4.3	-3.9	-4.4	-4.8
Total public debt	19.3	22.7	28.6	34.1	20.6	21.1	21.6

Sources: Cameroonian authorities; and IMF staff projections.

[1] Percentage change.

[2] Percent of GDP.

[3] Percent of non-oil GDP.

39. **Relative to the baseline, this scenario would lead to an increase in sustainable growth by close to 1 percentage point at the end of the projection period.** The resulting budget savings and improvement in the business environment would help redirect spending toward investment and generate higher growth over the medium term, notably, because of the private sector's response to the coming onstream of infrastructure projects in a more conducive environment. This better outcome is consistent with macroeconomic stability and debt sustainability. Inflation would be somewhat higher, reflecting the gradual upward adjustment of domestic fuel prices. Fiscal balances would be preserved: non-oil revenue could be expected to increase by about ½ percentage point during the projection period, supported by accelerated implementation of tax administration reforms aimed at widening the tax base and streamlining tax payments. These reforms would also be expected to produce improvements in the business climate. The tighter fiscal path and structural reforms to boost competitiveness will help underpin external sustainability. Finally, financial sector intermediation would be spurred by a rapid and orderly resolution of distressed banks and more effective bank supervision.

Authorities' views

40. The authorities endorsed the higher growth objective and indicated that, in their view, their current policy mix would yield those results. In particular, they thought that the large infrastructure projects' contribution to growth would materialize earlier than envisaged by staff.

STAFF APPRAISAL

41. Moving toward emerging market economy status by 2035 will require a substantial increase in trend growth. The authorities' higher growth strategy rightly focuses on addressing Cameroon's substantial infrastructure gap, but its success will hinge on the efficiency of public investment and the strength of the private sector's response. Staff therefore urges the authorities to intensify their efforts to address weaknesses in project selection and execution, and to allocate appropriate resources for infrastructure maintenance. Single-source procurement for large projects will need to be curtailed or given special scrutiny.

42. Greater improvements in the business environment will be essential to boost the private sector's response. The payment of taxes and the granting of permits should therefore be made less burdensome, and ongoing anti-corruption efforts should be strengthened. The authorities should also strive to foster financial intermediation and facilitate cross-border trade. Cameroon may want to take the lead in reviving stalled regional integration talks within CEMAC, which would support diversification and productivity growth in Cameroon's non-oil sector. A recent law aimed at fostering private investment, through the provision of overly generous tax incentives, may well fall short of its objectives, while potentially undermining revenue collection.

43. Substantial risks to the 2013 budget need to be addressed without delay to avoid a further accumulation of domestic arrears that undermine fiscal sustainability. The fiscal outcome stabilized in 2012, but masked growing vulnerabilities. Fuel subsidies remained high, as international prices and domestic demand remained buoyant. The underbudgeting of fuel subsidies in the 2013 budget continues to threaten orderly budget execution and fiscal stability, as do overly ambitious plans for a regional securities issue. Contingent liabilities, arising from distressed banks and public enterprises, pose an additional risk.

44. Increasing fiscal space over the medium term will require a combination of improved revenue collection, expenditure reallocations, and judicious financing choices. To limit revenue volatility, non-oil revenue will need to grow, aided by the large taxpayer unit and a broadening of the tax base. Resource availability for the scaling up of public investment will also require eliminating fuel subsidies through a gradual relaxation of price controls and curbing subsidies and transfers to public enterprises.

45. PFM needs strengthening to become the backbone of effective and efficient public spending. The authorities are encouraged to validate arrears and adopt a plan for settling them. The shift toward program budgeting is a promising step for strengthening PFM, but initial information technology issues need to be addressed. The authorities' modernization plan for PFM is welcome, and should go hand in hand with the adoption of CEMAC PFM directives.

46. Cameroon's risk of debt distress remains low, but debt indicators have deteriorated since last year. The deterioration resulted from the impact of domestic arrears on domestic debt, and the ramping up of external borrowing at nonconcessional terms. Going forward, the baseline scenario projects a doubling of the debt-to-GDP ratio within the next five years. This warrants close scrutiny and changes in external debt policy. In particular, external financing choices will need to reflect a judicious strategy predicated on medium-term debt sustainability.

47. Effective financial intermediation is necessary to buttress the authorities' growth vision. Risks to financial sector stability have abated, but need to be addressed conclusively. The number of distressed banks has been reduced from five to four, and none appears to pose a systemic risk. Nonetheless, their situations need to be resolved decisively without overly compromising public resources. Decisive action on this front will also contribute to allaying persistent governance concerns. The authorities and the regional bank regulator will need to focus on the concentration of bank credit to SONARA, and the launch of a new public bank for small and medium-size enterprises, to avoid the emergence of contingent liabilities. Other reforms will have to include more frequent supervision, tighter lending standards, and seamless cooperation between national and supranational regulatory bodies.

48. Staff recommends that the next Article IV consultation take place on the 12-month consultation cycle.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
		Est.	Projections					
	(Annual percentage changes, unless otherwise indicated)							
National account and prices								
GDP at constant prices	4.1	4.4	4.8	5.0	5.1	5.2	5.3	5.5
Oil GDP at constant prices	-7.3	3.5	15.2	7.4	6.5	7.5	8.0	8.5
Non-oil GDP at constant prices	4.6	4.5	4.4	4.9	5.0	5.1	5.2	5.4
GDP deflator	3.7	2.3	2.0	2.2	2.1	2.1	2.0	1.9
GDP at market prices (CFAF billions)	12,026	12,848	13,735	14,734	15,806	16,965	18,221	19,595
Oil	1,012	1,107	1,088	1,143	1,191	1,232	1,279	1,319
Non-oil	11,014	11,741	12,647	13,591	14,615	15,734	16,942	18,276
Oil output (thousands of barrels a day)	59.2	61.3	70.8	79.0	85.5	91.0	96.2	99.8
Consumer prices (average)	2.9	2.4	2.5	2.5	2.5	2.5	2.5	2.5
External trade								
Export volume	-4.4	0.1	8.9	7.7	6.5	6.6	7.6	7.6
Oil sector	-8.7	7.9	16.0	12.3	8.6	6.8	5.9	4.0
Non-oil sector	-3.5	-1.5	7.4	6.6	6.0	6.5	8.0	8.5
Import volume	15.6	1.0	7.8	9.0	6.9	7.8	7.2	7.3
Average oil export price (US$ a barrel) [1]	111.6	111.7	100.4	93.8	89.6	86.4	84.3	83.2
Nominal effective exchange rate (depreciation -)	1.3	-3.1	...	...	...	...	...	
Real effective exchange rate (depreciation -)	0.0	-3.6	...	...	...	...	...	
Terms of trade	10.8	1.4	-2.0	-0.4	-1.6	-1.8	-2.7	-3.4
Export price index	24.8	6.0	-5.3	-0.4	-1.7	-1.3	-1.7	-2.3
Non-oil export price index	14.5	5.4	-5.6	1.1	-2.5	-1.4	-2.1	-0.8
Import price index	12.7	4.5	-3.3	-0.1	-0.1	0.5	1.0	1.2
Money and credit								
Broad money (M2)	10.6	1.4	5.3	7.3	7.3	7.3	7.7	7.8
Net foreign assets [2]	-7.4	-3.3	-1.0	-0.5	1.0	1.6	1.5	1.4
Net domestic assets [2]	18.0	4.6	6.2	7.7	6.3	5.7	6.2	6.4
Domestic credit to the private sector	28.3	2.6	8.5	10.9	8.7	8.3	8.7	9.4
	(Percent of GDP, unless otherwise indicated)							
Gross national savings	16.2	16.4	17.0	17.2	17.5	17.5	17.5	17.6
Gross domestic investment	19.1	20.2	20.7	20.9	21.3	21.5	21.8	21.9
Public investment	6.3	5.9	6.3	6.9	6.9	7.0	7.2	7.2
Private investment	12.8	14.2	14.4	14.0	14.4	14.5	14.6	14.7
Central government operations								
Total revenue (excluding grants)	18.2	18.4	19.4	19.4	19.3	19.3	19.2	19.1
Oil revenue	5.3	5.4	5.2	5.1	4.9	4.7	4.5	4.3
Non-oil revenue	12.9	13.1	14.3	14.3	14.4	14.6	14.7	14.8
Non-oil revenue (percent of non-oil GDP)	14.1	14.3	15.5	15.5	15.6	15.7	15.8	15.8
Total expenditure	21.6	20.0	23.5	23.9	23.8	23.8	23.8	23.8
Overall fiscal balance (cash basis)								
Excluding grants	-4.1	-2.5	-6.2	-4.7	-4.6	-4.6	-4.7	-4.7
Including grants	-3.6	-2.0	-5.8	-4.3	-4.3	-4.3	-4.4	-4.5
Non-oil primary balance (percent of non-oil GDP)	-8.6	-6.7	-9.2	-9.5	-9.2	-9.0	-8.9	-8.7
External sector								
Current account balance								
Including official grants	-2.9	-3.7	-3.7	-3.7	-3.8	-4.1	-4.3	-4.3
Excluding official grants	-3.8	-4.5	-4.6	-4.6	-4.7	-4.8	-5.0	-4.9
Gross reserves imputed to Cameroon (US$ billions)	3.2	3.3	3.3	3.2	3.3	3.4	3.5	3.6
(percent of broad money)	52.9	53.7	50.0	46.2	44.0	42.5	40.9	39.2
CEMAC gross reserves (US$ billions)	15.7	15.6	18.4	20.2	21.3	22.5	23.8	24.4
(months of CEMAC imports of GNFS)	5.4	5.2	6.0	6.1	6.4	6.6	7.4	7.9
Public debt[3]								
Stock of public debt	13.4	15.9	19.3	22.7	25.7	28.6	31.4	34.1
Of which: external	7.3	9.0	9.7	11.1	12.4	13.8	15.1	16.3
	(Percent of exports of goods and services, unless otherwise indicated)							
Present value of external debt	27.8	23.4	27.1	31.7	36.3	40.9	44.7	47.9
External debt service	1.1	1.7	1.6	1.6	2.2	1.8	2.0	2.1
External debt service (percent of government revenue	1.7	2.6	2.4	2.4	3.1	2.6	2.8	3.0

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

[1]Beyond 2012, WEO price in US$ a barrel, minus a discount of US$6 for the uncertainty (prudence factor) and US$3 for the quality of Cameroon's oil.

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

[3]Projections are taken from the 2013 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de désendettement et de développement" (C2D).

Table 2. Cameroon: Central Government Operations, 2011–18
(CFAF billions, unless otherwise indicated)

	2011	2012	2013			2014	2015	2016	2017	2018
	Act.	Est.	Budget	March	Proj.	Projections				
Total revenue and grants	2,250	2,425	2,649	587	2,727	2,912	3,106	3,315	3,536	3,775
Total revenue	2,190	2,370	2,583	587	2,671	2,858	3,055	3,267	3,493	3,736
Oil sector revenue	638	693	705	100	711	752	774	795	821	841
Non-oil sector revenue [1]	1,552	1,677	1,878	486	1,960	2,106	2,280	2,472	2,671	2,895
Direct taxes	405	471	…	201	520	559	601	647	697	751
Special tax on petroleum products	85	97	…	28	108	116	124	134	144	155
Other taxes on goods and services	701	720	…	175	878	943	1,025	1,114	1,200	1,307
Taxes on international trade	274	294	…	66	361	388	418	454	499	538
Non-tax revenue	88	94	105	17	93	100	113	123	132	143
Total grants	60	55	66	0	56	54	51	48	44	39
Projects	8	12	…	0	12	12	12	12	12	12
Other (debt relief)	53	43	…	0	44	42	39	36	32	28
Total expenditure	2,603	2,570	2,971	468	3,223	3,521	3,760	4,029	4,337	4,655
Current expenditure	1,842	1,807	2,014	366	2,352	2,506	2,663	2,834	3,027	3,240
Wages and salaries	685	706	803	196	803	860	921	992	1,067	1,146
Goods and services	550	575	636	103	636	683	735	791	852	919
Subsidies and transfers	563	474	526	58	867	891	918	954	991	1,042
Fuel subsidies [2]	117	103	220	0	434	437	442	453	472	495
Pensions	138	137	152	37	162	174	187	202	217	234
Other	308	234	154	22	271	280	289	299	302	313
Interest	45	51	49	9	46	71	88	98	117	133
External	31	38	34	9	31	34	37	41	46	52
Domestic	14	13	15	0	15	38	51	57	70	81
Capital expenditure	761	764	957	102	871	1,015	1,097	1,195	1,309	1,416
Domestically financed investment	563	513	611	74	554	600	651	712	788	873
Foreign-financed investment	163	189	281	25	252	335	367	402	441	463
Rehabilitation and participation	35	61	65	3	65	80	80	80	80	80
Overall balance (excl. payment of govt. obligations)										
Excluding grants	-413	-201	-388	119	-552	-663	-706	-762	-844	-919
Including grants	-353	-146	-322	119	-496	-609	-655	-714	-800	-880
Payment of government obligations	-75	-116	-26	-44	-300	-20	-16	-10	-8	-7
Audited arrears	-15	-24	-26	-2	-26	-20	-16	-10	-8	-7
Obligations to SONARA [3]	-60	-93	0	-42	-274	0	0	0	0	0
Overall balance (cash basis)										
Excluding grants	-489	-317	-414	75	-852	-683	-722	-772	-852	-926
Including grants	-428	-262	-348	75	-796	-629	-671	-724	-809	-887
Financing	428	262	348	-75	290	236	229	300	315	321
External financing, net	98	114	199	19	143	221	250	303	342	361
Amortization	-58	-63	-59	-6	-97	-102	-105	-87	-88	-90
Drawings	156	177	258	25	240	323	355	391	430	451
Domestic financing, net	306	154	149	-88	147	15	-21	-3	-26	-40
Banking system	154	103	100	-60	30	0	0	0	0	0
Amortization of domestic debt	-47	-101	-101	-6	-83	-85	-121	-103	-126	-140
Security issue	0	0	150	0	100	100	100	100	100	100
Securitization of arrears to SONARA	80	85	0	0	100	0	0	0	0	0
Other domestic financing	118	66	0	-21	0	0	0	0	0	0
Errors and omissions	25	-6	0	-6	0	0	0	0	0	0
Financing gap	0	0	0	0	506	394	442	424	493	566
Memorandum items:										
Primary balance	-309	-94	-273	…	-450	-538	-566	-617	-684	-747
Non-oil primary balance	-947	-787	-978	…	-1,162	-1,290	-1,341	-1,412	-1,505	-1,589

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

[1] Figures for 2011 and 2012 exclude customs and VAT taxes due by SONARA that were the objects of cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2013 onward, projections for these taxes are made on a gross basis. Taxes owed by SONARA are projected at CFAF 145 billion in 2013.

[2] Figures for 2011 and 2012 include securitization of fuel subsidies due to SONARA.

[3] The figure for 2012 includes securitization of arrears owed to SONARA. The figure for 2013 includes CFAF 120.3 billion owed to private companies who imported fuel products for the government in 2012. It is assumed that CFAF 56 billion of the CFAF 120.3 billion was paid in 2012.

Table 3. Cameroon: Central Government Operations, 2011–18

(Percent of GDP, unless otherwise indicated)

	2011	2012	2013		2014	2015	2016	2017	2018
	Act.	Est.	Budget	Proj.	Projections				
Total revenue and grants	18.7	18.9	19.3	19.9	19.8	19.6	19.5	19.4	19.3
Total revenue	18.2	18.4	18.8	19.4	19.4	19.3	19.3	19.2	19.1
Oil sector revenue	5.3	5.4	5.1	5.2	5.1	4.9	4.7	4.5	4.3
Non-oil sector revenue [1]	12.9	13.1	13.7	14.3	14.3	14.4	14.6	14.7	14.8
Direct taxes	3.4	3.7	...	3.8	3.8	3.8	3.8	3.8	3.8
Special tax on petroleum products	0.7	0.8	...	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes on goods and services	5.8	5.6	...	6.4	6.4	6.5	6.6	6.6	6.7
Taxes on international trade	2.3	2.3	...	2.6	2.6	2.6	2.7	2.7	2.7
Non-tax revenue	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Total grants	0.5	0.4	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Projects	0.1	0.1	...	0.1	0.1	0.1	0.1	0.1	0.1
Other (debt relief)	0.4	0.3	...	0.3	0.3	0.2	0.2	0.2	0.1
Total expenditure	21.6	20.0	21.6	23.5	23.9	23.8	23.7	23.8	23.8
Current expenditure	15.3	14.1	14.7	17.1	17.0	16.8	16.7	16.6	16.5
Wages and salaries	5.7	5.5	5.8	5.8	5.8	5.8	5.8	5.9	5.8
Goods and services	4.6	4.5	4.6	4.6	4.6	4.7	4.7	4.7	4.7
Subsidies and transfers	4.7	3.7	3.8	6.3	6.0	5.8	5.6	5.4	5.3
Fuel subsidies [2]	1.0	0.8	1.6	3.2	3.0	2.8	2.7	2.6	2.5
Pensions	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Other	2.6	1.8	1.1	2.0	1.9	1.8	1.8	1.7	1.6
Interest	0.4	0.4	0.4	0.3	0.5	0.6	0.6	0.6	0.7
External	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Domestic	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.4	0.4
Capital expenditure	6.3	5.9	7.0	6.3	6.9	6.9	7.0	7.2	7.2
Domestically financed investment	4.7	4.0	4.4	4.0	4.1	4.1	4.2	4.3	4.5
Foreign-financed investment	1.4	1.5	2.0	1.8	2.3	2.3	2.4	2.4	2.4
Rehabilitation and participation	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Overall balance (excl. payment of govt. obligations)									
Excluding grants	-3.4	-1.6	-2.8	-4.0	-4.5	-4.5	-4.5	-4.6	-4.7
Including grants	-2.9	-1.1	-2.3	-3.6	-4.1	-4.1	-4.2	-4.4	-4.5
Payment of government obligations	-0.6	-0.9	-0.2	-2.2	-0.1	-0.1	-0.1	0.0	0.0
Audited arrears	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0
Obligations to SONARA [3]	-0.5	-0.7	0.0	-2.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)									
Excluding grants	-4.1	-2.5	-3.0	-6.2	-4.6	-4.6	-4.5	-4.7	-4.7
Including grants	-3.6	-2.0	-2.5	-5.8	-4.3	-4.2	-4.3	-4.4	-4.5
Financing	3.6	2.0	2.5	2.1	1.6	1.4	1.8	1.7	1.6
External financing, net	0.8	0.9	1.5	1.0	1.5	1.6	1.8	1.9	1.8
Amortization	-0.5	-0.5	-0.4	-0.7	-0.7	-0.7	-0.5	-0.5	-0.5
Drawings	1.3	1.4	1.9	1.7	2.2	2.2	2.3	2.4	2.3
Domestic financing, net	2.5	1.2	1.1	1.1	0.1	-0.1	0.0	-0.1	-0.2
Banking system	1.3	0.8	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-0.4	-0.8	-0.7	-0.6	-0.6	-0.8	-0.6	-0.7	-0.7
Security issue	0.0	0.0	1.1	0.7	0.7	0.6	0.6	0.5	0.5
Securitization of arrears to SONARA	0.7	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Other domestic financing	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	3.7	2.7	2.8	2.5	2.7	2.9
Memorandum items:			(Percent of non-oil GDP)						
Non-oil revenue	14.1	14.3	14.8	15.5	15.5	15.6	15.7	15.8	15.8
Non-oil primary balance	-8.6	-6.7	-7.7	-9.2	-9.5	-9.2	-9.0	-8.9	-8.7
				(Percent of GDP)					
Primary balance	-2.6	-0.7	-2.0	-3.3	-3.6	-3.6	-3.6	-3.8	-3.8
Stock of total public debt	13.4	15.9	...	19.3	22.7	25.7	28.6	31.4	34.1
Stock of external public debt	7.3	9.0	...	9.7	11.1	12.4	13.8	15.1	16.3
Nominal GDP (CFAF billions)	12,026	12,848	13,735	13,735	14,734	15,806	16,965	18,221	19,595
Nominal non-oil GDP (CFAF billions)	11,014	11,741	12,647	12,647	13,591	14,615	15,734	16,942	18,276

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

[1] Figures for 2011 and 2012 exclude customs and VAT taxes due by SONARA that were the objects of cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2013 onward, projections for these taxes are made on a gross basis. Taxes owed by SONARA are projected at CFAF 145 billion in 2013.

[2] Figures for 2011 and 2012 include securitization of fuel subsidies due to SONARA.

[3] The figure for 2012 includes securitization of arrears owed to SONARA. The figure for 2013 includes CFAF 120.3 billion owed to private companies who imported fuel products for the government in 2012. It is assumed that CFAF 56 billion of the CFAF 120.3 billion was paid in 2012.

Table 4. Cameroon: Balance of Payments, 2011–18
(CFAF billions, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Est.	Projections					
Current account balance	-352.6	-480.8	-507.3	-548.2	-607.6	-690.6	-783.2	-836.7
Trade balance	-273.6	-211.7	-244.1	-218.2	-273.4	-375.2	-490.2	-560.4
Exports, goods	2,667.0	2,828.9	2,917.3	3,127.9	3,275.3	3,446.2	3,643.1	3,857.8
Oil and oil products	1,396.2	1,508.7	1,578.7	1,685.7	1,784.8	1,880.3	1,986.9	2,088.9
Non-oil sector	1,270.8	1,320.2	1,338.6	1,442.1	1,490.5	1,565.9	1,656.3	1,768.9
Imports, goods	-2,940.6	-3,040.6	-3,161.4	-3,346.1	-3,548.6	-3,821.4	-4,133.3	-4,418.2
Services (net)	-57.7	-159.5	-168.3	-209.7	-239.0	-246.5	-225.3	-221.7
Income (net)	-142.9	-213.4	-220.0	-249.1	-231.4	-205.1	-204.4	-191.7
Of which: interest due on public debt	-30.6	-23.2	-31.2	-33.7	-37.2	-41.1	-46.3	-51.6
Transfers (net)	121.6	103.8	125.1	128.7	136.2	136.2	136.7	137.2
Inflows	277.1	256.4	280.9	285.8	294.4	295.3	297.0	298.4
Outflows	-155.5	-152.6	-155.8	-157.1	-158.2	-159.1	-160.3	-161.2
Capital and financial account balance	193.0	525.5	477.6	533.3	642.9	750.6	843.2	896.7
Capital account	7.5	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Capital transfers	7.5	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Financial account	185.5	513.9	466.0	521.8	631.3	739.0	831.7	885.1
Official capital	126.1	131.0	177.9	261.0	265.6	310.8	337.4	353.4
Long-term borrowing	184.1	205.8	265.5	348.2	383.1	420.7	462.0	485.9
Amortization	-58.0	-74.9	-87.6	-87.2	-117.5	-109.9	-124.6	-132.5
Non-official capital (net)	120.1	323.3	288.1	260.7	365.7	428.2	494.3	531.8
Oil sector	45.3	80.6	76.4	75.5	74.5	73.6	72.6	71.7
Non-oil sector	74.7	242.7	211.7	185.3	291.2	354.7	421.7	460.1
Errors and omissions	-60.7	59.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-159.6	44.7	-29.7	-14.9	35.3	60.0	60.0	60.0
Financing								
Change in imputed reserves (BEAC)	159.6	-44.7	29.7	14.9	-35.3	-60.0	-60.0	-60.0
Of which: use of IMF credit (net)	1.2	0.6	1.8	2.6	16.9	16.3	15.8	15.3
			(Percent of GDP)					
Trade balance	-2.3	-1.6	-1.8	-1.5	-1.7	-2.2	-2.7	-2.9
Imports	24.5	23.7	23.0	22.7	22.5	22.5	22.7	22.5
Non-oil exports	10.6	10.3	9.7	9.8	9.4	9.2	9.1	9.0
Current account balance								
Excluding grants	-3.8	-4.5	-4.6	-4.6	-4.7	-4.8	-5.0	-4.9
Including grants	-2.9	-3.7	-3.7	-3.7	-3.8	-4.1	-4.3	-4.3
Overall balance	-1.3	0.3	-0.2	-0.1	0.2	0.4	0.3	0.3
			(Percentage change, unless otherwise indicated)					
Export volume	-4.4	0.1	8.9	7.7	6.5	6.6	7.6	7.6
Crude oil	-8.7	7.9	16.0	12.3	8.6	6.8	5.9	4.0
Non-oil sector	-3.5	-1.5	7.4	6.6	6.0	6.5	8.0	8.5
Import volume	15.6	1.0	7.8	9.0	6.9	7.8	7.2	7.3
Terms of trade	10.8	1.4	-2.0	-0.4	-1.6	-1.8	-2.7	-3.4
Non-oil export price index	14.5	5.4	-5.6	1.1	-2.5	-1.4	-2.1	-0.8
Export price index (CFAF)	24.8	6.0	-5.3	-0.4	-1.7	-1.3	-1.7	-2.3
Import price index (CFAF)	12.7	4.5	-3.3	-0.1	-0.1	0.5	1.0	1.2
Exchange rate (CFAF per US$; period average)	471.4	510.0	...	...	...	...	...	...
Gross official reserves (imputed reserves, US$ billions)	3.2	3.3	3.3	3.2	3.3	3.4	3.5	3.6

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

Table 5. Cameroon: Monetary Survey, 2011–18
(CFAF billions, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Est.	Projections					
Net foreign assets	1,627.3	1,527.8	1,497.8	1,482.8	1,517.8	1,577.8	1,637.8	1,697.8
Bank of Central African States (BEAC)	1,418.2	1,462.1	1,432.1	1,417.1	1,452.1	1,512.1	1,572.1	1,632.1
Commercial banks	209.1	65.7	65.7	65.7	65.7	65.7	65.7	65.7
Net domestic assets	1,405.6	1,546.3	1,738.3	1,988.8	2,206.3	2,419.5	2,665.4	2,940.8
Domestic credit	1,452.4	1,626.5	1,818.5	2,069.0	2,286.5	2,499.7	2,745.6	3,021.1
Net claims on the public sector	-226.2	-95.4	-50.4	-9.1	27.7	51.9	78.6	108.0
Net credit to the central government	-189.0	-70.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1
Claims	244.6	266.3	261.1	258.9	242.4	226.3	210.8	195.7
Deposits	433.6	336.5	301.2	299.0	282.5	266.5	250.9	235.8
Deposits of other public entities	-173.5	-174.8	-174.8	-174.8	-174.8	-174.8	-174.8	-174.8
Credit to autonomous agencies	15.5	36.6	40.2	44.2	48.7	53.5	58.9	64.8
Credit to public enterprises	120.7	113.0	124.3	161.6	193.9	213.3	234.6	258.1
Credit to financial institutions	29.1	29.2	32.1	41.7	45.9	50.4	60.5	60.5
Credit to the private sector	1,649.5	1,692.7	1,836.8	2,036.4	2,213.0	2,397.3	2,606.5	2,852.6
Other items (net)	-46.8	-80.2	-80.2	-80.2	-80.2	-80.2	-80.2	-80.2
Money and quasi-money	3,032.9	3,074.1	3,236.1	3,471.6	3,724.1	3,997.3	4,303.2	4,638.6
Currency outside banks	510.7	555.4	587.8	634.9	685.4	740.0	801.2	868.3
Deposits	2,522.2	2,518.7	2,648.3	2,836.7	3,038.7	3,257.3	3,502.0	3,770.4
Memorandum items:								
Contribution to the growth of broad money (percentage points)								
Net foreign assets	-7.4	-3.3	-1.0	-0.5	1.0	1.6	1.5	1.4
Net domestic assets	18.0	4.6	6.2	7.7	6.3	5.7	6.2	6.4
Of which: net credit to the central government	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector credit								
Annual percentage change	28.3	2.6	8.5	10.9	8.7	8.3	8.7	9.4
In percent of GDP	13.7	13.2	13.4	13.8	14.0	14.1	14.3	14.6
Broad money (annual percentage change)	10.6	1.4	5.3	7.3	7.3	7.3	7.7	7.8
Currency	1.9	8.8	5.8	8.0	8.0	8.0	8.3	8.4
Deposits	12.6	-0.1	5.1	7.1	7.1	7.2	7.5	7.7
Velocity (GDP/average M2)	4.4	4.3	4.2	4.2	4.2	4.2	4.2	4.2
Government usable deposits[1]								
Nominal (CFAF billions)	114.1	36.2	6.2	6.2	6.2	6.2	6.2	6.2
In months of total expenditure[2]	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0

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

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

[2] Excluding foreign-financed investment.

Table 6. Cameroon: Obligations to SONARA, 2007–12

(CFAF billions, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012 [1]
I. Fuel Subsidies (Accrual basis)	30.3	137.0	22.5	144.9	318.2	322.1
(Percent of GDP)	*0.3*	*1.3*	*0.2*	*1.3*	*2.6*	*2.5*
II. Financing	16.0	57.5	18.0	107.0	282.2	284.9
A. Cash transfers	16.0	57.5	18.0	107.0	97.0	54.6
B. Securitization	0.0	0.0	0.0	0.0	80.0	85.4
C. Cancelation of taxes	0.0	0.0	0.0	0.0	105.2	144.9
III. Net accumulation of arrears	14.3	79.5	4.5	37.9	36.0	37.2
IV. Stock of arrears [2]	14.3	93.8	98.3	136.2	172.2	209.4
(Percent of GDP)	*0.1*	*0.9*	*0.9*	*1.2*	*1.4*	*1.6*

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

[1] Fuel subsidies in 2012 do not include CFAF 120.3 because of imports of refined products by private companies.

[2] Stock (n) = Stock (n-1) + Net accumulation of arrears (n).

Table 7. Cameroon: Government Arrears and Other Payment Obligations, 2009–12

(CFAF billions, unless otherwise indicated)

	2009		2010		2011		2012	
	Annual flows	End-year stocks	Annual flows	End-year stocks	Annual flows	End-year stocks	Annual flows	End-year stocks
	(CFAF billions, unless otherwise indicated)							
A. Audited arrears[1]	-17.0	195.0	-34.7	178.3	-15.2	163.1	-23.7	146.4
(Percent of GDP)		1.9		1.6		1.4		1.1
B. Unsettled payment orders (UPOs)	175.4	260.0	10.6	270.6	-141.3	129.3	48.7	178.0
(Percent of GDP)		2.5		2.4		1.1		1.4
C. Obligations to SONARA	4.5	98.3	37.9	136.2	36.0	172.2	37.2	209.5
(Percent of GDP)		0.9		1.2		1.4		1.6
D. Obligations to oil importers		0.0		0.0		0.0	64.4	64.4
(Percent of GDP)		0.0		0.0		0.0		0.5
E. Total arrears and other payment obligations (A+B+C+D)[1]	162.9	553.3	13.7	585.0	-120.5	464.6	126.6	598.1
(Percent of GDP)		5.3		5.3		3.9		4.7

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

[1] Partial audits conducted in 2009, 2010, and 2012 revealed stocks of CFAF 90 billion, 18 billion and 7 billion in new arrears, respectively. These are included in the end-2009, 2010, and 2012 stocks of audited arrears, respectively; this may create discrepancies in flow figures in certain years.

Table 8. Cameroon: Central Government Operations, 2011–18 (GFSM2001 Presentation)

(CFAF billions, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	Est.	Projections					
Revenue	2,250	2,425	2,727	2,912	3,106	3,314	3,536	3,775
Taxes	1,561	1,743	2,040	2,189	2,347	2,526	2,717	2,928
Taxes on income, profits, and capital gains	480	603	685	733	771	815	865	917
Of which: tax on oil corporations	97	161	173	183	179	177	178	177
Taxes on goods and services	785	818	961	1,033	1,121	1,217	1,311	1,427
Of which: special tax on petroleum products	85	97	108	116	124	134	144	155
Taxes on international trade	274	294	361	388	418	454	499	538
Other taxes	22	29	32	34	37	40	43	46
Social contributions	35	34	35	36	37	38	39	40
Grants	60	55	56	54	51	48	44	39
Other revenue	595	592	596	633	671	702	736	767
Of which: royalties from crude oil	541	532	538	570	595	618	643	665
Total Expenditure	2,603	2,570	3,223	3,521	3,760	4,029	4,337	4,655
Expense	1,877	1,868	2,417	2,586	2,743	2,914	3,107	3,320
Compensation of employees	685	706	803	860	921	992	1,067	1,146
Use of goods and services	550	575	636	683	735	791	852	919
Interest	45	51	46	71	88	98	117	133
Subsidies	425	338	705	717	731	752	774	808
Of which: fuel subsidies	37	56	434	437	442	453	472	495
Social benefits	138	137	162	174	187	202	217	234
Other expense	35	61	65	80	80	80	80	80
Of which: rehabilitation and participation [1]	35	61	65	80	80	80	80	80
Net acquisition of nonfinancial assets	726	702	806	935	1,017	1,115	1,229	1,336
Domestically financed	563	513	554	600	651	712	788	873
Foreign financed	163	189	252	335	367	402	441	463
Net lending / borrowing (fiscal balance, incl. grants)	-353	-146	-496	-609	-655	-715	-801	-880
Change in net financial worth, transactions	-328	-151	10	-215	-213	-290	-307	-314
Net acquisition of financial assets ("+": increase in assets)	-116	-81	-30	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	212	70	-40	215	213	290	307	314
Domestic	114	-44	-182	-5	-37	-13	-35	-47
Currency and deposits								
Securities other than shares	80	35	150	50	50	50	50	50
Bond	0	-50	50	50	50	50	50	50
Securitization of SONARA arrears	80	85	100	0	0	0	0	0
Loans	109	37	-33	-35	-71	-53	-76	-90
Other accounts payable (arrears)	-75	-116	-300	-20	-16	-10	-8	-7
Obligations to SONARA	-60	-93	-274	0	0	0	0	0
Change in arrears	-15	-24	-26	-20	-16	-10	-8	-7
Foreign	98	114	143	221	250	303	342	361
Loans	98	114	143	221	250	303	342	361
Statistical discrepancy	-25	6	0	0	0	0	0	0
Financing gap	0	0	-506	-393	-442	-424	-493	-566
Memorandum items:								
Overall balance (cash basis, incl. grants)	-428	-262	-796	-629	-671	-724	-809	-887
Oil revenue	638	693	711	752	774	795	821	841
Non-oil revenue	1,552	1,677	1,960	2,107	2,281	2,471	2,671	2,894
Capital expenditure	761	764	871	1,015	1,097	1,195	1,309	1,416
Primary balance	-309	-94	-450	-537	-566	-617	-684	-748
Non-oil primary balance	-947	-787	-1,161	-1,289	-1,341	-1,412	-1,505	-1,589

Sources: Cameroonian authorities; and IMF staff estimates and projections.
[1] Rehabilitation and participation shows General Government's capital transfers.

Table 9. Cameroon: Central Government Operations, 2011–18 (GFSM2001 Presentation)

(Percent of GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	Est.	Projections					
Revenue	18.7	18.9	19.9	19.8	19.6	19.5	19.4	19.3
Taxes	13.0	13.6	14.9	14.9	14.8	14.9	14.9	14.9
Taxes on income, profits, and capital gains	4.0	4.7	5.0	5.0	4.9	4.8	4.7	4.7
Of which: tax on oil corporations	0.8	1.3	1.3	1.2	1.1	1.0	1.0	0.9
Taxes on goods and services	6.5	6.4	7.0	7.0	7.1	7.2	7.2	7.3
Of which: special tax on petroleum products	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on international trade	2.3	2.3	2.6	2.6	2.6	2.7	2.7	2.7
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Grants	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.2
Other revenue	4.9	4.6	4.3	4.3	4.2	4.1	4.0	3.9
Of which: royalties from crude oil	4.5	4.1	3.9	3.9	3.8	3.6	3.5	3.4
Total expenditure	21.6	20.0	23.5	23.9	23.8	23.7	23.8	23.8
Expense	15.6	14.5	17.6	17.6	17.4	17.2	17.1	16.9
Compensation of employees	5.7	5.5	5.8	5.8	5.8	5.8	5.9	5.8
Use of goods and services	4.6	4.5	4.6	4.6	4.7	4.7	4.7	4.7
Interest	0.4	0.4	0.3	0.5	0.6	0.6	0.6	0.7
Subsidies	3.5	2.6	5.1	4.9	4.6	4.4	4.2	4.1
Of which: fuel subsidies	0.3	0.4	3.2	3.0	2.8	2.7	2.6	2.5
Social benefits	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Other expense	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Of which: rehabilitation and participation [1]	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Net acquisition of nonfinancial assets	6.0	5.5	5.9	6.3	6.4	6.6	6.7	6.8
Domestically financed	4.7	4.0	4.0	4.1	4.1	4.2	4.3	4.5
Foreign financed	1.4	1.5	1.8	2.3	2.3	2.4	2.4	2.4
Net lending/borrowing (fiscal balance, incl. grants)	-2.9	-1.1	-3.6	-4.1	-4.1	-4.2	-4.4	-4.5
Change in net financial worth, transactions	-2.7	-1.2	0.1	-1.5	-1.3	-1.7	-1.7	-1.6
Net acquisition of financial assets ("+": increase in assets)	-1.0	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities ("+": increase in liabilities)	1.8	0.5	-0.3	1.5	1.3	1.7	1.7	1.6
Domestic	0.9	-0.3	-1.3	0.0	-0.2	-0.1	-0.2	-0.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	0.7	0.3	1.1	0.3	0.3	0.3	0.3	0.3
Bond	0.0	-0.4	0.4	0.3	0.3	0.3	0.3	0.3
Securitization of SONARA arrears	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0
Loans	0.9	0.3	-0.2	-0.2	-0.4	-0.3	-0.4	-0.5
Other accounts payable (arrears)	-0.6	-0.9	-2.2	-0.1	-0.1	-0.1	0.0	0.0
Obligations to SONARA	-0.5	-0.7	-2.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0
Foreign	0.8	0.9	1.0	1.5	1.6	1.8	1.9	1.8
Loans	0.8	0.9	1.0	1.5	1.6	1.8	1.9	1.8
Statistical discrepancy	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	-3.7	-2.7	-2.8	-2.5	-2.7	-2.9
Memorandum items:								
Overall balance (cash basis, incl. grants)	-3.6	-2.0	-5.8	-4.3	-4.2	-4.3	-4.4	-4.5
Oil revenue	5.3	5.4	5.2	5.1	4.9	4.7	4.5	4.3
Non-oil revenue	12.9	13.1	14.3	14.3	14.4	14.6	14.7	14.8
Capital expenditure	6.3	5.9	6.3	6.9	6.9	7.0	7.2	7.2
Primary balance	-2.6	-0.7	-3.3	-3.6	-3.6	-3.6	-3.8	-3.8
Non-oil primary balance	-7.9	-6.1	-8.5	-8.7	-8.5	-8.3	-8.3	-8.1
Non-oil primary balance (percent of non-oil GDP)	-8.6	-6.7	-9.2	-9.5	-9.2	-9.0	-8.9	-8.7

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

[1] Rehabilitation and participation shows General Government's capital transfers.

Table 10. Cameroon: Reform Scenario—Selected Economic and Financial Indicators, 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
		Est.			Projections			
			(Annual percentage changes, unless otherwise indicated)					
National account and prices								
GDP at constant prices	4.1	4.4	4.8	5.5	5.7	5.9	6.2	6.5
Oil GDP at constant prices	-7.3	3.5	15.2	7.4	6.5	7.5	8.0	8.5
Non-oil GDP at constant prices	4.6	4.5	4.4	5.4	5.6	5.8	6.1	6.4
GDP deflator	3.7	2.3	2.0	2.2	2.1	2.0	1.9	1.8
GDP at market prices (CFAF billions)	12,026	12,848	13,735	14,804	15,962	17,236	18,657	20,229
Oil	1,012	1,107	1,088	1,143	1,191	1,232	1,279	1,319
Non-oil	11,014	11,741	12,647	13,661	14,772	16,004	17,378	18,910
Oil output (thousands of barrels a day)	59.2	61.3	70.8	79.0	85.5	91.0	96.2	99.8
Consumer prices (average)	2.9	2.4	2.5	3.0	3.0	3.0	3.0	3.0
External trade								
Export volume	-4.4	0.1	8.9	8.1	7.3	8.2	9.2	10.1
Oil sector	-8.7	7.9	16.0	12.3	8.6	6.8	5.9	4.0
Non-oil sector	-3.5	-1.5	7.4	7.1	7.0	8.5	10.0	11.5
Import volume	15.6	1.0	7.8	9.8	7.6	8.8	8.3	8.6
Average oil export price (US$ a barrel) [1]	111.6	111.7	100.4	93.8	89.6	86.4	84.3	83.2
Nominal effective exchange rate (depreciation -)	1.3	-3.1	...	...	...	...	...	
Real effective exchange rate (depreciation -)	0.0	-3.6	...	...	...	...	...	
Terms of trade	10.8	1.4	-2.0	-0.6	-2.0	-2.5	-3.4	-4.5
Export price index	24.8	6.0	-5.3	-0.6	-2.1	-2.0	-2.5	-3.4
Non-oil export price index	14.5	5.4	-5.6	0.9	-2.6	-1.6	-2.3	-1.2
Import price index	12.7	4.5	-3.3	-0.1	-0.1	0.5	1.0	1.2
Money and credit								
Broad money (M2)	10.6	1.4	5.3	7.8	7.8	8.0	8.5	8.7
Net foreign assets [2]	-7.4	-3.3	-1.0	-0.5	1.0	1.6	1.5	1.4
Net domestic assets [2]	18.0	4.6	6.2	8.3	6.8	6.4	7.0	7.3
Domestic credit to the private sector	28.3	2.6	8.5	11.8	10.1	11.6	13.8	15.4
			(Percent of GDP, unless otherwise indicated)					
Gross national savings	16.2	16.4	17.0	17.2	17.5	17.6	17.9	18.3
Gross domestic investment	19.1	20.2	20.7	21.1	21.6	22.0	22.7	23.1
Public investment	6.3	5.9	6.3	7.0	7.0	7.2	7.4	7.8
Private investment	12.8	14.2	14.4	14.0	14.6	14.8	15.3	15.3
Central government operations								
Total revenue (excluding grants)	18.2	18.4	19.4	19.8	19.9	19.8	19.9	19.9
Oil revenue	5.3	5.4	5.2	5.1	4.9	4.6	4.4	4.2
Non-oil revenue	12.9	13.1	14.3	14.7	15.1	15.2	15.5	15.7
Non-oil revenue (percent of nonoil GDP)	14.1	14.3	15.5	15.9	16.3	16.4	16.6	16.8
Total expenditure	21.6	20.0	23.5	22.4	21.5	21.6	21.4	21.4
Overall fiscal balance (cash basis)								
Excluding grants	-4.1	-2.5	-6.2	-2.8	-1.7	-1.8	-1.6	-1.6
Including grants	-3.6	-2.0	-5.8	-2.4	-1.4	-1.6	-1.3	-1.4
Non-oil primary balance (percent of nonoil GDP)	-8.6	-6.7	-9.2	-7.4	-6.0	-6.1	-5.6	-5.4
External sector								
Current account balance								
Including official grants	-2.9	-3.7	-3.7	-3.9	-4.1	-4.4	-4.8	-4.8
Excluding official grants	-3.8	-4.5	-4.6	-4.8	-4.9	-5.2	-5.5	-5.4
Gross reserves imputed to Cameroon (US$ billions)	3.2	3.3	3.3	3.2	3.3	3.4	3.5	3.6
(percent of broad money)	52.9	53.7	50.0	46.0	43.6	41.9	39.9	38.0
CEMAC gross reserves (US$ billions)	15.7	15.6	18.4	20.2	21.3	22.5	23.8	24.4
(months of CEMAC imports of GNFS)	5.4	5.2	6.0	6.1	6.4	6.6	7.4	7.9
Public debt [3]								
Stock of public debt	13.4	15.9	19.3	20.6	20.7	21.1	21.4	21.6
Of which: External	7.3	9.0	9.7	11.1	12.3	13.6	14.8	15.8
			(Percent of exports of goods and services, unless otherwise indicated)					
Present value of external debt	27.8	23.4	27.1	31.7	36.3	40.9	44.7	47.9
External debt service	1.1	1.7	1.6	1.6	2.2	1.8	2.0	2.1
External debt service (percent of government revenue)	1.7	2.6	2.4	2.4	3.1	2.6	2.8	3.0

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

[1]Beyond 2012, WEO price in US$ a barrel, minus a discount of US$6 for the uncertainty (prudence factor) and US$3 for the quality of Cameroon's oil.

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

[3]Projections are taken from the 2013 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de désendettement et de développement" (C2D).

Table 11. Cameroon: Reform Scenario—Central Government Operations, 2011–18

(CFAF billions, unless otherwise indicated)

	2011	2012	2013			2014	2015	2016	2017	2018
	Act.	Est.	Budget	March	Proj.	Projections				
Total revenue and grants	2,250	2,425	2,649	587	2,727	2,984	3,228	3,467	3,753	4,060
Total revenue	2,190	2,370	2,583	587	2,671	2,930	3,177	3,419	3,709	4,021
Oil sector revenue	638	693	705	100	711	752	774	795	821	841
Non-oil sector revenue [1]	1,552	1,677	1,878	486	1,960	2,178	2,403	2,624	2,888	3,179
Direct taxes	405	471	…	201	520	579	644	710	786	873
Special tax on petroleum products	85	97	…	28	108	128	138	147	159	173
Other taxes on goods and services	701	720	…	175	878	969	1,058	1,153	1,264	1,389
Taxes on international trade	274	294	…	66	361	402	448	490	543	596
Non-tax revenue	88	94	105	17	93	100	114	125	135	148
Total grants	60	55	66	0	56	54	51	48	44	39
Projects	8	12	…	0	12	12	12	12	12	12
Other (debt relief)	53	43	…	0	44	42	39	36	32	28
Total expenditure	2,603	2,570	2,971	468	3,223	3,319	3,431	3,728	3,990	4,330
Current expenditure	1,842	1,807	2,014	366	2,352	2,281	2,307	2,482	2,612	2,761
Wages and salaries	685	706	803	196	803	864	930	1,006	1,088	1,173
Goods and services	550	575	636	103	636	672	712	772	838	912
Subsidies and transfers	563	474	526	58	867	674	581	623	598	586
Fuel subsidies [2]	117	103	220	0	434	298	224	233	187	137
Pensions	138	137	152	37	162	175	189	205	223	242
Other	308	234	154	22	271	201	169	185	188	207
Interest	45	51	49	9	46	71	84	81	88	90
External	31	38	34	9	31	34	37	41	46	52
Domestic	14	13	15	0	15	38	46	40	42	39
Capital expenditure	761	764	957	102	871	1,038	1,124	1,246	1,378	1,569
Domestically financed investment	563	513	611	74	554	603	657	724	807	901
Foreign-financed investment	163	189	281	25	252	355	387	442	491	588
Rehabilitation and participation	35	61	65	3	65	80	80	80	80	80
Overall balance (excl. payment of govt. obligations)										
Excluding grants	-413	-201	-388	119	-552	-389	-254	-308	-281	-309
Including grants	-353	-146	-322	119	-496	-335	-203	-261	-237	-270
Payment of government obligations	-75	-116	-26	-44	-300	-20	-16	-10	-8	-7
Audited arrears	-15	-24	-26	-2	-26	-20	-16	-10	-8	-7
Obligations to SONARA [3]	-60	-93	0	-42	-274	0	0	0	0	0
Overall balance (cash basis)										
Excluding grants	-489	-317	-414	75	-852	-409	-270	-318	-289	-316
Including grants	-428	-262	-348	75	-796	-356	-219	-270	-246	-276
Financing	428	262	348	-75	290	356	219	270	245	276
External financing, net	98	114	199	19	143	241	270	343	392	486
Amortization	-58	-63	-59	-6	-97	-102	-105	-87	-88	-90
Drawings	156	177	258	25	240	343	375	431	480	576
Domestic financing, net	306	154	149	-88	147	115	-51	-73	-146	-210
Banking system	154	103	100	-60	30	0	-10	-50	-100	-150
Amortization of domestic debt	-47	-101	-101	-6	-83	-85	-141	-123	-146	-160
Security issue	0	0	150	0	100	200	100	100	100	100
Securitization of arrears to SONARA	80	85	0	0	100	0	0	0	0	0
Other domestic financing	118	66	0	-21	0	0	0	0	0	0
Errors and omissions	25	-6	0	-6	0	0	0	0	0	0
Financing gap	0	0	0	0	506	0	0	0	0	0
Memorandum items:										
Primary balance	-309	-94	-273	…	-450	-264	-119	-180	-149	-179
Non-oil primary balance	-947	-787	-978	…	-1,162	-1,016	-894	-975	-971	-1,020

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

[1] Figures for 2011 and 2012 exclude customs and VAT taxes due by SONARA were the objects of cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2013 onward, projections for these taxes are made on a gross basis. Taxes owed by SONARA are projected at CFAF 145 billion in 2013.

[2] Figures for 2011 and 2012 include securitization of fuel subsidies due to SONARA.

[3] The figure for 2012 includes securitization of arrears owed to SONARA. The figure for 2013 includes CFAF 120.3 billion owed to private companies who imported fuel products for the government in 2012. It is assumed that CFAF 56 billion of the CFAF 120.3 billion was paid in 2012.

Table 12. Cameroon: Reform Scenario—Central Government Operations, 2011–18

(Percent of GDP, unless otherwise indicated)

	2011	2012	2013		2014	2015	2016	2017	2018
	Act.	Est.	Budget	Proj.	Projections				
Total revenue and grants	18.7	18.9	19.3	19.9	20.2	20.2	20.1	20.1	20.1
Total revenue	18.2	18.4	18.8	19.4	19.8	19.9	19.8	19.9	19.9
Oil sector revenue	5.3	5.4	5.1	5.2	5.1	4.9	4.6	4.4	4.2
Non-oil sector revenue [1]	12.9	13.1	13.7	14.3	14.7	15.1	15.2	15.5	15.7
Direct taxes	3.4	3.7	...	3.8	3.9	4.0	4.1	4.2	4.3
Special tax on petroleum products	0.7	0.8	...	0.8	0.9	0.9	0.9	0.9	0.9
Other taxes on goods and services	5.8	5.6	...	6.4	6.5	6.6	6.7	6.8	6.9
Taxes on international trade	2.3	2.3	...	2.6	2.7	2.8	2.8	2.9	2.9
Non-tax revenue	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Total grants	0.5	0.4	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Projects	0.1	0.1	...	0.1	0.1	0.1	0.1	0.1	0.1
Other (debt relief)	0.4	0.3	...	0.3	0.3	0.2	0.2	0.2	0.1
Total expenditure	21.6	20.0	21.6	23.5	22.4	21.5	21.6	21.4	21.4
Current expenditure	15.3	14.1	14.7	17.1	15.4	14.5	14.4	14.0	13.6
Wages and salaries	5.7	5.5	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Goods and services	4.6	4.5	4.6	4.6	4.5	4.5	4.5	4.5	4.5
Subsidies and transfers	4.7	3.7	3.8	6.3	4.6	3.6	3.6	3.2	2.9
Fuel subsidies [2]	1.0	0.8	1.6	3.2	2.0	1.4	1.4	1.0	0.7
Pensions	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Other	2.6	1.8	1.1	2.0	1.4	1.1	1.1	1.0	1.0
Interest	0.4	0.4	0.4	0.3	0.5	0.5	0.5	0.5	0.4
External	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Domestic	0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.2	0.2
Capital expenditure	6.3	5.9	7.0	6.3	7.0	7.0	7.2	7.4	7.8
Domestically financed investment	4.7	4.0	4.4	4.0	4.1	4.1	4.2	4.3	4.5
Foreign-financed investment	1.4	1.5	2.0	1.8	2.4	2.4	2.6	2.6	2.9
Rehabilitation and participation	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Overall balance (excl. payment of govt. obligations)									
Excluding grants	-3.4	-1.6	-2.8	-4.0	-2.6	-1.6	-1.8	-1.5	-1.5
Including grants	-2.9	-1.1	-2.3	-3.6	-2.3	-1.3	-1.5	-1.3	-1.3
Payment of government obligations	-0.6	-0.9	-0.2	-2.2	-0.1	-0.1	-0.1	0.0	0.0
Audited arrears	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0
Obligations to SONARA [3]	-0.5	-0.7	0.0	-2.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)									
Excluding grants	-4.1	-2.5	-3.0	-6.2	-2.8	-1.7	-1.8	-1.6	-1.6
Including grants	-3.6	-2.0	-2.5	-5.8	-2.4	-1.4	-1.6	-1.3	-1.4
Financing	3.6	2.0	2.5	2.1	2.4	1.4	1.6	1.3	1.4
External financing, net	0.8	0.9	1.5	1.0	1.6	1.7	2.0	2.1	2.4
Amortization	-0.5	-0.5	-0.4	-0.7	-0.7	-0.7	-0.5	-0.5	-0.4
Drawings	1.3	1.4	1.9	1.7	2.3	2.4	2.5	2.6	2.8
Domestic financing, net	2.5	1.2	1.1	1.1	0.8	-0.3	-0.4	-0.8	-1.0
Banking system	1.3	0.8	0.7	0.2	0.0	-0.1	-0.3	-0.5	-0.7
Amortization of domestic debt	-0.4	-0.8	-0.7	-0.6	-0.6	-0.9	-0.7	-0.8	-0.8
Security issue	0.0	0.0	1.1	0.7	1.4	0.6	0.6	0.5	0.5
Securitization of arrears to SONARA	0.7	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Other domestic financing	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(Percent of non-oil GDP)						
Non-oil revenue	14.1	14.3	14.8	15.5	15.9	16.3	16.4	16.6	16.8
Non-oil primary balance	-8.6	-6.7	-7.7	-9.2	-7.4	-6.0	-6.1	-5.6	-5.4
				(Percent of GDP)					
Primary balance	-2.6	-0.7	-2.0	-3.3	-1.8	-0.7	-1.0	-0.8	-0.9
Stock of total public debt	13.4	15.9	...	19.3	20.6	20.7	21.1	21.4	21.6
Stock of external public debt	7.3	9.0	...	9.7	11.1	12.3	13.6	14.8	15.8
Nominal GDP (CFAF billions)	12,026	12,848	13,735	13,735	14,804	15,962	17,236	18,657	20,229
Nominal Non-oil GDP (CFAF billions)	11,014	11,741	12,647	12,647	13,661	14,772	16,004	17,378	18,910

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

[1]Figures for 2011 and 2012 exclude customs and VAT taxes due by SONARA that were the objects of cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2013 onward, projections for these taxes are made on a gross basis. Taxes owed by SONARA are projected at CFAF 145 billion in 2013.

[2] Figures for 2011 and 2012 include securitization of fuel subsidies due to SONARA.

[3] The figure for 2012 includes securitization of arrears owed to SONARA. The figure for 2013 includes CFAF 120.3 billion owed to private companies who imported fuel products for the government in 2012. It is assumed that CFAF 56 billion of the CFAF 120.3 billion was paid in 2012.

Table 13. Cameroon: Millennium Development Goals, 1990–2011

	1990	1995	2000	2005	2010	2011
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	60	61	61	62	62	62
Employment to population ratio, ages 15-24, total (%)	44	44	43	43	42	43
GDP per person employed (constant 1990 PPP $)	3,124	2,407	2,687	2,901	2,991	...
Income share held by lowest 20%	..	7	7	7 ..		..
Malnutrition prevalence, weight for age (% of children under	18	..	18	17	..	..
Poverty gap at $1.25 a day (PPP) (%)	..	6	2	1	..	..
Poverty headcount ratio at $1.25 a day (PPP) (% of populatior	..	25	11	10	..	..
Vulnerable employment, total (% of total employment)	..	80	76	..	..	..
Goal 2: Achieve universal primary education						..
Literacy rate, youth female (% of females ages 15-24)	..	..	78	77	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	88	89	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	45	57	69	..
Primary completion rate, total (% of relevant age group)	54	..	51	53	79	78
Total enrollment, primary (% net)	71	..	..	..	92	...
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%	14	12	6	9	14	14
Ratio of female to male primary enrollment (%)	86	90	85	84	86	87
Ratio of female to male secondary enrollment (%)	69	69	81	79	83	85
Ratio of female to male tertiary enrollment (%)	..	..	64	66	81	74
Share of women employed in the nonagricultural sector (% o	..	19.2	22.2	..	..	...
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	56	46	49	68	79	76
Mortality rate, infant (per 1,000 live births)	85	91	91	88	84	79
Mortality rate, under-5 (per 1,000)	137	147	148	142	136	127
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	143	139	131	123	118
Births attended by skilled health staff (% of total)	58	..	60	63	..	64
Contraceptive prevalence (% of women ages 15-49)	16	..	26	29	..	23
Maternal mortality ratio (modeled estimate, per 100,000 live l	680	680	660	640	600	...
Pregnant women receiving prenatal care (%)	79	..	75	82	..	85
Unmet need for contraception (% of married women ages 15	22	..	20	3	..	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children with fever receiving antimalarial drugs (% of childrer	..	..	66	58	..	...
Condom use, population ages 15-24, female (% of females a	..	..	16	24	..	...
Condom use, population ages 15-24, male (% of males ages	..	..	27	52	..	...
Incidence of tuberculosis (per 100,000 people)	112	206	310	313	274	243
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	3.9	3
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	1.6	1
Prevalence of HIV, total (% of population ages 15-49)	0.6	4.2	5.5	5.4	5.3	5
Tuberculosis case detection rate (%, all forms)	60	20	20	61	69	50
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)	51.4	..	46.8	44.5	42.1	42
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 territorial waters)	0	0	0	0	0	...
Net ODA received per capita (current US$)	36	32	24	24	34	31
Goal 8: Develop a global partnership for development						
Debt service (PPG and IMF only, % of exports, excluding work	13	17	12	10	1	1
Internet users (per 100 people)	0.0	0.0	0.3	1.4	4.0	5
Mobile cellular subscriptions (per 100 people)	0	0	1	13	42	52
Telephone lines (per 100 people)	0	0	1	1	3	3
Fertility rate, total (births per woman)	6	5	5	5	5	4
Other						
GNI per capita, Atlas method (current US$)	910	720	630	930	1,180	1,210
GNI, Atlas method (current US$) (billions)	11.1	10.0	9.8	16.3	23.2	24.1
Gross capital formation (% of GDP)	17.8	13.3	16.7	19.1	..	20
Life expectancy at birth, total (years)	53	52	50	49	51	52
Literacy rate, adult total (% of people ages 15 and above)	..	..	68	71	..	...
Population, total (billions)	0.0	0.0	0.0	0.0	0.0	0
Trade (% of GDP)	37.5	41.4	42.9	41.9	54.5	65.6

Source: World Development Indicators.

Cameroon: Risk Assessment Matrix

Source of risk	Up / Down side ↑/↓	Likeli-hood	Impact	Policy Response
Stalled or incomplete delivery of euro area policy commitments	↓	Medium	Low, with temporary effects. A protracted euro area growth slump would have a negative effect on growth through adverse spillovers to growth and the balance of payments (through the export trade channel).	Diversify export markets, especially toward emerging Asia, and improve external competitiveness through faster structural reform implementation.
Global oil price shock	↑	Low	Modest, with lasting effects. Cameroon, a small net oil exporter, would be overall positively affected by an oil price increase.	Widen the non-oil tax base; increase efficiency of the oil refinery; and increase competition in the oil import sector.
National oil refinery (SONARA) bankruptcy	↓	Medium	Important, with lasting effects. A SONARA bankruptcy would adversely affect the budget, energy supply, and growth.	Make SONARA more efficient; provide adequate subsidies and clear audited arrears; and identify alternative suppliers to ensure energy security.
Contingent liabilities from public enterprises and distressed banks	↓	Medium	Contingent liabilities could exceed 1 percent of GDP. They would adversely affect budget and public debt sustainability.	Conduct a comprehensive contingent liability assessment; accelerate public enterprise reform; improve efficiency of public enterprises; recover bad bank assets to the extent possible.
Delayed implementation of the public investment program	↓	Medium	Modest in the near term, but knock-on effects. A slower-than-expected implementation of the investment program would hamper growth. Problems with project preparation and implementation could delay the delivery of new infrastructure.	Improve project management capacity; and accelerate pace of implementation of PFM and project management reforms.
Deterioration in Central African Republic's (CAR) political situation	↓	Low	Low, with temporary effects. Deterioration of the political situation in CAR could trigger refugee flows into Cameroon, disrupt economic activity in the Eastern provinces, and require unplanned spending to host refugees.	Engage UNHCR assistance preventively.

Appendix I. Cameroon: Fuel Subsidies

A. Introduction

1. Fuel subsidy reform has been a long-standing policy issue for advanced and developing countries.[1] Although the importance of the policy issue is acknowledged by governments, progress in implementing reform has been hesitant. The difficulty lies mainly in removing a visible and tangible benefit that is accessible to all purchasers of fuel without affecting social stability.

2. The sustained increase in the international price of crude oil and its distillates since 2008 has revived discussions and analysis about fuel subsidy reform, with particular emphasis on the lessons from reform implementation. The IMF Country Reports for the previous two Article IV consultations with Cameroon already included sections devoted to the management of fuel subsidies. In the past year, the IMF has expressed its views of principle on this issue in a chapter in the Spring 2013 *Regional Economic Outlook for Sub-Saharan Africa*, and the 2013 paper titled "Energy Subsidy Reform: Lessons and Implications."

3. The purpose of this note is to bring these lessons to bear on Cameroon's situation, by: (i) updating and expanding existing knowledge of fuel marketing arrangements in Cameroon; (ii) analyzing the subsidy systems' fiscal and macroeconomic implications in light of new developments; and (iii) generating ideas to achieve full cost recovery for the marketing of fuel and to spur momentum for reform of the pricing mechanism.

B. Overview of the Current System

4. The structure of Cameroon's petroleum distillates production, storage, and distribution revolves around two independent entities: the National Refinery (SONARA), and the Cameroon Petroleum Depot Company (SCDP). SONARA, which is more than 80 percent state-owned, is the country's sole refinery, based in Limbé, and refines imported light crude oil from Nigeria, Equatorial Guinea, and Angola. SCDP is a 51 percent state-owned firm, tasked with securing the supply of petroleum products to Cameroon's end-users. SCDP handles petroleum product storage and distribution throughout the country, to and from its 12 depots,[2] which together can

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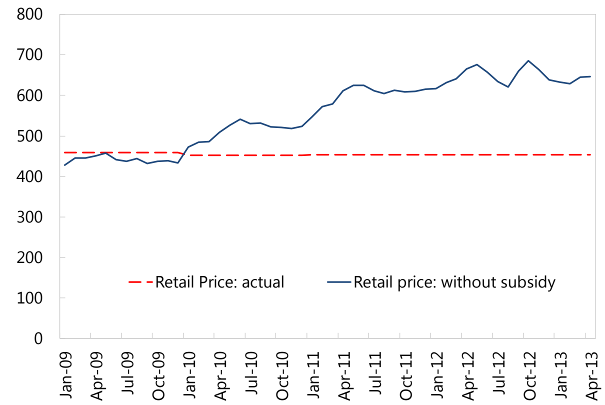
[1] This appendix was prepared by Jean van Houtte and Samah Mazraani.

[2] Bafoussam (1), Banabo (1), Garoua (1), Ngaoundéré (1), Yaoundé (3), and Douala (5).

store 268,000 cubic meters of liquid fuels. SCDP purchases most of SONARA's output, which is shipped by the main domestic shipping company (Camship) to its main depot in Douala.[3] SCDP also procures additional refined products abroad to meet domestic demand. Distributers and retailers,[4] which together own the remaining 49 percent in SCDP, market the petroleum products secured by SCDP. Distribution is done by trucks, except for the North, Extreme North, and Adamoua regions, which are serviced by the main railways operator (Camrail).[5]

5. Retail prices of the three main petroleum products (gasoline, kerosene, diesel) have been fixed since 2008 (Figure I.1). The sector is regulated by the Caisse de Stabilisation des Prix des Hydrocarbures (CSPH), a public company with regulatory powers that was set up in 1974. Its mission is to protect the consumers from fluctuations in the international price of hydrocarbons. In doing so, it sets domestic retail prices and subsidizes transport to remote regions. It underwrites the losses of the operators in the sector, which are in turn taken over by the state.

Figure I.1. Cameroon: Retail Price of Basket of Petroleum Products, 2009–13



Sources: Cameroonian authorities; and IMF staff estimates.

6. The markups of operators in the sector are derived from a formula setting a notional retail price that would reflect a full pass-through of costs to the end-consumer. The petroleum product pricing formula comprises four components: (i) the international price for refined fuel products; (ii) taxes; (iii) markups for domestic refining, transport, storage, distribution, and retail; and (iv) in the event that actual retail prices are less than the sum of the first three components, a post-tax subsidy (Table I.1).[6]

[3] A small portion of SONARA's production is stocked by SONARA in Limbé for local distribution.

[4] TotalFina Elf, ExxonMobil, Shell, Tradex, Oliybia, and ChevronTexaco, among others.

[5] Cameroon exports the bulk of its domestic heavy crude oil production, while SONARA exported only about 37 percent of its refined products in 2009.

[6] The "post-tax subsidy" is defined as the difference between the international price adjusted for transport and distribution margins and taxes on the one hand, and the price paid by consumers on the other hand.

7. The design of the pricing formula raises several issues. Among them are (i) the existence of the SONARA markup, above and beyond the international price for refined products, that already includes a profit margin for cost-effective refineries; (ii) the "cost plus" principle for calculating the SONARA markup, which does not provide incentives for efficiency gains; and (iii) the relatively large share of ad valorem taxes (including the SONARA markup), which exacerbates the volatility of the national pump price and thus of the subsidies.

Table I.1. Cameroon: Price Structure for Fuel Products, 2010-2013[1]

(CFAF per liter)

	Jan-10			Jan-11			Jan-12			Apr-13		
	Super	Kerosene	Diesel	Super	Kerosene	Diesel	Super	Kerosene	Diesel	Super	Kerosene	Diesel
A. Import price CIF	**248**	**260**	**255**	**317**	**339**	**336**	**358**	**425**	**430**	**410**	**440**	**431**
B. Taxes	**209**	**90**	**155**	**230**	**115**	**180**	**243**	**142**	**209**	**230**	**115**	**180**
Sales tax (VAT)	64	64	64	79	81	81	87	99	101	101	105	105
Special excise tax (TSPP)	120	0	65	120	0	65	120	0	65	120	0	65
Custom tax	25	26	26	32	34	34	36	43	43	9	10	10
C. SONARA markup	**37**	**39**	**38**	**48**	**51**	**50**	**54**	**64**	**64**	**47**	**50**	**49**
D. Transport and distribution margins	**132**	**96**	**119**	**132**	**96**	**119**	**134**	**97**	**120**	**134**	**97**	**120**
E. Pump fixed price	**569**	**350**	**520**	**569**	**350**	**520**	**569**	**350**	**520**	**569**	**350**	**520**
F. Notional free market price (=A+B+C+D)	**626**	**484**	**567**	**727**	**600**	**685**	**788**	**728**	**824**	**821**	**702**	**780**
Post-tax subsidy (=F-E)[2]	**57**	**134**	**47**	**158**	**250**	**165**	**219**	**378**	**304**	**252**	**352**	**260**
(Percent of notional free market price)	*9%*	*28%*	*8%*	*22%*	*42%*	*24%*	*28%*	*52%*	*37%*	*31%*	*50%*	*33%*

Sources: Cameroonian authorities; and IMF staff estimates.

[1] For a detailed description and disaggregation of the price formula, see Appendix II in the 2012 Article IV Consultation staff report (IMF Country Report No.12/237).

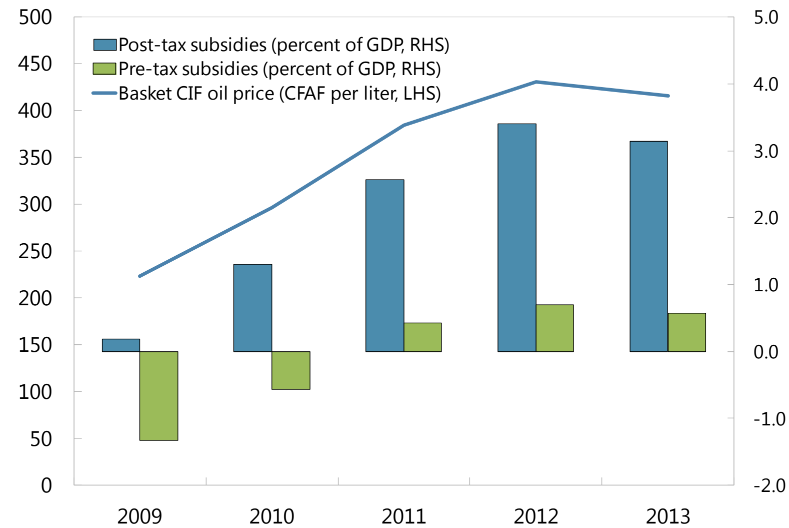
[2] A positive sign implies a net subsidy from the state; a negative sign implies a profit for the fuel refinery.

8. The inconsistent implementation of the pricing formula has compounded its design issues. The state has delayed paying compensation to SONARA because of the magnitude of the subsidy, compounded by the "cost plus" design of the formula.

C. Fiscal and Macroeconomic Implications of the Current System

9. The fiscal implications of the current price controls are significant. Pre-tax subsidies (i.e., the difference between post-tax subsidy and the overall tax take) turned positive in 2011. The existence of pre-tax subsidies means that the state has become a net contributor to, rather than a net beneficiary of, the fuel distribution sector. In effect, unlike in most countries, fuel distribution is a net fiscal drain on public resources. Post-tax subsidies are significantly higher and have increased from 0.2 percent of GDP in 2009 to 3.4 percent of GDP in 2012, as oil prices nearly doubled over that period. They are expected to near 3.1 percent in 2013, mostly on account of the consumer subsidy (86 percent of the total; Figures I.2 and I.3).

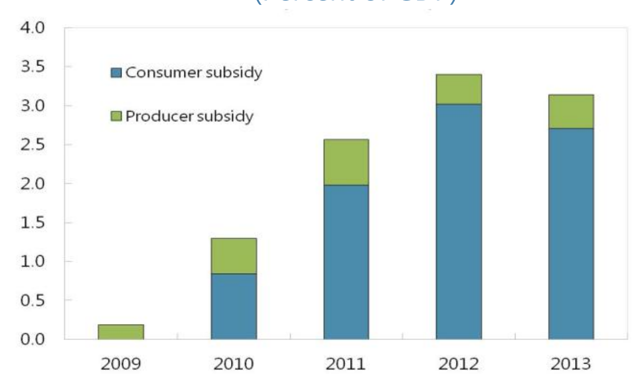
Figure I.2. Cameroon: Fuel Subsidies, 2009–13



Sources: Cameroonian authorities; and IMF staff estimates.

Figure I.3. Cameroon: Consumer and Producer Subsidies, 2009–13

(Percent of GDP)

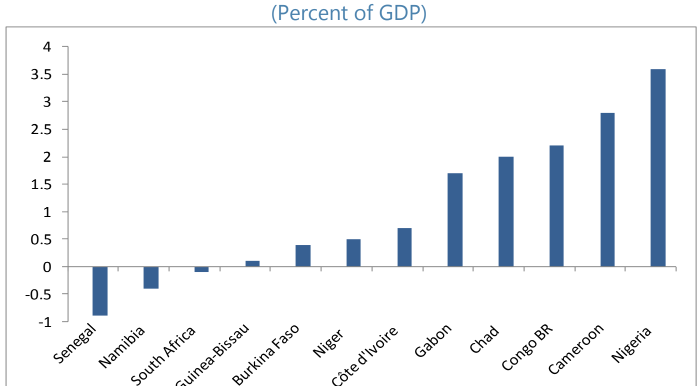


Sources: Cameroonian authorities; and IMF staff estimates.

10. Cameroon's level of post-tax subsidy is high when compared to other countries in the region (Figure I.4). It is a result of the relatively high level of energy intensity in its economic activity, and relatively weak cost recovery because of a freeze on the pump price. Cameroon does not differ much from a number of comparator countries in having resisted retail price adjustments. Its pump price is on a par with that of countries that border Nigeria, where the pump

Figure I.4. Selected African Countries: Post-Tax Fuel Subsidies, 2012

(Percent of GDP)



Source: IMF, May 2013 Regional Economic Outlook: Sub-Saharan Africa.

price is significantly lower. However, it is lower than in other countries in the subregion. Countries that have made pump price adjustments, such as Burkina Faso, Guinea-Bissau, and Senegal, have been better able to contain the level of the subsidy. In addition, more than in any other country in the region, except Guinea Bissau, the increase in Cameroon's post-tax fuel subsidies has been exacerbated by the relative importance of procyclical ad valorem taxes (including the SONARA markup), which, unlike the excise tax, increase with the price of oil. At end January 2011, ad valorem taxes accounted for 21.9 percent of the notional pump price in Cameroon, versus 16.1 percent in Senegal.[7]

11. Cameroon's fuel price structure points to hidden inefficiencies in its marketing arrangements. Although Cameroon's reference cost-insurance-freight (CIF) import price is among the more competitive ones, "other costs" to market gasoline are high for a country that is not landlocked (Table I.2.). In general, Cameroon's CIF price compares unfavorably with that of other countries in the region—in terms of cost recovery and containment of notional pump price volatility.

Table I.2. Selected Countries: Price Structure of Gasoline, January 2011
(CFAF a liter)

	Guinea-Bissau	Burkina Faso	Senegal	Cameroon
Cost of import CIF	393	308	324	317
Ad valorem taxes	165	113	112	159 [1]
Excise tax	0	125	207	120
Other costs	103	147	99	132
Pump price	662	682	790	569
Post-tax subsidy[2]	-1	11	-49	159

Sources: Country Authorities; and IMF staff estimates.
[1] Includes SONARA markup.
[2] A negative number reflects a positive tax intake rather than a subsidy.

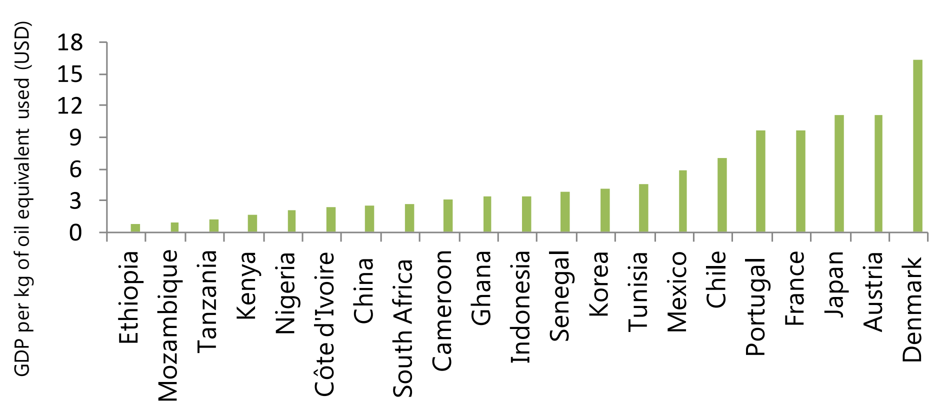
12. Fuel subsidies can depress long-term economic growth and reinforce inequality.[8] Fuel subsidies may crowd out other productive government spending on infrastructure, education, and health, and make it unattractive for the private sector to invest in energy. Beyond the direct effects,

[7]By comparison, in the European Union, the bulk of the tax levy on fuel price at the outset of the fuel increase in 2008 fell on excise taxes (on average 37 percent of the retail price for 95RON super gasoline in May 2008), and less on the value-added tax (20 percent).

[8]For a review of the negative consequences of energy subsidies, see http://www.imf.org/external/np/pp/eng/2013/012813.pdf: "Energy Subsidy Reform: Lessons and Implications" and the May 2013 *Regional Economic Outlook for Sub-Saharan Africa* chapter "Increasing Fiscal Space and Prospects for Economic Growth: The Role of Energy Subsidy Reforms."

the policy of subsidizing fuel consumption has additional pernicious and profound effects on economic development. Firms do not adjust their production processes to reflect the true cost of energy, thus exacerbating the potential impact of a fuel price shock. Furthermore, in Cameroon, SONARA's financial difficulties affect the banking system, which may need to curtail credit to the economy, thus directly undermining growth. Other negative externalities, such as environmental degradation and climate change, are also significant. Figure I.5 shows the energy efficiency of economic activity in various countries. Sub-Saharan African countries, which all have retail price controls on fuel except South Africa, are intensive users of energy. Finally, fuel subsidies are also impeding the government in carrying out its redistributive function: analyses have repeatedly shown that energy subsidies benefit mostly the richer segments of the population.

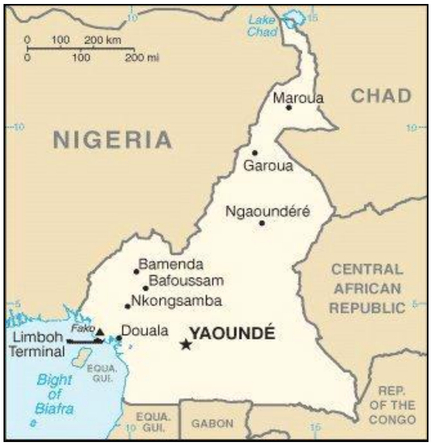
Figure I.5. Selected Countries: Energy Efficiency of Production, 2010



Source: World Bank World Development Indicators.

13. High retail fuel price differentials with neighboring countries pose governance difficulties for the region, as well as increased corruption and crime (Table I.3). Small-scale contraband can soon give way to organized networks of smugglers, causing the state to subsidize the consumption of foreigners on a large scale, while jeopardizing law and order in their own country and in neighboring countries. This is particularly well illustrated in Benin, where it is estimated that over 90 percent of gasoline is smuggled from Nigeria and sold illegally. For Cameroon, the most significant risk stems from its proximity to Nigeria, with which it shares its longest border, and where retail prices are less than half the price in Cameroon and where supply is abundant.

Table I.3. Selected Countries: Super Gasoline Prices, December 2012
(CFAF per liter)



Central African Republic	880
Burkina Faso	732
Republic of Congo	595
Togo	595
Benin	580
Niger	579
Cameroon	569
Gabon	535
Chad	405
Nigeria	224

Sources: University of Texas (map); and IMF staff estimates (table).

D. Reform Options for Cameroon

14. Attempts at reform in Cameroon and elsewhere point to the need for a comprehensive reform strategy. The introduction of fuel pricing reforms involves large trade-offs between different social and macroeconomic objectives. Recent work has highlighted key elements of a successful reform strategy based on international experience.[9]

- Undertake comprehensive research to assess the costs and benefits of the subsidy system to the various stakeholders, and the macroeconomic impact of possible reforms.
- Consult widely with society stakeholders; in Cameroon's case, consultations should include engagement with SONARA to assess its ability to achieve scale savings and commercial sustainability in the international marketplace—and discuss the withdrawal of industry protections.
- Communicate clearly: reinitiate a wide program to broaden the policy debate on fuel pricing—by mobilizing thought leaders (industry experts, journalists, policy advocates, etc.,) and using far-reaching media (radio, TV, print press).

[9] See "Energy Subsidy Reform: Lessons and Implications."

- Decide early on important parameters of the reform initiative, such as the pace of price adjustment; experience has shown that gradual reforms tend to be more successful as long as the reform commitment is seen as irreversible.
- Roll out accompanying mitigating measures to provide offsets to stakeholders who are adversely affected by the reforms, with particular emphasis on vulnerable households.
- Focus equally on efficiency improvements and price-setting reforms.
- Map out the important steps and various aspects of the reforms: institutional arrangements, legal requirements, etc.

15. Reforms with an immediate impact should focus on efficiency gains rather than pump prices. Preparatory work on reforms to allow for removal of the pre-tax subsidy, for prevention of smuggling from neighboring countries, and for synchronization of energy policy within the region, should be pursued nonetheless without delay. Near-term reform options to the pricing formula and market structure to generate immediate efficiency gains need to focus on the following:

- Simplify and make the price formula more transparent because it is too complex (e.g., fewer components, simpler markups).
- Remove the SONARA markup from the pump price structure (without adjusting retail prices downward) and finance legitimate SONARA losses through direct budget transfers to ensure budget transparency, as recommended in FAD technical assistance advice.
- Determine a level of compensation for SONARA, if any, by specifying compensation based on volume of throughput rather than its value; the level of compensation should decrease over time, consistent with progressive efficiency gains and increasing scale.
- Clear government arrears to SONARA with a mix of debt reduction, cash, and securitized debt—to alleviate the risk posed by SONARA to the banking system.
- Reassess/renegotiate cost and margin items in the price structure to increase efficiency in the sector, based on international benchmarking and objective cost considerations specific to Cameroon. For example, the cost of transport by truck can be benchmarked internationally, whereas trucker’s margins should reflect the actual cost of fuel. Storage fees should reflect economies of scale and Cameroon’s amortization rules.

- Liberalize the market for refined fuel imports into Cameroon by introducing competitive tenders for SCDP's procurement of refined products. Remove barriers to imports of refined fuels, if any, and review applicable import tariffs for refined fuels to limit market protection.

16. Over the medium term, the magnitude and volatility of subsidies underpin the case for price adjustments. The following reform options would increase the pass-through of the true costs of fuel to the end-consumers, and dampen retail price volatility:

- Reinitiate pump price adjustments on a regular basis, aiming at narrowing the gap between current prices and notional pump prices. Although inflation will increase initially, international experience points to temporary effects.[10]

- Adopt a price-smoothing component to complement the existing price adjustment mechanism. Smoothing could take the form of a moving average of the notional prices for a given number of past review periods; bands defining a maximum percentage adjustment during any given period; or a combination thereof (e.g., a moving average within bands).

- Prepare policies explicitly designed to mitigate losses of end-consumers. Such policies are crucial to entrenching the fuel pricing reform. They should include policies that over time increase social transfers to the poor (e.g., school lunches, improved primary education, appropriate social safety nets), taking into account the need to develop the capacity of line ministries to design and implement well-targeted programs. The government should also envisage launching policies that can be calibrated to provide a direct, tangible offset with the additional cost of fuel—such as a cash transfers, or new electricity distribution (access to, and quality of, electricity) in the most populous areas.

- Consider increasing taxes, levies, and fees that discourage fuel consumption: road usage fees (e.g., tolls), vehicle licensing fees in proportion to the size of the engine or the weight of the vehicle, yearly registration fees, etc.

17. In addition, the government would gain from considering broader structural reform options:

[10] The direct and indirect effects on inflation of the increase of all retail fuel prices in Burkina Faso by about 8 percent in late March 2012 lasted for about three months, and contributed to less than 1 percentage point of inflation by the end of the year. This finding is consistent with the low inflation rates in European countries with full international price pass-through to end-consumers.

- Seek out additional structural efficiency gains: review the logistics of fuel marketing (inland and coastal depots capacity and costs, port capacity, processing efficiency, fees), rail transport (rail network, rolling stock, fees), road transport (rolling stock and fees), technical standards (fuel octane, safety rules, etc.)—seek recommendations for efficiency improvements in distribution and storage, and security of supply (e.g., storage capacity in number of days of consumption).

- Define an exit strategy from subsidizing SONARA. The strategy should include (i) an invitation to SONARA's private financial sponsors to consider plans to expand its production capacity and make it competitive in the world market; and (ii) a divestiture by the state from its direct and indirect stakes in SONARA to help remove the perceived implicit state guarantee on its debt.

- Approach neighboring states to harmonize tax policy and price setting methods—discuss with them the creation of an intergovernmental task force to track international commodity price developments, harmonize taxes on fuel, and set domestic prices. Such an international coordination mechanism would be useful to help stop cross-border contraband and achieve genuine independence in determining prices from any one national political authority.

E. Price Adjustment Scenarios for Cameroon

18. To illustrate fuel subsidy reform options and cost implications, three price scenarios were estimated (Text Table I. 4). The scenarios are (i) a baseline scenario, corresponding to the authorities' current policy, under which fuel prices remain frozen; (ii) a moderate scenario corresponding to the IMF staff report's reform scenario, under which gasoline and diesel prices are adjusted in 2014 and 2015, but do not reach full cost-recovery levels over the medium term; and (iii) an "aggressive" scenario, under which gasoline and diesel prices reach cost-recovery levels by end-2015 and end-2016, respectively—at which point the corresponding subsidies would be fully eliminated. Under all three scenarios, kerosene and liquefied propane gas (LPG) bottle prices remain fixed at their current levels—those are most consumed by the neediest segments of the population—while gasoline and diesel prices are gradually adjusted from January 1, 2014, onward.

19. Fuel subsidies under the two reform scenarios are estimated based on existing price structures. They are estimated according to a partial equilibrium analysis based on (i) the latest World Economic Outlook (WEO) Brent futures contract prices; (ii) unchanged price structure components (such as the refinery margin); (iii) pump prices, which follow each scenario's assumed price increases; and iv) the assumption that fuel products' consumption reacts to domestic price increases according to respective price demand elasticities.[11]

Text Table I.4. Cameroon: Fuel Subsidy Reform Scenarios, 2014-17 [1]

	2014	2015	2016	2017	2014	2015	2016	2017
Gasoline	(Pump price; CFAF per liter)				(Annual price increase; percent)			
Cost-Recovery Price	826	804	787	776				
Baseline Scenario	569	569	569	569	0	0	0	0
Scenario A (Moderate Scenario)	683	751	751	751	20	10	0	0
Scenario B (Aggressive Scenario) 2/	740	804	787	776	30	9	-2	-1
Diesel								
Cost-Recovery Price	805	781	763	751				
Baseline Scenario	520	520	520	520	0	0	0	0
Scenario A (Moderate Scenario)	598	628	628	628	15	5	0	0
Scenario B (Aggressive Scenario)	624	683	748	751	20	9	9	0
Total Fuel Subsidy Cost	(Billions of CFAF)				(Percent of GDP)			
Baseline Scenario	437	442	453	472	3.0	2.8	2.7	2.6
Scenario A (Moderate Scenario)	298	224	233	187	2.0	1.4	1.4	1.0
Scenario B (Aggressive Scenario)	244	142	80	71	1.7	0.9	0.5	0.4

Sources: Cameroonian authorities; and IMF staff estimates.

[1] The "Baseline Scenario" is equivalent to the staff report's baseline scenario, while "Scenario A" is equivalent to the staff report's reform scenario.

[2] A negative sign implies that domestic prices have already reached their cost-recovery levels, such that they start falling in parallel with international prices.

20. The reform scenarios illustrate different approaches to price adjustment. It is assumed that price increases are initially larger for gasoline, which is consumed mostly by private vehicles typically belonging to people in higher-income groups. Price increases for diesel are initially smaller, and as noted, there is no price increase for kerosene. Compensatory measures, such as targeted transfers to the most vulnerable segments of the population, could be funded from the associated budgetary savings. Although the reform scenarios show an average annual fuel price increase for illustrative purposes, monthly price adjustments could be envisaged using price smoothing rules to avoid sharp increases in domestic prices, while generating the same average budget savings.

21. The choice of a reform scenario depends on the trade-off between desired budgetary savings and lesser impact on households. For example, while the fuel subsidy cost is at 2.6 percent of GDP in 2017 under the baseline (no reform) scenario, it sharply declines to 0.4 percent of GDP under the aggressive scenario (Scenario B), with only subsidies on kerosene and LPG remaining in place. The

[11] Dahl (2012) estimates a range of values for price elasticities for diesel and gasoline between -0.11 and -0.38 based on a review of 124 countries. An elasticity of -0.2 for diesel and gasoline is assumed for this estimation.

pace of price increases depends on the reform's medium-term objectives. In general, it is best to avoid sharp increases in pump prices to allow households and enterprises time to adjust.

22. The impact on inflation of either reform scenario would be limited. Preliminary calculations indicate that if gasoline and diesel prices are increased on a monthly basis by an equal number of CFA francs, the impact on inflation of the more moderate "Scenario A" would be around 1.4 percentage points in 2014, and an additional 0.6 percentage point in 2015. In the more aggressive "Scenario B," the impact on inflation would be 2 percentage points and 0.8 percentage point in 2014 and 2015, respectively. While these inflationary impacts may nudge the overall inflation rate beyond the regional convergence criterion of 3 percent, they do not pose, by themselves, a significant risk to macroeconomic stability.

References

Dahl, Carol A. (2012), "Measuring Global Gasoline and Diesel Price and Income Elasticities," *Energy Policy*, 41, pages 2–13.

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International Monetary Fund, 2013, "Energy Subsidy Reform: Lessons and Implications," http://www.imf.org/external/np/pp/eng/2013/012813.pdf, Washington, DC.

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Appendix II. Cameroon: Financial Sector Review

A. Profile of the Financial Sector

The Cameroonian financial system is dominated by foreign-owned commercial banks. The banking system has grown, but remains small relative to GDP. By regional standards, the microfinance sector is relatively large; microfinance institutions improve access to finance by lower-income households and small and medium-size enterprises, but rapid growth has brought governance and stability issues. The bond and stock markets remain a marginal source of funding, even for the government.

The Banking Sector

1. The Cameroonian financial system is dominated by foreign-owned commercial banks.[1] Banks accounts for about 70 percent of total assets of the financial system. Of the 13 banks operating in Cameroon, 10 are foreign-owned and accounted for 76 percent of total deposits at end-2012 (Text Table II.1). French banks dominate with about 40 percent of total bank assets (Figure II.1). The banking system is heterogeneous, segmented, and significantly concentrated. Despite overall excess reserves, there is virtually no interbank market. In the absence of collateralized instruments, banks generally refrain from lending to other banks in order to avoid counterparty risk.

Text Table II.1. Cameroon: Banking System Structure, 2012

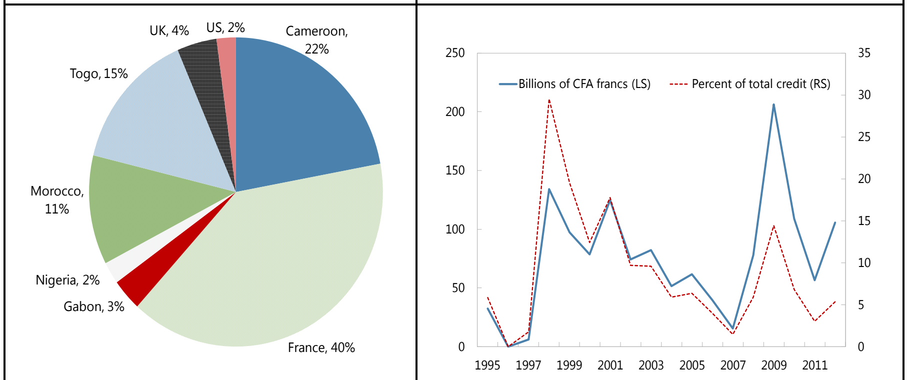
	Controlled by			Ownership Participation of Cameroon Government 2011	Credit Market Share in		Share in Total Deposits in Cameroon 2012 (Percent)
	Group	Country of HQ	Controlling Share 2011 (Percent)		Cameroon 2012 (Percent)	CEMAC (Group) 2009 (Percent)	
Domestically controlled							
Afriland First Bank	SBF etc.	Cameroon	82.6		13.5	8.0	17.4
CBC	Fotso Group etc.	Cameroon	58.2		6.0	4.1	4.5
NFC	Various	Cameroon	100.0		2.6		2.2
Subtotal:					22.1	12.1	24.1
Foreign controled - regional							
Ecobank	Ecobank	Togo	79.6		11.1	3.4	9.4
UBC	Ecobank	Togo	54.0		1.9		2.1
BAC	AFG C ET EA	Togo	54.5		1.7		2.1
UBA	UBA Plc	Nigeria	100.0		2.3	0.7	3.8
BGFI	BGFI	Gabon	70.7	20.0	3.3		2.2
Subtotal:					20.3	4.0	19.5
Foreign controled - other							
BICEC	Banque Populaire	France	61.2	17.5	18.7	10.3	17.4
SGBC	Société Générale	France	58.1	25.6	21.0	9.4	17.5
SCB	Attijariwafa	Morocco	51.0	49.0	11.4	5.2	11.7
SCBC	Standard Chartered	UK	100.0		4.4		6.5
Citibank	Citibank N.A.	US	100.0		2.1	1.1	3.3
Subtotal:					57.6	25.9	56.5
TOTAL / AVERAGE:					**100.0**	**42.0**	**100.0**

Sources: COBAC; and IMF staff calculations.

[1] This appendix was prepared by Boriana Yontcheva with assistance from Du Prince Tchakoté and Patrick Zoungarani.

Figure II.1. Cameroon: Credit Market Share and Volume of Interbank Market

Credit Market Share, 2012	Volume of Interbank Market, 1995–2011



Sources: BEAC; COBAC; and IMF staff calculations.

2. The banking sector is geared toward large enterprises. It can be broadly characterized as a lopsided business model, where 80 percent of bank credit goes to large enterprises and the remaining 20 percent is allocated mostly to small and medium-size enterprises. Retail credit is growing, but still marginal. Banks offers loans exclusively to retail clients who work in the formal sector, domicile their wages with the bank, and whose employer is already a customer.[2]

3. Mobile banking has started but is still embryonic (Box II.1). Money transfers through mobile phones are limited. The cost of services is relatively competitive compared to some countries in West Africa, but still significantly higher than in East Africa.

Microfinance Institutions

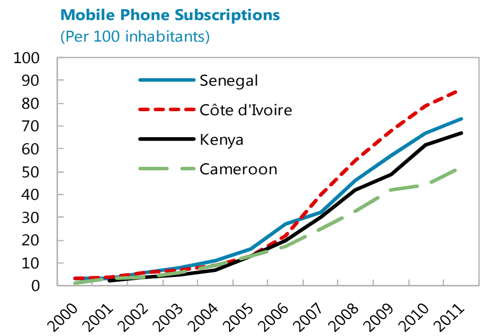
4. The microfinance sector is large by regional standards. More than 450 microfinance institutions (MFIs) were registered at end-2012. Cameroonian MFIs constitute about two-thirds of all MFIs in CEMAC. The sector includes three types of MFIs: (i) quasi banks; (ii) saving clubs; and (iii) microfinance nongovernmental organizations (NGOs). MFIs in the first category are the most common ones; they are deposit takers and operate in bank-like fashion. MFIs are significantly smaller than commercial banks; together their assets amount to about 15 percent of total banking sector assets. MFIs are significant for providing access to financial services to the lower-income

[2] The strategy is aimed at limiting credit risk in the absence of adequate information on retail borrowers.

segments of the population. Loans by MFIs amount to about 15 percent of total bank loan volume, but reach about 50 percent of all financial services customers.

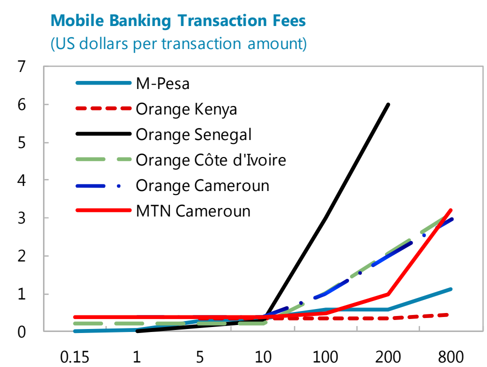
Box II.1. Cameroon: Mobile Banking

Mobile banking in Cameroon is still nascent. Given the large size of the country, the dispersion of the population, and the low penetration of formal banking services, Cameroon would appear to be a good candidate for widespread mobile banking—defined as banking transactions carried out through mobile devices. This industry, however, has not taken off yet in Cameroon. While the number of mobile phone subscriptions is rising, it lags the numbers found in comparable African countries, such as Senegal or Kenya.



Source: World Development Indicators.

Mobile banking costs are more competitive than in West Africa, but significantly more expensive than in East Africa. The small number of customers explains, in part, the overpricing compared to East Africa. At the low end of the spectrum, for transfer amounts below US$5, Cameroonian customers pay almost four times more than in Kenya; for transfer amounts between US$5 and US$50, they still pay 1.5 times more; at the upper end, for transfers above US$100, the cost in Cameroon rises steeply above the comparable cost in Kenya. Competition within countries also differs from region to region. While the fee structure of Orange Kenya matches that of its competitor M-Pesa Kenya, Orange Cameroon follows the Ivoirian business model, rather than that of the other local operator, MTN Cameroon.



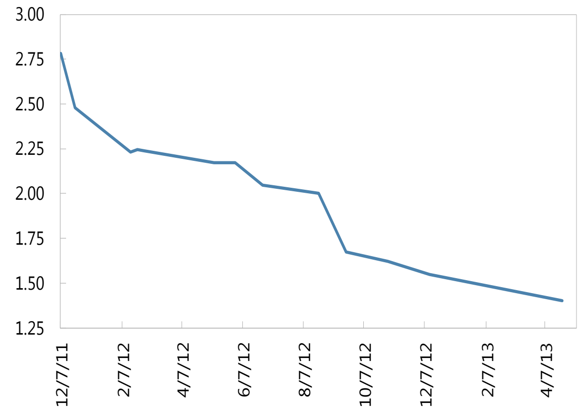
Source: IMF staff calculations.

5. The microfinance sector is insufficiently supervised. The large number of MFIs raises governance and profitability concerns, because the regional supervisor (COBAC) is not appropriately staffed to monitor such a large number of institutions effectively. The situation of individual MFIs varies greatly, in size and access to refinancing. A few of the larger MFIs are able to get refinancing from commercial banks, but for most MFIs access to refinancing remains a major issue. The COBAC has initiated electronic reporting from MFIs since 2010 and developed accounting norms to be implemented by them. The National Directorate of the regional central bank (BEAC) is also preparing to launch an on-line database of financial statements of MFIs in June 2013 that will help improve transparency in the sector.

Stock Market

6. **The stock market remains a marginal source of private sector financing**. It is based in the business capital, Douala, and has been operating for ten years. It only has three companies listed and its capitalization of CFAF 115 billion (0.9 percent of GDP) is too small to provide a significant source of financing for the private sector. The bond market essentially deals with government securities. Most government debt, however, is still issued to banks through auctions organized by the BEAC, mostly in the form of Treasury bills (T-Bills). There is no significant secondary market for this type of government debt. Over the last couple of years, T-Bill yields have progressively declined, although maturity has lengthened (Figure II.2). There are ongoing discussions to merge the Douala stock exchange with that of Libreville, Gabon.

Figure II.2. Cameroon: 26-week T-Bill Yield, 2011-2013
(Percent)



Source: BEAC.

B. Banking Sector Performance—An International Comparison

This section assesses the performance of the Cameroonian financial sector by benchmarking its depth, breadth, and inclusiveness against peer countries in the region, in Africa, and within the same income group.

The banking sector is highly concentrated and shallower than the expected benchmark. Profitability meets the expected structural benchmark and the sector outperforms its peers in terms of liquidity. The picture is mixed in terms of inclusiveness, where Cameroon underperforms in terms of access to banking services. Retail and small and medium-size enterprise banking is limited. Small-scale saving and borrowing needs are met by microfinance institutions and the informal sector.

Methodology

7. **Benchmarking provides an assessment of Cameroon's banking sector performance with respect to depth, breadth, access, and efficiency.** For each country and each key financial sector indicator, the World Bank's Finstat database provides a *structural* benchmark based on the

country's economic and structural characteristics.[3] Given the structural characteristic of the country under review, regressions compute an *expected median* level that the country could achieve. The difference between the observed value and the benchmark then needs to be interpreted. A negative difference suggests scope for policy action, while a positive difference could reflect over-performance compared to the peer group and the impact of successful reforms. The analysis was carried out using data from 2000 onward, where available.

8. **Data availability permitting, Cameroon's financial sector indicators are also compared to those from peer countries.** These are defined as other CEMAC countries, Ghana, Kenya, and Senegal. Comparisons are also made with the average for Sub-Saharan Africa (SSA), excluding South Africa, and the average of the lower-middle-income countries group (LMC). Ghana is an interesting example of a change in regulation (the "Borrowers and Lenders Act," 2008) leading to a breakthrough in access to finance. Kenya is an example of an SSA economy with a rapidly developing financial sector. Senegal provides an example from a similar institutional setting (the West African Economic Monetary Union, WAEMU). The SSA average (excluding South Africa) reflects the development of the rest of the subcontinent, while the LMC group average provides a comparison with countries at a similar level of development.

Depth

9. **The banking system has grown in recent years but remains shallow.** Private sector credit has expanded rapidly since the mid-2000s, although rising from a low base of 8 percent of GDP to 15 percent in 2012. Nevertheless the benchmarking shows that the sector remains relatively shallow (Figure II.3). Cameroon underperforms the benchmarks for private sector credit and deposits to GDP. It reaches the expected 25th percentile rather than the median. Country comparisons confirm that although the banking sector is larger than in neighboring CEMAC countries, it remains much shallower than for the average of SSA countries, even when excluding South Africa. The ratio of broad money to GDP gained 10 percentage points in the past decade, but remains much lower than in Ghana or Senegal.

Breadth and Efficiency

10. **The banking sector is heavily concentrated**. Competition in the banking system, proxied

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[3] The structural benchmarks are calculated based on FinStats from the World Bank. Using a large dataset of countries, each financial indicator was regressed on a set of structural characteristics, such as GDP per capita and its square; population size and density; the age dependency ratio; and country-specific factors. For more methodological information, see Čihák and others (2012).

by the asset concentration of the three largest banks, appears relatively low. Figure II.4 shows that the three largest banks own more than 70 percent of total assets of all commercial banks, a ratio that has remained stable, notwithstanding new entries from regional or international groups. Small and medium-size banks have not significantly increased their market share over the past five years. Although such a concentration level is not uncommon in SSA, it is much lower among LMCs. Non-interest income represents about 35 percent of total income, a ratio that is below the SSA average, but 6 percentage points above that in Ghana and Senegal, and in line with the structural benchmark.

11. Profitability is in line with that of the region. Both return on assets (ROA) and return on equity (ROE) show comfortable rates of return over the past decade, despite a fall in net income at the system-wide level since 2009, reflecting difficulties experienced in the four problems banks (Figure II.5).

12. Banks are highly liquid. With the exception of a small dip during the 2009 global financial crisis, bank liquidity has steadily increased and is above the Senegal, SSA, and LMC averages. Given limited sources of funding to domestic deposits, credit-to-deposit ratios underperform the expected median—this has implications for the limited financing of the economy.

Inclusiveness

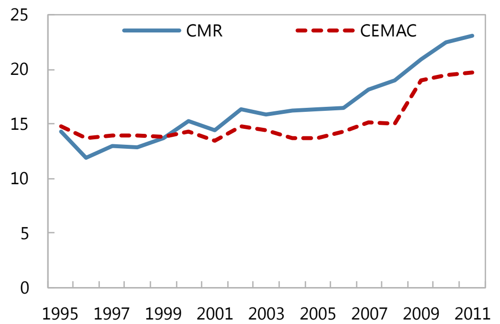
13. The sector presents a mixed picture of inclusiveness. The banking sector has grown in terms of number of banks and number of branches. The number of branches has almost doubled in the past 10 years, albeit from a low base (Figure II.6). Nonetheless access to formal banking services remains low; access to financial services is similar to other CEMAC countries but lower than in comparable countries outside the region. The indicator of banks per inhabitant underperforms the estimated statistical benchmark. Only 15 percent of the adult population has a bank account and barely 3 percent received their wages directly through their bank account. This explains the limited amount of retail banking because banks focus their lending on customers that have monthly paycheck deposits.

14. MFIs help reach the unbanked population. Saving and lending behaviors of households and small and medium-size enterprises reflect the importance of informal and microfinance institutions. More than half of the adult population that has saved money in the past year has done so through an MFI or a savings club. Similarly, the vast majority of loans are obtained through family and friends followed by private lenders. Less than 3 percent of the population has received a loan from a bank in the past 12 months, underscoring the marginal dimension of retail banking.

Figure II.3. Cameroon: Selected Indicators on Financial Sector Depth

Broad money to GDP has increased by 10 percentage points in the past decade...

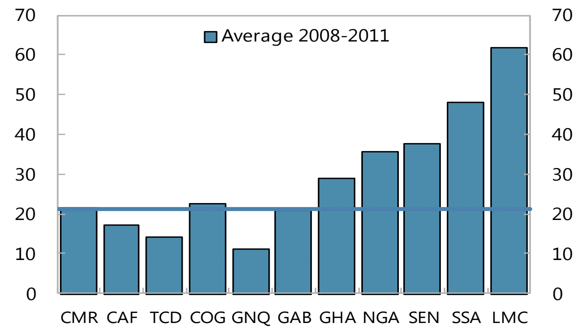
Cameroon: Broad Money to GDP
(Percent)



Source: World Development Indicators.

... but remains below peer countries.

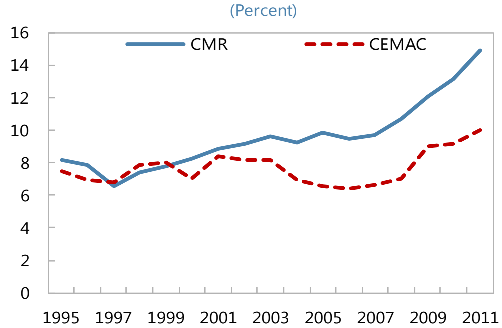
Benchmark Countries: Broad Money to GDP
(Percent)



Source: World Development Indicators.

Similarly private sector credit has picked up since the mid 2000s...

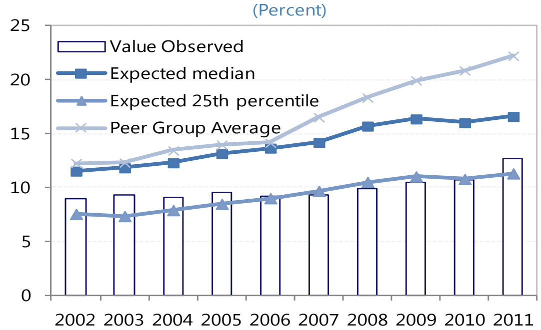
Cameroon: Private Sector Credit to GDP
(Percent)



Source: World Development Indicators.

... but underperforms compared to the benchmark and lags behind the peer group average.

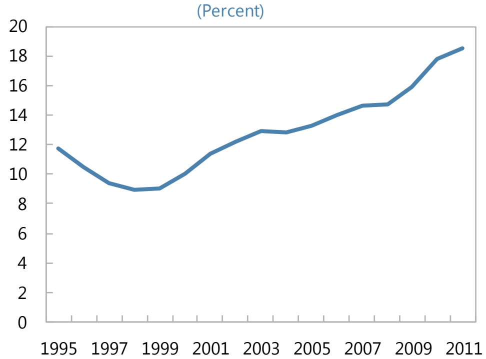
Benchmark: Private Credit to GDP
(Percent)



Source: World Development Indicators.

Deposits to GDP have almost doubled in the past decade...

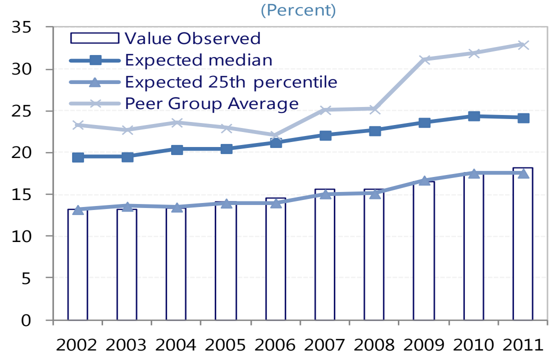
Cameroon: Bank Deposits to GDP
(Percent)



Source: Global Financial Development.

... but the ratio stays at the expected 25th percentile while the peer group average accelerates from 2008 onward.

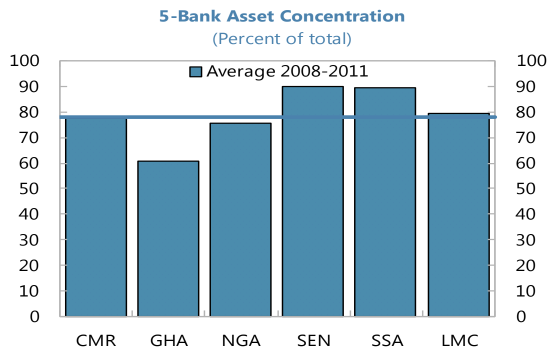
Benchmark: Bank Deposits to GDP
(Percent)



Source: Finstat.

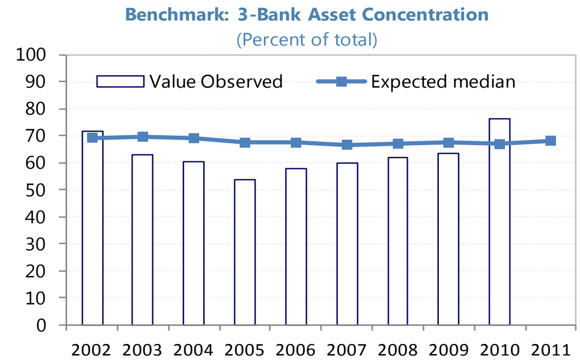
Figure II.4. Cameroon: Selected Indicators on Financial Sector Breadth and Efficiency

The banking sector is highly concentrated …



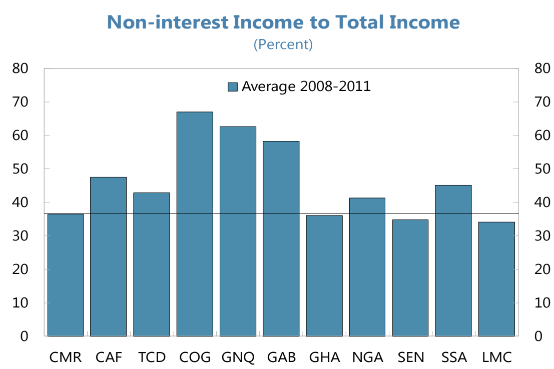
Sources: Global Financial Development; and COBAC.

…albeit in line with the expected benchmark



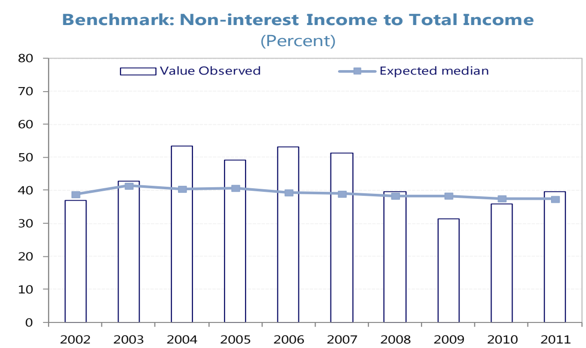
Source: Finstat.

The share of non-interest income is in line with countries in the region…



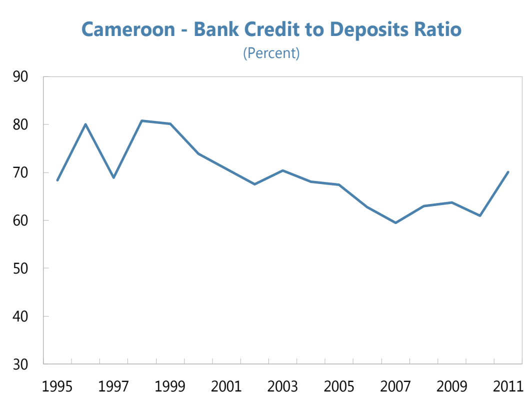
Source: Global Financial Development.

…. and with the expected benchmark.



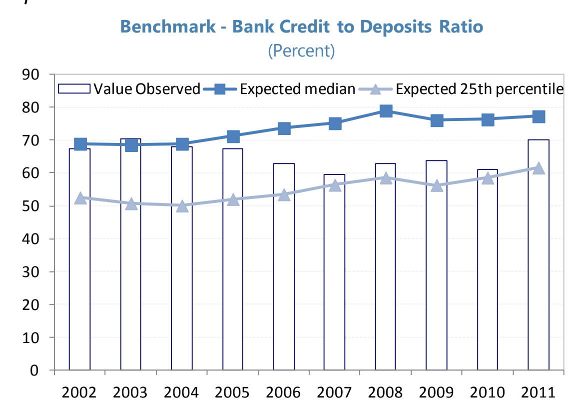
Source: Finstat.

Liquidity has increased…



Source: Global Financial Development.

…but Cameroon underperforms in terms of credit to deposits benchmark.

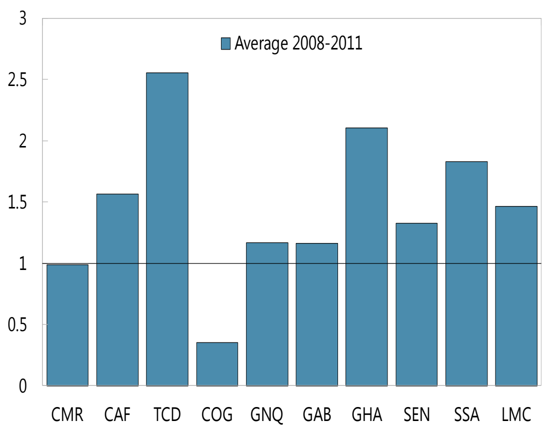


Source: Finstat.

Figure II.5. Cameroon: Selected Profitability Indicators

Profitability indicators are in line ...

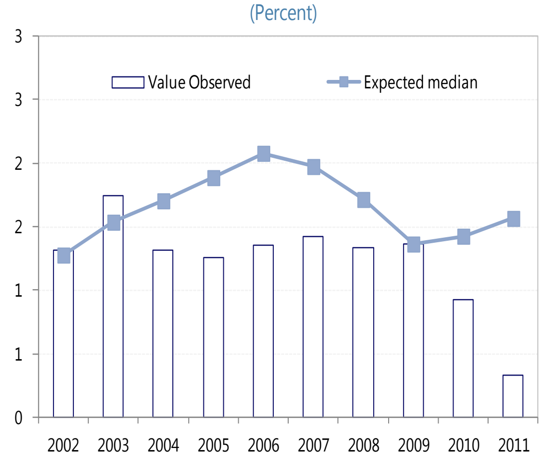
Return on Assets
(Percent)



Source: Global Financial Development.

...with the expected median benchmark.

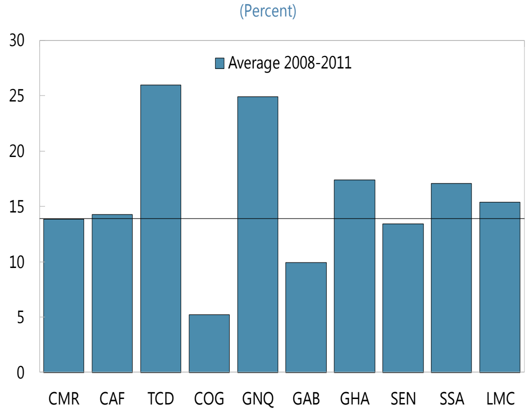
Benchmark: Return on Assets
(Percent)



Source: Finstat.

Profitability indicators are in line ...

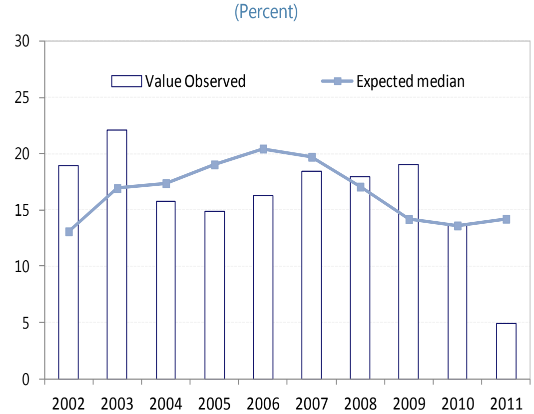
Return on Equity
(Percent)



Source: Global Financial Development.

.... with other countries in the region.

Benchmark: Return on Equity
(Percent)

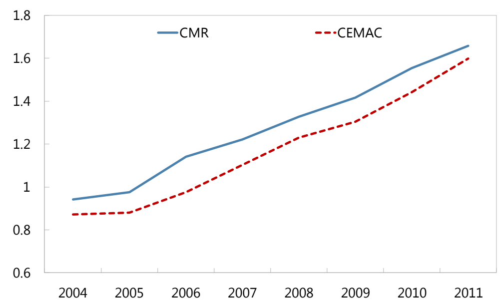


Source: Finstat.

Figure II.6. Cameroon: Selected Indicators on Financial Sector Inclusiveness

Banks steadily expanded their activities …

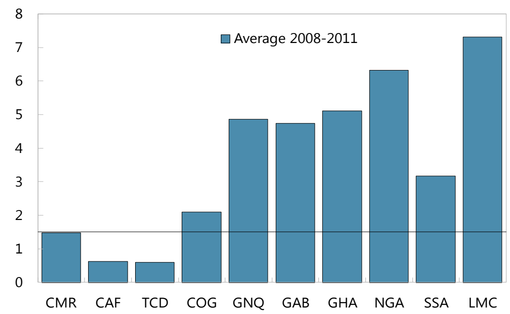
Number of Bank Branches per 100,000 Adults



Source: World Development Indicators.

….but the sector underperforms in terms of access.

Benchmark: Number of Bank Branches per 100,000 Adults

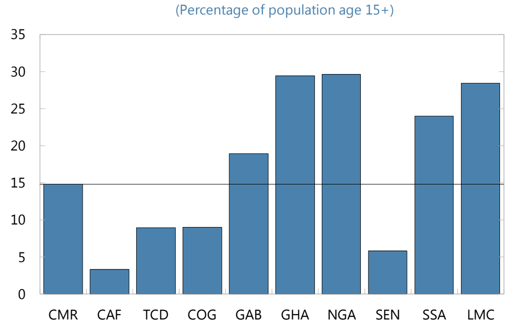


Source: World Development Indicators.

The share of adult population with a bank account is lower than in the average SSA and LMC …

Account at a Formal Financial Institution 2011

(Percentage of population age 15+)

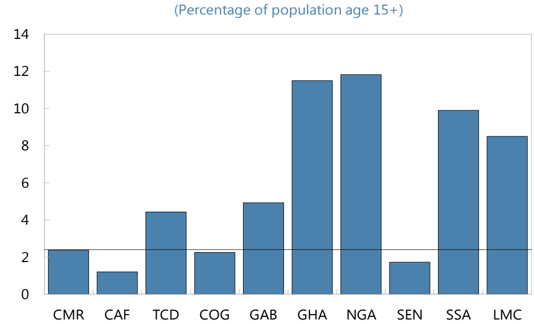


Source: World Bank - Global Findex.

….about 2 percent of the population receives wages on a bank account.

Use of Account to Receive Wages in 2010

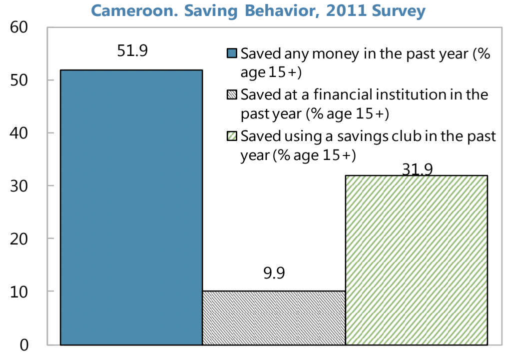
(Percentage of population age 15+)



Source: World Bank - Global Findex.

Saving behavior illustrates the importance of microfinance institutions and informal organizations…

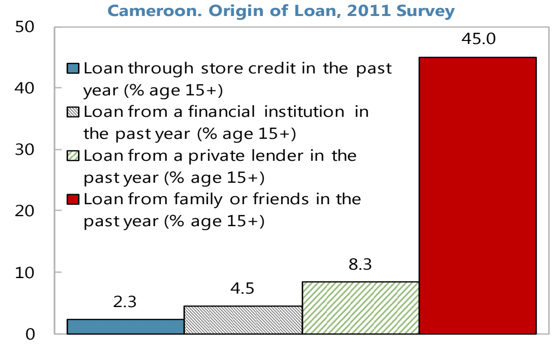
Cameroon. Saving Behavior, 2011 Survey



Source: World Bank - Global Findex.

…while loans from banks remain marginal compared to other forms of credit.

Cameroon. Origin of Loan, 2011 Survey



Source: World Bank - Global Findex.

C. Financial Stability and Risks

15. Overall conditions in the banking sector have improved, but the situation varies substantially across banks. The system-wide capital adequacy ratio (CAR) remains below the minimum regulatory requirement of 8 percent in March 2013. It hides important variations and reflects weak capital positions only in some problem banks (Table II.2 and Figure II.7). The overall improvement at the system level reflects mostly a positive evolution at a large domestic bank in the first quarter of 2013; the ongoing supervisory procedure led to understandings between the COBAC and this bank on the adequate amount of required provisions and on assets to be recognized as quasi equities. As a result, and with the caveat of preliminary data requiring verification, the bank appears to be on the way of recovery. Four smaller domestic and regional banks show negative equity at end March 2013 and progress with restructuring plans has been slow. For one of them, a long-overdue restructuring plan is coming closer to implementation.

Table II.2. Cameroon: Aggregate Banking System Financial Soundness Indicators, 2009–13

	2009	2010	2011	2012	Mar-13
Growth					
Deposit growth (percent per annum)	....	11.5	11.8	-1.1	6.3
Credit growth (gross) (percent per annum)	…	12.0	16.9	5.2	5.6
Capital adequacy					
Regulatory capital to risk-weighted assets (RWA) (percent)	10.0	7.0	5.2	5.6	7.0
Tangible net worth (net) to RWA (percent) [1]	10.2	7.9	4.9	5.2	5.7
Tangible net worth (net) to Total tangible assets (percent) [2]	5.3	4.1	2.7	2.4	2.8
Asset quality and composition					
Loans (net) to assets	48.9	48.8	50.4	53.2	53.4
NPLs to gross loans	9.8	12.4	12.3	11.2	11.7
Provisions to gross loans	10.2	11.1	11.9	11.4	11.3
Provisions to gross NPLs	103.6	89.2	96.7	102.1	94.6
NPLs less provisions to net worth	23.7	44.1	55.0	50.0	54.3
Earnings and profitability					
ROAA (percent per annum)	-0.2	0.4	0.1	0.7	…
ROAE (percent per annum)	-2.2	3.9	1.6	11.8	…
Net interest income to gross interest income (percent)	74.8	71.3	69.8	61.2	…
Administrative expenses to average assets (percent per annum)	4.1	3.7	4.3	3.0	…
Liquidity					
Liquid assets to total assets (percent)	40.4	38.8	36.2	34.4	34.6
Liquid assets to deposits (percent)	49.2	47.0	44.0	42.4	42.3

Source: IMF staff calculations based on bank data provided by COBAC (end-2012 preliminary).
[1] Tangible net worth (net) = Book net worth less: intangible fixed assets and shareholdings in other credit institutions.
[2]: Tangible assets = Book assets less: intangible fixed assets.

16. The system is liquid and shows limited interest and exchange rate risks. As lending activities are typically limited to the short term (up to 12 months) and non-interest income is high, banks can be considered as not vulnerable to interest rate shocks. They face virtually no exchange rate risk because assets and liabilities are in CFA francs, and most banks possess large cash reserves.

17. Asset quality remains weak, credit risk remains high, and banks are vulnerable to a high concentration of lending to a few economic sectors and corporations. Even though they improved slightly compared to 2011, system-wide non-performing loans (NPLs) remain relatively high at 11.7 percent of gross loans. All banks are vulnerable to a default by a large borrower because their lending is concentrated on a few sectors and corporations. In a severe downturn situation, risks could become systemic. In addition, persistent government arrears to SONARA translate into a substantial credit risk for the banking sector.

D. Recommendations

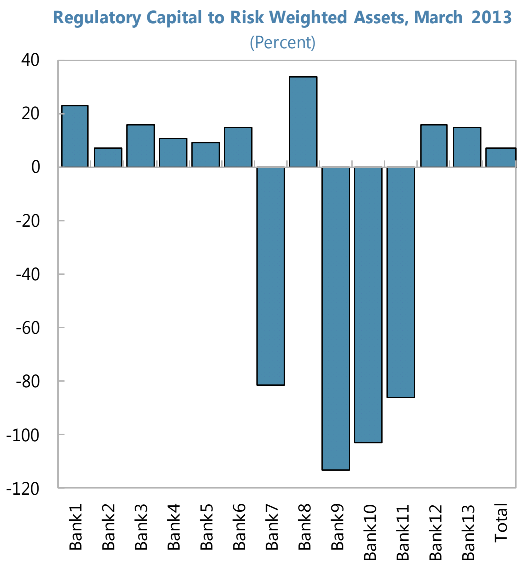
Stability Issues

18. It is important to take swift action to resolve financial problems at the troubled banks while limiting the fiscal costs.

- The authorities need to accelerate the finalization of the resolution of one regional bank as the process is nearing its end. In addition to the recapitalization of the bank on public funds and the creation of a separate "bad bank" structure that would take on all impaired assets, the government should try to recover as much as possible of impaired assets to minimize the burden on public finances.
- A bank has been put under temporary administration and its restructuring or resolution should be implemented as swiftly as possible.
- The intention of a parent group regarding the onward sale or absorption of a bank needs either to be confirmed shortly or its license should be revoked.
- The timetable for recapitalization of a bank has been agreed by the COBAC, but the plan must be implemented swiftly.

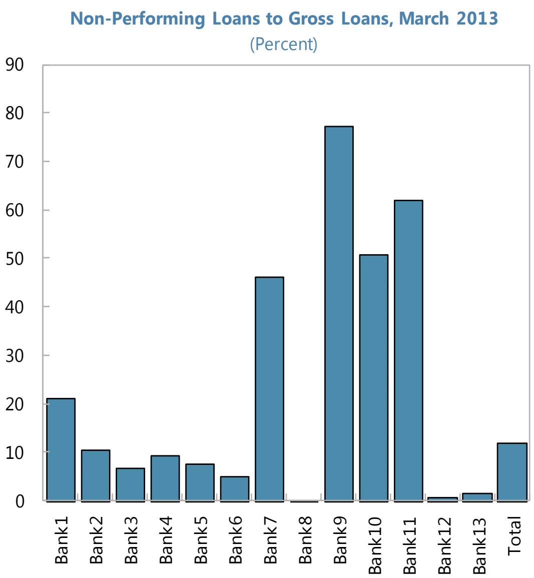
Figure II.7. Cameroon: Selected Financial Stability Indicators

Capital adequacy has improved at the level of the system, but 4 banks show negative equity…



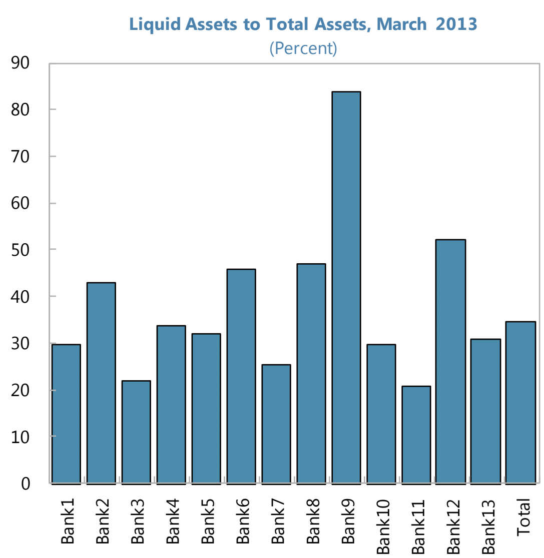
Sources: COBAC; and IMF staff calculations.

…and high level of NPLs.



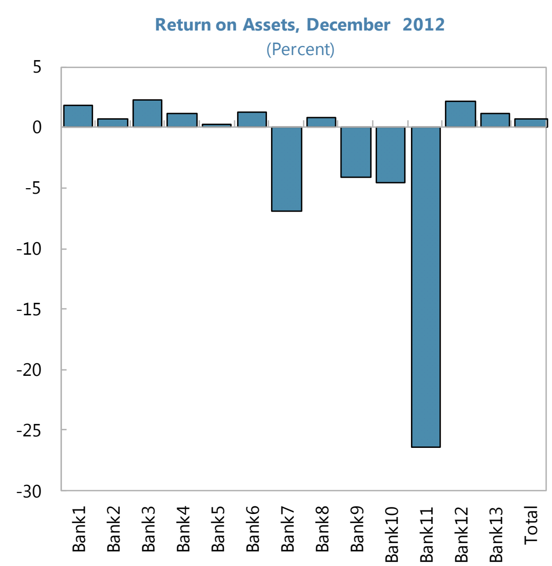
Sources: COBAC; and IMF staff calculations.

All banks have large liquidity buffers.



Sources: COBAC; and IMF staff calculations.

Profitability varies greatly among banks.



Source: COBAC; and IMF staff calculations.

19. Boosting COBAC's resources is of paramount importance. A lack of adequate resources has been hampering COBAC's activities for many years.[4] This constraint limits the frequency of on-site inspections and hinders early detection of problems. It severely restricts the capacity to supervise the growing microfinance sector. A specific recruitment process has started and needs to be completed as swiftly as possible.

Access Issues and Structural Constraints

20. Financial intermediation and access to credit remain hampered by a number of structural constraints. These include a poorly functioning judicial system, absence of adequate collateral, and limited credit information. To help alleviate these constraints, the authorities are planning to launch three databases on (i) payment incidents; (ii) balance sheet data of small and medium-size enterprises; and (iii) microfinance institutions.

21. Institutional reforms need to be pursued to improve the legal framework of credit through: (i) improving procedures for recording and enforcing guarantees; (ii) modernizing the operations of land and commercial registries; (iii) strengthening creditor rights enforcement by enhancing governance of the courts; and (iv) upgrading standards of disclosure of information by borrowers and lenders.

22. The supervision of MFIs needs to be strengthened. Given the rising importance of the sector and its significance for vulnerable households, it is important to adequately supervise MFIs. Good practice is available regarding adequate supervision of MFIs, and COBAC should be encouraged to follow it. However COBAC resources constraints need to be taken into account and supervisory activity to be opportunely focused on large establishments that could present a risk for depositors. In addition prevention should be emphasized, and the process of granting operating licenses should be reinforced. Better coordination between the supervisor and the national authorities could help boost transparency and inform users.

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[4] The lack of adequate resources was highlighted in the 2006 Financial Sector Assessment Program report.

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Appendix III. Cameroon: External Competitiveness

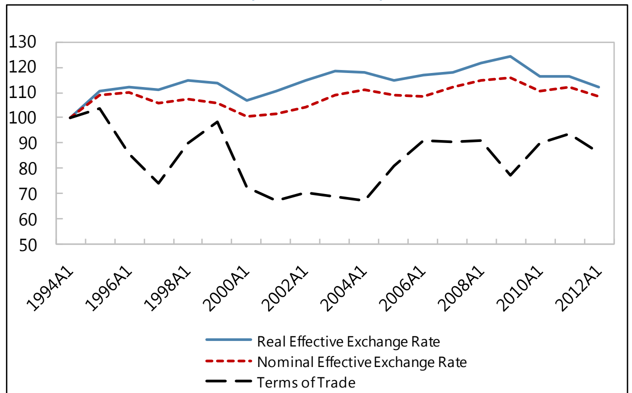
The present exchange rate assessment follows the three approaches of the Consultative Group on Exchange Rate Issues (CGER).[1] *It is broadly consistent with the findings of the 2012 Central African Economic and Monetary Community's (CEMAC) external assessment,*[2] *because it finds that Cameroon's real effective exchange rate (REER) may be slightly overvalued. Despite some improvements in recent years, structural competitiveness remains low. The analysis of non-price indicators highlights the need for Cameroon to improve its business climate and to lower the cost of doing business, which implies better access to financing and improved infrastructure.*

A. Exchange Rate Developments

1. Cameroon's real effective exchange rate (REER) has been slowly depreciating since 2010 (Figure III.1). This recent trend has not offset, however, the long period of appreciation, which culminated in 2009, when the REER appreciated by almost 24 percent compared to its 1994 level. Since 2010, the REER has depreciated by 3.7 percent, reflecting the depreciation of the euro, to which the country's currency is pegged. The nominal effective exchange rate (NEER) has closely followed this trend.

Figure III.1. Cameroon: Effective Exchange Rates and Terms of Trade, 1994–2012

(1994=100)



Sources: IMF's Information Notification System; and IMF staff estimates.

2. As preliminary assessments, ad hoc assumptions could be made on the long-run behavior of the REER, and results would be derived from the comparison between the assumed long-run REER and the current REER. One assumption would be to consider that long-run equilibrium was reached within the two years of the currency's devaluation. In this case, comparing the long-run equilibrium level (LREER) with the actual LREER indicates that the REER was overvalued by about 6.7 percent at end-2012. Another

[1] This appendix was prepared by Arina Viseth, with inputs from Aleksandra Zdzienicka, Fabien Nsengiyumva, and Kwame Tweneboah Kodua.

[2] The external stability assessment of the CEMAC region (IMF Country Report No. 12/244, 2012) found that the REER was overvalued, but was within the margin of error, indicating that the REER was broadly consistent with equilibrium under current policies, and reserves remained adequate.

assumption would be to consider the sample mean during 1994–2012 was at its long-run equilibrium. This method suggests that the LREER was undervalued by 2.3 percent at end-2012. Conclusions therefore differ, but both preliminary assessments are heavily dependent on the strong assumption that the LREER was constant. As noted in the previous exchange rate assessment, this is unlikely to be the case, because one important determinant of Cameroon's LREER, the country's terms of trade, has been on a declining trend since 1994.

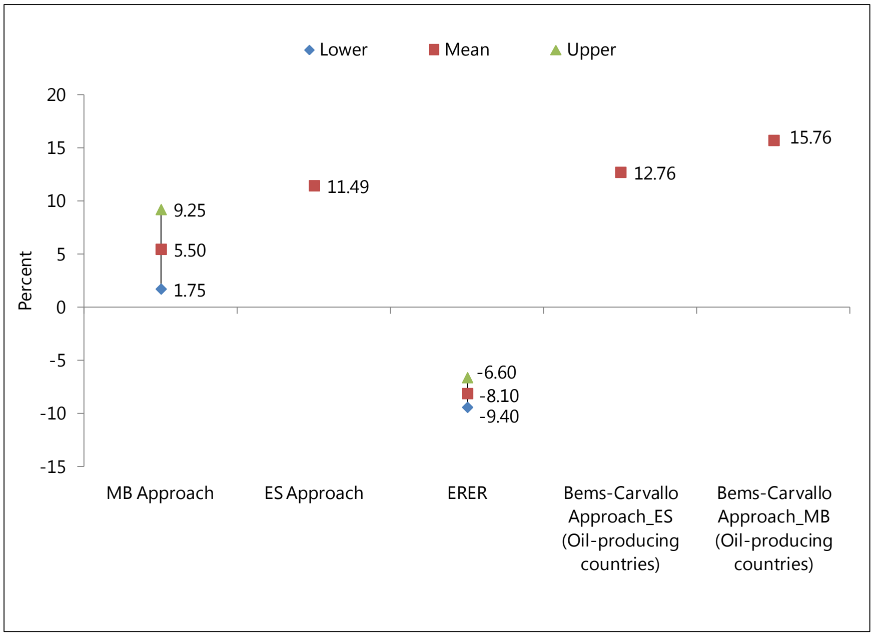
B. Model-Based Assessments

3. **The REER is assessed using the three approaches that are adopted by the CGER, namely, the macroeconomic balance (MB), the equilibrium real exchange rate (ERER), and the external sustainability (ES) approaches.** The IMF assessment toolkit, which contains annual data for 184 countries for 1973–2012 is used, along with projections that reflect the macroeconomic framework discussed during the 2013 Article IV Consultation. Those standard CGER procedures are also complemented by two methods, an adjusted macroeconomic balance approach and an adjusted external sustainability approach that explicitly consider Cameroon's oil wealth and the projected exhaustion of its oil resources.

4. **The MB approach calculates the difference between the current account balance projected over the medium term at prevailing exchange rates (the underlying current account balance) and an estimated equilibrium current account (also called the current account norm), which is a function of economic fundamentals.** This approach consists of three steps. First, an equilibrium relationship between current accounts and a set of macroeconomic fundamentals is estimated. Second, based on the projection of economic fundamentals over the medium term, the current account norm for each country is obtained using the previously derived coefficients. Third, the difference between the current account norm and the underlying current account reflects the exchange rate adjustment necessary to close the gap between the two current account balances. The extent to which the real exchange rate will need to adjust will mostly depend on the country-specific elasticity of the current account with respect to the real exchange rate.

5. **Results from the MB approach suggest that the REER was slightly overvalued at end-2012** (Figure III.2). The estimated current account norm points to a deficit of 2.4 percent, while the underlying current account deficit is about 4.6 percent. The real exchange rate would then need to eliminate this difference. Given an elasticity of the current account to the real exchange rate of -0.4,

Figure III.2. Cameroon: Required Change in the REER to Bring it to Equilibrium Level



Source: IMF staff calculations.

estimated from similar countries' export and import elasticities,[3] the MB approach suggests that the REER would need to depreciate by about 5.5 percent, with the lower bound o 1.75 and upper bound of 9.25, to close the external current account gap. This result is however highly dependent on the elasticity of the current account to the real exchange rate. The more elastic the current account is, or the more open a country is, the less the magnitude of the exchange rate adjustment needs to be.[4]

6. The ERER approach suggests the REER was undervalued, but within the margin of error.[5] The ERER approach calculates the difference between the actual real exchange rate and an estimated equilibrium real exchange rate, which is directly derived from the projection of medium-term fundamentals, such as net foreign assets, productivity differential between tradable and non-tradable sectors, and the terms of trade. As in the MB approach, this approach consists of three steps. First, an equilibrium relationship between equilibrium real exchange rates and a set of macroeconomic fundamentals is estimated. Second, using the coefficients that were found in the first step, the equilibrium real exchange rate is obtained as a function of medium-term projections

[3] The current account elasticity is calculated as (export elasticity) x (export-to-GDP ratio)-(import elasticity – 1) x (import-to-GDP ratio).

[4] REER assessments for Sub-Saharan African countries use elasticities of the current account to the REER ranging from -0.3 to -0.6.

[5] The panel regression model to estimate the LREER for Cameroon was, however, incomplete owing to data unavailability.

of economic fundamentals. Third, the difference between the equilibrium real exchange rate and the actual real exchange rate reflects the needed REER adjustment.

7. Assuming the same elasticity of -0.4 as the MB approach, the ES approach suggests that the REER was slightly overvalued at end 2012. The ES approach calculates the difference between the actual current account and the current account that would stabilize the net foreign assets (NFA) position of a country at some benchmark level. As in the previous methods, the ES approach consists of three steps. First, the level of current account that would stabilize the NFA position of a country at given benchmark values is determined. Second, the NFA stabilizing current account is compared to the actual current account that is projected to prevail over the medium term. Third, the difference between the NFA-stabilizing current and the medium-term current account reflects the exchange rate adjustment that is required to close the gap, assuming a certain elasticity of the current account to the real exchange rate.

8. To complement the above analysis, the MB and ES approaches were specifically tailored to oil-producing countries.[6] These adjusted procedures notably imply considering Cameroon's oil wealth and the projected exhaustion of oil resources in estimating the current account norm. Results show that both MB and ES-adjusted approaches point to an overvaluation of Cameroon's REER at end-2012 of about 15.8 percent for the MB approach and 12.8 percent for the ES approach.

9. The above results indicate that Cameroon's REER may be slightly overvalued, confirming last year's exchange rate assessment. The above results are however very dependent not only on the macroeconomic assumptions on which the baseline scenario is predicated, but also on the hypotheses each approach uses, such as the level of elasticity of the current account to the real exchange rate.

C. Alternative Indicators of External Competitiveness

10. The REERs discussed above measure the relative domestic and foreign price levels expressed in a common currency. The economic literature on developing countries considers, however, that the "internal" real exchange rate (IRER), defined as the relative price of nontradable to tradable goods, is a more appropriate measure of competitiveness because it is the key relative price influencing resource allocation, the production and consumption of tradables and

[6] See Bems, Rudolfs, and Irineu de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries," IMF Working Paper No.09/281, Washington, DC.

nontradables, and thus, ultimately, external balance. Although the theoretical concept of the IRER is straightforward, its empirical measurement raises the problem of finding operational counterparts for the required price indices of tradable and nontradable goods. As a result, the literature uses a variety of proxies. We depart from a two-good framework by dividing the economy into three categories of goods: exports, imports, and domestically produced and consumed goods. We consider that aggregating imports and exports into one composite tradable good blurs the effects of changes in the terms of trade and constitutes a price index that does not adequately translate the incentive effects of a change in IRER either on the supply side or on the demand side of the economy.

11. The three-good framework produces two IRERs, corresponding to the relative prices of exportables and importables in terms of domestically produced and consumed goods:

$$IRERx = Pd \,/\, Px$$

$$IRERm = Pd \,/\, Pm$$

Where *Pd* is the price of the domestic goods, and *Px* and *Pm* are the domestic prices of exportables and importables, respectively, measured in domestic currency terms. *IRERx* could be considered an indicator of the internal price competitiveness of exports relative to domestic goods. A decline in *IRERx* would indicate a gain in competitiveness for the export sector. *IRERm* is similarly an indicator of the internal price competitiveness of domestic goods relative to importables (or imported goods). A rise in *IRERm* indicates a loss in competitiveness for importables.

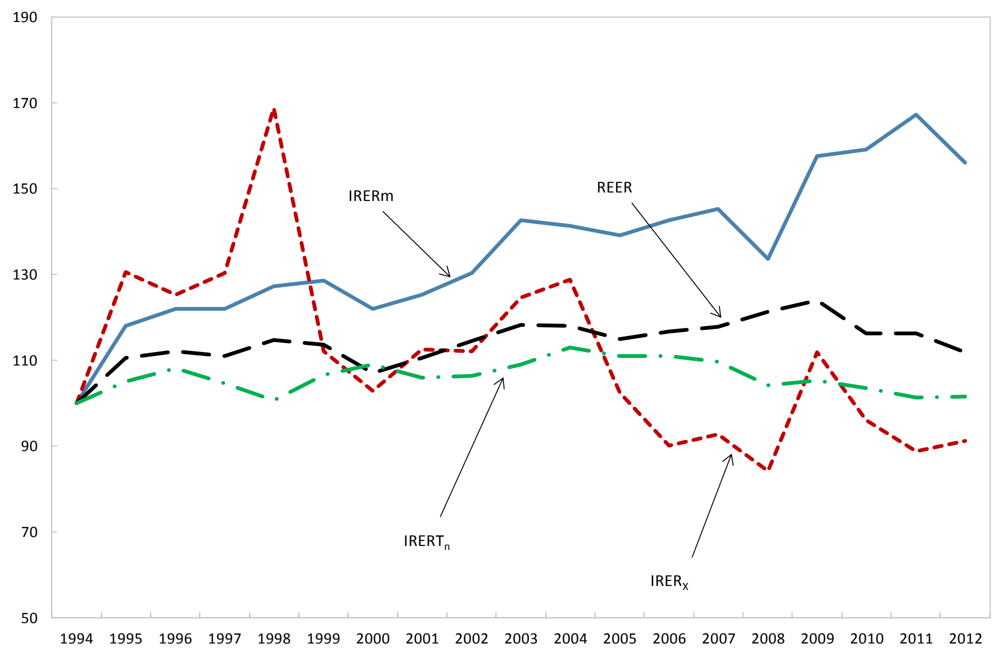
12. Figure III.3. compares the evolution of the four categories of relative prices in 1994–2012. They include the (external) REER used above in the model-based assessment, the relative price of domestic goods to imports (*IRERm*), the relative price of domestic goods to exports (*IRERx*), and the relative price of nontradables to tradables published by the Cameroonian National Institute of Statistics (*IRERTn*).[7] The following observations can be drawn:

- *IRERm* and *IRERx* continue to be more volatile than the external REER. Because some of these volatilities are not embodied in the external REER, the latter is likely to be an incomplete measure of competitiveness in the case of developing countries. In 2012, both *IRERm* and *IRERx*

[7] The 2012 relative price of nontradables to tradables was estimated based on past values. The proxy used for the price of domestic goods is derived from national accounts data as explained in Hinkle, L., and F. Nsengiyumva, 1999, "*Internal Real Exchange Rates: Concepts and Measurement*" in Hinkle, L. and Peter J. Montiel, *Exchange Rate Misalignment: Concepts and Measurement for Developing Countries* (Washington, DC; World Bank).

took the opposite direction they had taken in 2011, implying a brief gain in competitiveness in the importables and a slight loss of competitiveness in the export sector for that year.

Figure III.3. Cameroon: Internal and External Real Exchange Rates, 1994–2012
(1994=100)



Sources: Cameroon authorities; IMF staff estimates.

- The 2012 brief movements were not, however, strong enough to compensate for the long-run trends of *IRERx* and *IRERm*. Since its peak in 1998, *IRERx* continues its declining trend,[8] suggesting a broad gain in competitiveness in the export sector, even though it went through two short periods of upward movements or loss of competitiveness, in 2000–04 and 2008–09. These two periods corresponded to important changes then happening in the global trade environment, including an increased traded share of processed agricultural foods and a strong trade growth in manufactured goods. The 2012 decline in *IRERm* was not insignificant,[9] but more broadly, *IRERm* continues to be on an upward trend since 1994,[10] indicating a sustained loss of competitiveness in the importables.

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[8] The cumulative depreciation of *IRERx* from 1998 to 2012 was 46 percent.

[9] A 7 percent decline in 2012 compared to 2011, which almost matches its most important decline in 2008 of 8 percent.

[10] The cumulative appreciation of *IRERm* from 1994 to 2012 was 56 percent.

- As in previous years, the estimated *IRERn* for 2012 follows relatively closely the external REER, hence not capturing the volatilities shown in IRERm and *IRERx*. Considering this perspective, the Cameroonian National Institute of Statistics discontinued the publication of the tradables and nontradables price series in 2012.

D. Assessment of Structural Competitiveness[11]

13. **Competitiveness, defined by the World Economic Forum as the set of institutions, policies, and factors that determine the level of productivity of a country, can also be measured with non-price indicators in addition to using price indicators.** This section presents available survey data that compare Cameroon on the structural determinants of external competitiveness.

14. **According to the 2013 Global Competitiveness Index (GCI), Cameroon ranks 112th of 142 surveyed countries, with a score of 3.7 of 7, hence gaining four places since the 2012 report and doing slightly better than Sub-Saharan Africa (SSA)** (Table III.1). Cameroon obtained higher scores than the SSA average on basic requirements (macroeconomic environment, health, primary education), on all efficiency enhancers except for technology readiness and financial sector development, and on both factors of innovation and sophistication.

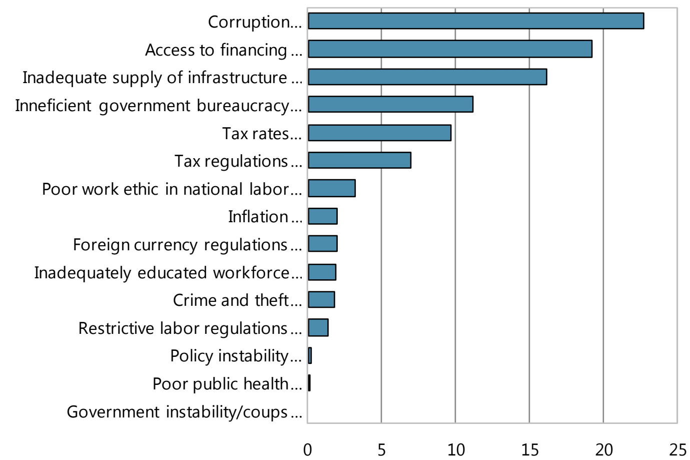
15. **However, Cameroon's business climate, as measured by the 2013 World Bank Doing Business indicators has deteriorated since last year.** The country lost five places in 2013, reaching the rank of 161 of 185, compared to 156 of 183 in the 2012 report (Table III.2). Cameroon moved up in the subtopics of trading across borders, enforcing contracts, and resolving insolvency, but lost places on the rest. This was especially true concerning getting credit and protecting investors, where the country lost four places in both subtopics, compared to last year. Cameroon's 2013 rank is still below that of SSA, which obtained an average rank of 139. In comparison to the CEMAC and West African Economic and Monetary Union (WAEMU) regions, Cameroon does relatively better than the CEMAC, but less well than the WAEMU, which respectively rank 174 and 152.

16. **According to the 2013 World Economic Forum's report on global competitiveness, firms identify the same five major constraints as in to the 2012 report.** Those constraints are corruption, access to financing, inadequate infrastructure, government bureaucracy, and tax

[11] Assessment based on the Global Enabling Trade report of 2012 is not presented, because the 2013 report is not yet available.

regulations (Figure III.4). Compared to last year, corruption now tops the list, as opposed to access to financing, which was the major source of concern in last year's survey. However, according to the Heritage Foundation, Cameroon performed better in 2013 on the index of economic freedom (Table III.3), gaining two places in its ranking compared to last year. The economic freedom index attributed this better rank to improvements in fighting corruption and a more flexible labor market. On balance, it seems that despite the authorities' efforts to fight corruption and improve the business environment, firms still perceive corruption as a major impediment.

Figure III.4. Cameroon: The Most Problematic Factors for Doing Business
(Percent of Responses)



Source: World Economic Forum, 2012-13.

Table III.1. Cameroon and SSA: Global Competitiveness Index 2012–13

	Cameroon		Sub-Saharan Africa (Averages)	
	Rank (Out of 144)	Score (1-7)	Rank (Out of 144)	Score (1-7)
GCI 2012–13(Out of 144)	112	3.7	114	3.6
GCI 2011–12(Out of 142)	116	3.6	113	3.6
GCI 2010–11 (out of 139)	111	3.6	112	4
Basic requirements (60%)	**115**	**3.8**	**114**	**3.7**
Institutions	107	3.4	87	3.7
Infrastructure	125	2.5	112	2.8
Macroeconomic environment	59	4.8	97	4.2
Health and primary education	118	4.5	120	4.2
Efficiency enhancers (35%)	**111**	**3.6**	**113**	**3.4**
Higher education and training	115	3.3	118	3.1
Goods market efficiency	89	4.1	98	4.0
Labor market efficiency	58	4.5	79	4.3
Financial sector development	105	3.6	91	3.8
Technology readiness	126	2.7	115	2.9
Market size	87	3.2	109	2.6
Innovation and sophistication factors (5%)	**95**	**3.3**	**102**	**3.2**
Business sophistication	104	3.5	105	3.5
Innovation	79	3.1	96	2.9

Source: World Economic Forum, The Global Competitiveness Report, 2013.

Table III.2. Cameroon: Doing Business Indicators, 2012–13

	Cameroon		CEMAC	WAEMU	SSA
	2012	2013		2013	
Ease of doing business	156	161	174	152	139
Starting a business	128	125	166	131	123
Dealing with construction permits	92	95	123	124	117
Getting electricity	n/a	63	129	130	126
Registering property	154	158	143	132	121
Getting credit	98	104	104	114	111
Protecting investors	122	128	149	142	115
Paying taxes	171	176	174	146	120
Trading across borders	156	157	162	125	134
Enforcing contracts	174	172	149	120	120
Closing a business	147	150	164	125	127

Source: World Bank, Doing Business Indicators, 2013.

Table III.3. Cameroon: Index of Economic Freedom, 2011–13

	2011-12	2012-13
Index of economic freedom	51.8	52.3
Cameroon's Rank	135 out of 183	133 out of 185

Source: Heritage Foundation.

INTERNATIONAL MONETARY FUND

CAMEROON

June 12, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

as of May 31, 2013

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	185.70	100.00
Fund holdings of currency (Exchange Rate)	184.77	99.50
Reserve Tranche Position	0.94	0.51

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	177.27	100.00
Holdings	15.24	8.60

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF RAC Loan	92.85	50.00
ECF Arrangements	15.66	8.43

Latest Financial Arrangements:

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

[1] Formerly PRGF.

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	1.86	3.45	22.28	21.49	20.69
Charges/Interest	0.09	0.11	0.33	0.28	0.23
Total	1.95	3.56	22.62	21.77	20.92

[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.

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	October 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 can not be added.

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Million)

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

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

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

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

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

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

Safeguards Assessments:

In accordance with Safeguards Policy requirements for regional central banks, a quadrennial safeguards assessment of the Bank of the Central African States (BEAC) is underway. The assessment, which included a mission to Yaoundé during March 20–29, 2013, occurs against the backdrop of fraudulent activities uncovered in the BEAC office in Paris in 2009, and subsequent special audits initiated by the BEAC authorities that identified governance challenges and control failures. For its part, the BEAC adopted an action plan with the aim of reforming its own governance, strengthening key safeguards, and building capacity. In addition, a series of rolling measures were agreed between the BEAC and the IMF, as a basis for determining whether periodic IMF program reviews could continue for those BEAC members using IMF resources. A summary of the results of the current assessment will be reported upon its completion.

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 755.95=SDR 1, as of May 31, 2013. 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.

Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on

June 13, 2012.

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.

Technical Assistance:

2013

May 2013:	FAD mission on public finance management
March 2013	FAD Customs Administration follow-up visit
February 2013:	AFRITAC-Central mission on public debt management
January 2013:	FAD mission on tax and custom administration

2012

October 2012:	MCM-World Bank mission on public debt management
May 2012:	AFRITAC-Central mission on cash-based accounting
February 2012:	FAD mission on Customs, diagnostic and modernization
January 2012:	STA mission on quarterly national accounts

2011

December 2011:	FAD mission on PFM
October 2011:	FAD mission on broadening the tax base
August 2011:	FAD tax mission: on segmentation of taxpayers
August 2011:	STA mission on quarterly national accounts
April 2011:	STA mission on national accounts statistics
March 2011:	FAD mission on tax / customs administration diagnostic
January 2011:	FAD mission on PFM

2010

November 2010:	STA mission on quarterly national accounts
November 2010:	FAD mission on implementation of the new budget law
October 2010:	STA mission on national accounts
October 2010:	AFRITAC-Central mission on PFM (including procurement plan)

September 2010:	FAD mission on tax administration
August 2010:	AFRITAC-Central 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
January 2010:	STA mission on national accounts

2009

December 2009:	STA mission on national accounts statistics
September 2009:	FAD mission on strengthening revenue administration
September 2009:	AFRITAC Central mission on strengthening treasury management
July 2009:	MCM mission on public debt management
March 2009:	STA mission on quarterly national accounts
February 2009:	FAD mission on strengthening revenue administration

Resident Representative:

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. The current Resident Representative, Ms. Boriana Yontcheva, has been stationed in the field since December 26, 2012.

JOINT IMF-WORLD BANK WORK PROGRAM, 2013–14

Products	Mission Timing	Expected Delivery
A. Mutual Information on Relevant Work Programs		
IMF Work Program		
Strategy: Fund's policy advice and technical assistance will focus on helping Cameroon preserve fiscal sustainability and financial sector stability, while expanding priority spending to accelerate economic growth and poverty reduction.		
Staff visit	October 2013	Concluding Statement
2014 Article IV consultation	May 2014	Board discussion in June 2014
TA on public finance to be offered by FAD or AFRITAC Central		
Two PFM missions on multiyear and program budgeting, accrual accounting, and LRFE and CEMAC directives.	May 2013 and TBD	Aide Mémoire at the end of mission.
One tax policy mission is envisaged.	October 2013	Aide Mémoire at the end of mission.
Two revenue administration missions to support tax and customs administration reform priorities.	January 2013 and FY2014	Aide Mémoire at the end of mission.
Improvement of public accounting	May 2013	Aide Mémoire at the end of mission.
Support of public accounting reform	September/October 2013	Aide Mémoire at the end of mission.
Support of public accounting reform	February 2014	Aide Mémoire at the end of mission.
TA on statistics to be offered by STA or AFRITAC Central		
Quarterly National Accounts	Q1	Aide Mémoire at the end of mission.
Manufacturing Production Index/ Manufacturing Producer Price Index	Q2	Aide Mémoire at the end of mission.
TA on debt management to be offered by MCM or AFRITAC Central		
Evaluating and interpreting financing offers	July/August 2013	Aide Mémoire at the end of mission.
Managing financial risk in a debt portfolio	January/February 2014	Aide Mémoire at the end of mission.

World Bank work program		
Strategy: The World Bank Country Assistance Strategy for 2010–2013 aims to stimulate growth by improving governance, competitiveness, and service delivery. The World Bank will help stimulate more inclusive growth by improving 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. For service delivery, the emphasis is on (i) human development (education, health and social protection to help develop an effective safety net system based on targeted programs); and (ii) local development, where the focus will be on increasing access to basic services through infrastructure upgrading and capacity building for improved local governance.		
Non-concessional borrowing ceiling monitoring	Four missions a year: dates to be decided.	Back-to-office reports at the end of the mission.
Debt management capacity	Possibly two TA missions on the implementation of the reform plan and the medium-term debt strategies: dates to be decided	Back-to-office reports at the end of each mission
Technical assistance to customs	Possibly three missions: dates to be decided	Back-to-office reports at the end of each mission
Competitive value chains	Possibly one or two missions to disseminate: dates to be decided	Aide-mémoire at the end of the mission
CEMAC regional financial institutions	Two missions (September 2012 and March 2013)	Aide-mémoire at the end of the mission
Country Health Status	Possibly two or three events to discuss the findings of the first volume and prepare recommendations of the second volume.	Volume 1 is available; Volume 2 will be available by June, 2013.

B. Requests for work program inputs		
IMF request to Bank • Periodic update on World Bank program in Cameroon • Periodic economic update		
World Bank request to IMF • Periodic update of the macro framework		
C. Agreement on joint products and missions		
DSA update	May 2013	Board discussion in June 2013
DSA update	May 2014	Board discussion in June 2014

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance purposes. There is scope for improvements in quality, coverage, and timeliness in most macroeconomic dataset. In recent years, the authorities have taken initiative to improve the macroeconomic database, particularly the national accounts.
Real sector statistics: The *Institut National de la Statistique du Cameroun* (INS) has compiled a revised set of national accounts estimates based on the 1993 System of National Accounts (1993 SNA). Updating to the 2008 SNA is ongoing. The framework for the collection and production of business enterprise statistics was found to be weak, creating difficulties for gauging the structure of the economy and current industrial activity. Particularly serious difficulties affect data quality in the following key sectors: agriculture, manufacturing, retail and wholesale trade, local government, and services. The production index should be overhauled and integrated with the corresponding components of the annual national accounts. Other areas for concern include a limited selection of price indices for deflation of national accounts concepts and the limited information on employment. In light of these shortcomings, technical assistance will remain essential in the coming years. The STA missions in 2009, 2010 and 2011 sought to support the compilation of improved national accounts statistics, and led to the development of quarterly national accounts statistics starting in 2012. **Government finance statistics:** The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. Quarterly reports on the overall budget execution, and the investment budget execution have been produced on a continuous basis. Despite this progress, data on the public finances are still in need of improvements in quality, coverage, timeliness, and dissemination of data based on the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Weaknesses in the fiscal data include: (i) incomplete compilation of budget implementation data on a commitment and, to some extent, on a cash basis; (ii) a lack of information on the financial information of local governments; (iii) poor monitoring of cross-liabilities in the public sector and of public enterprise debt; and (iv) lack of information on the financial information of public enterprises more generally. The authorities plan to establish comprehensive fiscal accounts on a commitment basis, a functional classification of the budget and will strive to monitor the float. Moreover, the ongoing audit of government domestic debt, which will cover cross-liabilities in the public sector and public enterprise external debt, is expected to strengthen debt data. Efforts to enhance transparency of financial operations in the oil sector should also improve overall fiscal reporting. Efforts are also underway to collect data on the operations of the largest 20 public enterprises.
Monetary and financial statistics: Monetary statistics are reported to the Fund by the *Banque des États de l'Afrique Centrale* (BEAC) on a monthly basis in the format of the standardized report forms (SRFs), with delays of up to two months. A key shortcoming of monetary and financial statistics is the lack of data for interest rates offered by the financial institutions sector to non-financial entities on deposits and loans. In addition, the depository corporation survey does not include data from deposit taking microfinance institutions, a growing sector in the country.

Balance of payments: Since March 2006 STA technical assistance, the authorities have started to produce higher quality data within a reasonable time period but there are still some significant delays. Balance of payments data are reported annually to STA albeit with some lags. The latest reported data refer to 2010.
External debt: External debt data are broadly adequate for surveillance, but are comprehensive only for public and publicly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissement* (CAA), which is responsible for signing international loan agreements and servicing the government's external debt obligations. The CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis, but regular statements are not received from creditors.

B. Data Standards and Quality	
Cameroon commenced its participation in the General Data Dissemination System (GDDS) in 2001.	No ROSC data is available.
C. Reporting to STA	
Cameroon does not report data for publication in the IMF Government Finance Statistics Yearbook or the government finance statistics section in International Financial Statistics. Data reporting for publication in the Fund's Balance of Payments Statistics publications has encountered delays.	

CAMEROON: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(as of May 31, 2013)

	Date of latest observation	Date received	Frequency of data	Frequency of reporting	Frequency of publication
Exchange rates	May 2013	May 2013	D		
International reserve assets and liabilities [2]	April 2013	May 2013	M	M	M
Reserve/Base money	March 2013	May 2013	M	M	M
Broad money	March 2013	May 2013	M	M	M
Central bank balance sheet	March 2013	May 2013	M	M	M
Consolidated balance sheet of the banking system	March 2013	May 2013	M	M	M
Interest rates [3]	April 2013	May 2013	M	M	M
Consumer price index (main cities)	March 2013	May 2013	Q	Q	Q
Consumer price index (national)	March 2013	May 2013	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 [5]	March 2013	May 2013	M	M	Partial data published monthly
Stocks of debt contracted or guaranteed by the central government	Dec. 2012	May 2013	M	M	M
External current account balance	Dec. 2011	2012	A	A	NA
Exports and imports of goods and services [7]	Dec. 2012	Apr. 2013	Q	Q	NA
GDP/GNP	2011	2012	A	A	A
Gross external debt	Dec. 2013	Apr. 2013	Q	Q	Q
International investment position	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND

CAMEROON

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

June 12, 2013

Approved By	Prepared by the International Monetary Fund—African Department and the International Development Association
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura (IMF) and Jeffrey Lewis and Marcelo Giugale (World Bank)	

The present debt sustainability analysis updates the analysis conducted at the time of the 2012 Article IV Consultation (Country Report No. 12/237, August 2012). It finds that the level of debt distress remains low, as all debt indicators are well below their respective policy-dependent thresholds. The underlying macroeconomic assumptions used in this analysis are somewhat different from the ones used in the previous analysis. Projected oil revenue is higher, but growth and export prospects are less favorable in the short and medium terms. As the government intends to increase its debt in response to the large financing need of the country's ambitious public investment program, heavier borrowing could jeopardize sustainability over the long term and calls for a prudent approach regarding the terms of borrowing.

BACKGROUND

1. This debt sustainability analysis (DSA) was prepared jointly by the International Monetary Fund (IMF) and the World Bank, and updates the 2012 DSA of Cameroon (IMF Country Report No. 12/237, August 2012).[38] It uses the standard debt dynamic template for low-income countries, based on end-2012 data, and the macroeconomic framework resulting from discussions with the Cameroonian authorities during the 2013 IMF Article IV consultation. Data are composed of external and domestic debt of the central government and debt and guaranteed debt of public enterprises. Efforts continue to be made in improving debt statistics and analysis, but, as noted in the previous DSA, debt statistics could benefit from a more comprehensive coverage of liabilities of public enterprises and municipalities, contingent liabilities of financial institutions, and government obligations to state-owned entities.

2. The Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiatives resulted in a significant reduction in Cameroon's public debt ratios, from more than 50 percent of GDP in 2005 to less than 10 percent of GDP in 2008. However, the public debt-to-GDP ratio has been steadily increasing since then, reaching about 16 percent in 2012 (Tables 1-3a). This increase mainly corresponds to a rise in public external debt (Text Table 1). Public external debt is still dominated by multilateral debt, representing 31.3 percent of total public debt in 2012, but bilateral loans, especially loans from non-Paris club members, have significantly grown in proportion, representing 16.1 percent of total public debt in 2012, as opposed to only 4.3 percent in 2008. This outcome reflects the increasing number of nonconcessional loans or loans with less favorable financing conditions, in response to the authorities' ambitious public investment program and its large financing needs. Although the previous DSA noted a rise in domestic debt overtime, the stock of domestic debt decreased in 2012 compared to 2011, both in proportion of total public debt and as a percentage of GDP (Text Table 2). It is nonetheless projected to increase, notably because of the projected securitization of CFAF 100 billion of arrears in 2013.

UNDERLYING ASSUMPTIONS

3. The baseline scenario assumes higher oil revenue, but lower growth and export prospects (Text Table 3 and Box 1). Although oil prices are projected to decline, oil revenue is expected to be higher because of larger oil production. Actual real GDP growth was revised downward in 2012 because of the slow implementation of reforms and public investment. Exports were revised downward because of the less favorable external environment stemming from the ongoing euro area growth slump. Inflation is projected to remain low, in line with the convergence

[38] The draft DSA was discussed with the Cameroonian authorities in the course of the 2013 Article IV consultation. The present DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint IMF-World Bank Debt Sustainability Framework for Low-Income Countries, dated January 22, 2010 (available at http://www.imf.org/external/pp/longres.aspx?id=4419 and http://go.worldbank.org/JBKAT4BH40).

criterion of the Central African Economic and Monetary Community (*Communauté Économique et Monétaire de l'Afrique Centrale*; CEMAC).

Text Table 1. Cameroon: Stock of Public Debt, 2006–12

	2006	2007	2008	2009	2010	2011	2012
			(Billions of CFA francs)				
Total public debt	1489	1171	1015	1114	1349	1662	2015
External debt	603	562	578	574	725	927	1127
Multilateral	206	230	289	377	460	577	632
Bilatérale	316	289	288	196	222	304	400
Bilateral Paris Club	294	251	245	63	91	85	75
Bilateral non-Paris Club	22	38	43	133	132	219	325
Commercial debt	81	43	1	1	43	46	96
Domestic debt	887	608	437	540	623	734	888
			(Percent of total)				
Total public debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0
External debt	40.5	48.0	56.9	51.5	53.8	55.8	55.9
Multilateral	13.8	19.7	28.5	33.8	34.1	34.8	31.3
Bilateral	21.2	24.7	28.4	17.6	16.5	18.3	19.9
Bilateral Paris Club	19.7	21.4	24.2	5.7	6.7	5.1	3.7
Bilateral non-Paris Club	1.5	3.2	4.3	12.0	9.8	13.2	16.1
Commercial debt	5.4	3.7	0.1	0.1	3.2	2.8	4.7
Domestic debt	59.5	52.0	43.1	48.5	46.2	44.2	44.1
			(Percent of GDP)				
Total public debt	15.9	12.0	9.5	10.6	12.1	13.8	15.7
External debt	6.4	5.7	5.4	5.5	6.5	7.7	8.8
Multilateral	2.2	2.4	2.7	3.6	4.1	4.8	4.9
Bilateral	3.4	2.9	2.7	1.9	2.0	2.5	3.1
Bilateral Paris Club	3.1	2.6	2.3	0.6	0.8	0.7	0.6
Bilateral non-Paris Club	0.2	0.4	0.4	1.3	1.2	1.8	2.5
Commercial debt	0.9	0.4	0.0	0.0	0.4	0.4	0.7
Domestic debt	9.4	6.2	4.1	5.2	5.6	6.1	6.9
Memorandum item:							
Nominal GDP	9,388	9,792	10,629	10,466	11,138	12,026	12,848

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

Text Table 2. Cameroon: Domestic Debt Components, 2011–12
(CFAF billions, unless otherwise indicated)

	2011	2012	2012 Share in percent
Total domestic debt[1]	734	641	100
Structured debt	571	498	78
Banking	123	117	17
Non-banking	448	381	61
Non structured debt	163	144	22

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

[1] Excludes domestic financing for 2012 and securities to the national refinery SONARA.

Text Table 3. Cameroon: Key Macroeconomic Assumptions, 2012–33[1]

	2012–13	2014–17	2018–33
Real GDP growth (percent)			
DSA 2013	4.6	5.1	4.8
DSA 2012	4.8	5.4	4.6
Total revenue (percent of GDP)[2]			
DSA 2013	18.9	19.3	18.3
DSA 2012	18.3	17.6	16.8
Exports of goods and services (percent of GDP)			
DSA 2013	28.7	27.4	22.9
DSA 2012	32.1	30.3	23.9
Oil price (US dollars per barrel)			
DSA 2013	106.0	88.5	93.2
DSA 2012	106.4	90.1	85.0

Sources: Cameroonian authorities; and IMF and World Bank staff estimates.
[1] Previous DSA covers the period 2012–32.
[2] Total revenue, excluding grants.

4. **Public investment remains the driver of medium and long-term growth, as the authorities continue to carry out an ambitious public investment program.** In this context, large infrastructure projects buttress the country's growth strategy. The full impact of these projects is assumed to take place after 2018. Resources to finance the projects are expected to come from the budget, and from domestic and external loans. Concerning the latter, it is important to note the rise in nonconcessional loans—about 77 percent of all commitments since 2010 have been nonconcessional (Text Table 4).[39] The use of nonconcessional debt has not been limited to financing investment projects with high returns. This trend is expected to continue in view of Cameroon's large financing needs (Text Table 5). The volume of committed but non-disbursed loans has considerably increased from CFAF 1,421.7 billion in 2011 to CFAF 2,095.2 billion in 2012 (Text Table 6).

[39] New nonconcessional borrowing commitments are projected at CFAF 746 billion in 2013. This DSA will provide an input to the analysis of World Bank staff to establish ceilings for nonconcessional borrowing in 2013, under the International Development Association's nonconcessional borrowing policies. The amount of nonconcessional borrowing expected for 2013, 2014, and 2015 are CFAF 207, 276, and 308 billion, respectively.

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

Medium Term, 2014–18

- Real GDP growth is projected to reach an average of 5.2 percent in the medium term, supported by non-oil exports, increased oil production, and higher capital spending, as private sector develops and business climate improves. Inflation is projected to remain low, at 2.5 percent a year, in line with historical trends and the Central African Economic and Monetary Union (CEMAC) convergence criterion.

- The revenue-to-GDP ratio is projected to increase over the medium term, from 18.4 percent in 2012 to 19.1 percent in 2018. Although oil prices are expected to be reduced in the medium term, higher oil production is assumed to offset the decline in prices.

- The external current account deficit is projected to widen from 3.7 percent of GDP in 2013 to 4.3 percent of GDP in 2018, caused by more imports, which in turn are driven by real growth and the increasing need for equipment and intermediate goods for infrastructure projects. The current account deficit is expected to be financed through foreign direct investment, external public borrowing, and other private capital inflows.

Long Term, 2019–33

- Real GDP growth is projected to reach an average of 4.7 percent. Long-term growth is driven by non-oil exports, a sustained rate of capital spending, as the economic activity benefits from private sector development, induced by a more favorable business climate.

- Revenue is projected to decrease from 19.1 percent of GDP in 2018 to 17.5 percent of GDP in 2033. This trend assumes that oil revenue will decline with the depletion of oil reserves, while non-oil revenue is sustained by further structural reforms, improving revenue collection, and a more diversified economy.

- The external current account deficit is projected to narrow until 2023, reaching then 4 percent of GDP. From 2024 onward, it widens again, reaching 5.7 percent of GDP in 2033. It is assumed that until 2023, the current account is mainly driven by a rebound in exports, as the European market recovers. The larger deficit from 2024 onward assumes stronger import of equipment and intermediate goods, as private sector develops and the business climate improves.

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[1]The baseline scenario uses the latest IMF World Economic Outlook assumptions (April 2013).

Text Table 4. Cameroon: Allocation of New External Commitments Since 2010

Concessionality (Percent)	Amount (Billions of CFA francs)	Cumulative amount (Billions of CFA francs)	Simple frequency (Percent)	Cumulative frequency (Percent)
- 6 - 0	41.6	41.6	1.7	1.7
0 - 10	418.7	460.3	17.5	19.3
10 - 25	317.4	777.7	13.3	32.6
25 - 30	541.2	1,318.9	22.7	55.3
30 - 35	526.7	1,845.6	22.1	77.3
35 - 45	12.1	1,857.7	0.5	77.9
45 - 70	525.3	2,383.0	22.0	99.9
70 and more	3.3	2,386.2	0.1	100.0
Total	2,386.3		100	

Source: Cameroonian authorities.

5. **Oil prices are expected to decline in the short and medium terms, but production is projected to increase.** These measures include the re-opening of several wells, thanks to new extracting techniques, the search for new extraction zones, and the discovery of an important oil field in Rio del Rey. Although some industries are expected to contribute to export growth in the medium term (e.g., electricity, cement), export prospects remain tame, because Europe, the main trading partner, is still prone to slow growth.

Text Table 5. Cameroon: New External Borrowing Baseline, 2013–33
(CFAF billions, unless otherwise indicated)

	2013	2016	2020	2025	2030	2033 [1]	Average 2013-18	Average 2019-33
New borrowing, 2013 DSA	265	421	491	559	616	582	394	564
Concessional	59	77	75	77	77	71	73	76
Percent of total	22	18	15	14	12	12	19	14
Nonconcessional	207	344	417	482	539	511	321	488
Percent of total	78	82	85	86	88	88	81	86
New borrowing, 2012 DSA	249	372	383	415	440	…	347	416
Concessional	124	109	103	99	91	…	115	97
Percent of total	50	29	27	24	21	…	34	23
Nonconcessional	124	263	280	317	349	…	232	319
Percent of total	50	71	73	76	79	…	66	77

Sources: IMF and World Bank staff projections.

[1] 2032 for 2012 DSA.

Text Table 6. Cameroon: Committed but Non-Disbursed Loans, 2010–12
(CFAF billions)

	2010	2011	2012
Multilateral	613	630	727
Bilateral	156	697	1,286
Commercial	…	94	83
Total	769	1,422	2,095

Source: Cameroonian authorities.

EXTERNAL DEBT SUSTAINABILITY ASSESSMENT

A. Baseline Scenario

6. **The low-income country (LIC) debt sustainability framework is guided by policy-dependent indicative debt burden thresholds for external debt**. These thresholds reflect the empirical findings that sustainable debt levels for a LIC increase with the quality of policies and institutions. Such quality is measured by the Country Policy and Institutional Assessment (CPIA) index, compiled annually by the World Bank. Compared to last year, Cameroon has slightly improved its ranking, but still scores low, at 3.5 (yearly score on a scale of 1 to 6; Text Table 7). Cameroon's rank is similar to the CEMAC average, but is above the Sub-Saharan African (SSA) average. The indicative external debt burden thresholds for countries in this category are (i) a present value (PV) of the debt-to-exports ratio of 100 percent; (ii) a PV of the debt-to-revenue ratio of 200 percent; (iii) a PV of the debt-to-GDP ratio of 30 percent; and (iv) debt-service-to-exports and debt service-to-revenue ratios of 15 percent and 18 percent, respectively.

Text Table 7. Cameroon: Country Policy and Institutional Assessment Ratings, 2007–11[1]

	2007	2008	2009	2010	2011
Cameroon	3.23	3.21	3.21	3.17	3.5
CEMAC[2]	2.74	2.74	2.79	2.80	3.5
Sub-Saharan Africa[2]	3.17	3.15	3.17	3.21	3.0

Source: World Bank, World Development Indicators (2013).

[1] CPIA ratings measure the quality of a country's policies and institutions. They range from 1 (Low) to 6 (High).

[2] Poverty Reduction and Growth Trust (PRGT) eligible countries.

7. **Cameroon's external debt remains sustainable, with all external debt ratios staying below their respective thresholds** (Text Table 8 and Figure 1).[40] There is however an upward trend

[40] Following the latest LIC-DSA template, the discount rate used is 3 percent (reduced from 4 percent in the previous DSA).

for all debt ratio indicators until 2023, before stabilizing at the end of the projection period. The grant element of new borrowing and the grant equivalent financing as a percent of GDP decrease over time. These trends reflect an intensification of debt contracting and a deterioration in the level of concessionality mostly in response to the large financing needs that result from the public investment program. Given these trends, a further increase in nonconcessional borrowing may present a threat to debt sustainability in the long term, especially given the size of already committed but not disbursed, nonconcessional loans.

B. Alternative Scenario and Stress Tests

8. An alternative scenario, in which no loan is concessional, was conducted (Table 3b). Under this scenario, the PV of debt-to-exports breaches its threshold following an export shock in a long and protracted way, hence qualifying the level of debt distress as moderate. Although all other debt indicators remain below their thresholds, they now have a more pronounced upward path. As in the previous DSA, historical scenarios, characterized by an external current account surplus which is unlikely to occur given our previously described macroeconomic assumptions, is therefore not shown in Figures 1 and 2.

9. As in the previous DSA, an export shock would remain a source of increased debt vulnerability. This shock has become more relevant, as the latest International Energy Agency (IEA) medium-term market report shows[41] the positive oil supply shock in the United States will likely have a lasting impact on the global oil market, especially affecting demand from African oil-exporting countries. The export stress test, defined as export growth in US dollar terms in 2014–2015 at one standard deviation below the ten-year historical average, assumes a drop of 5.7 percent in the value of exports in 2014–15, and a return to the growth rates assumed in the baseline scenario thereafter. Following this shock, the present value of debt to export increases significantly until 2028, and although remaining below its threshold, closely approaches it.

PUBLIC SECTOR DEBT SUSTAINABILITY ASSESSMENT

10. As in the previous DSA, the inclusion of domestic debt does not change the results, but shows a clear deterioration in the debt ratios. The PV of debt-to-GDP ratio is projected to reach even higher levels than in the last DSA, rising from 17 percent of GDP in 2013 to 54 percent of GDP in 2033. The PV of debt-to-revenue and the PV of debt service-to-revenue also follow an upward trajectory. The upward trend in the debt ratios reflects more issuance of government securities, more securitization of arrears to SONARA (concerning the latter, the authorities already announced during the 2013 Article IV consultation mission that CFAF 100 billion worth of arrears will be securitized in 2013), and the accumulation of further domestic debt related to projected fiscal financing gaps.

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[41] See http://iea.org/newsroomandevents/pressreleases/2013/may/name,38080,en.html.

Text Table 8. Cameroon: Baseline Debt Ratios, 2013–33
(Percent)

	Threshold	2013	Medium term 2014–18	Long term 2019–33
		Debt Sustainability Analysis, 2013		
External debt				
PV of debt-to-GDP	30	7.7	11.1	14.7
PV of debt-to-exports	100	27	41	64.9
PV of debt-to-revenue	200	39.4	58	80.8
Debt service-to-exports	15	1.6	2.2	4
Debt service-to-revenue	18	2.4	3.1	5
Public debt				
PV of debt-to-GDP		17.2	25.9	44.5
PV of debt-to-revenue		86.5	132.7	244.8
Debt service-to-revenue		7.7	10.5	14.1

		2013	2014–18	2019–32
		Debt Sustainability Analysis, 2012 [1]		
External debt				
PV of debt-to-GDP	30	7.9	10.3	12.8
PV of debt-to-exports	100	24.5	34.3	54.6
PV of debt-to-revenue	200	43.2	58.2	76.5
Debt service-to-exports	15	1.5	1.8	3.3
Debt service-to-revenue	18	2.6	3	4.6
Public debt				
PV of debt-to-GDP		18	26.1	40.8
PV of debt-to-revenue		96.8	145.3	244.3
Debt service-to-revenue		10.3	11.4	11.5

Sources: IMF and World Bank staff estimates.

[1] The 2012 DSA ended in 2032.

11. It is essential to monitor debt closely to preserve sustainability, especially in view of the large financing needs that result from the public investment program. As discussed in the previous DSA, the authorities have started implementing a new debt management strategy. This strategy provides an important role for the National Debt Committee (NDC), whose mission is to implement the country's debt strategy and oversee its good management. While the NDC made significant progress in becoming operational—through the adoption of its internal rules of procedure, clarification of the borrowing process, and identification of the Committee's intervention points—its ability to advise on potential loans should be reinforced.

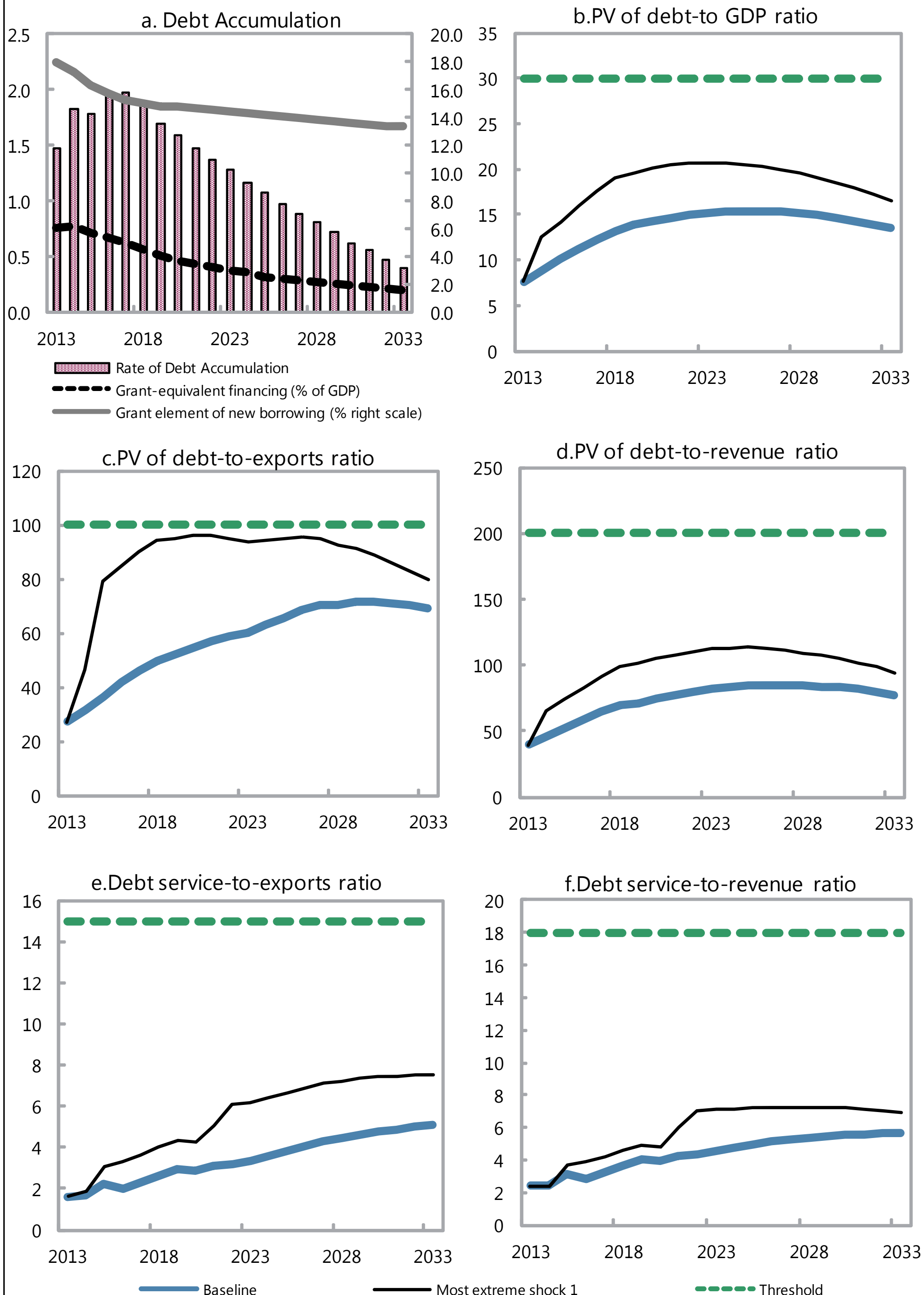
CONCLUSION

12. On the basis of this DSA, Cameroon remains at a low risk of debt distress, but vulnerabilities persist. All debt indicators are below their thresholds. However, contrary to the previous DSA, vulnerabilities not only come from domestic debt, but also from external debt, through the decreasing trend in the grant element of new borrowing. This result not only calls for the adoption of prudent fiscal policies, but also the close monitoring of potential loans from non-residents to assure the highest possible level of concessionality. Nonconcessional loans should only be considered in well-assessed, high-yield commercial and infrastructure projects that will generate sufficient government revenue to cover related debt service. In order to mitigate these risks, further structural reforms—and their timely implementation and enforcement—to improve non-oil revenue collection and promote a more diversified private sector, will be necessary.

13. The present DSA should be interpreted with caution because problems with insufficient data coverage and weak public financial management continue. Under these conditions, the existence of contingent liabilities and quasi-fiscal liabilities of state-owned enterprises and distressed banks, as well as the build-up of domestic arrears may inform the analysis and highlight the existing underlying risks. It may be prudent to limit the participation of the state to the financing of projects linked to the natural resources sector, to lessen the potential burden of contingent liabilities.

14. The Cameroonian authorities have indicated their agreement with the analysis and conclusion reached in this DSA. They agreed that it is essential to maintain debt sustainability, especially in the broader context of achieving the country's long-term growth through an ambitious public investments program. They indicated, however, that given Cameroon's large financing needs, finding loans with favorable conditions may not be always possible. The authorities will endeavor to secure concessional loans whenever possible, and by default, contract nonconcessional loans only for projects that have sufficiently high returns to cover debt service. In addition, the authorities are working closely with the World Bank regarding the ceiling of contracted nonconcessional loans.

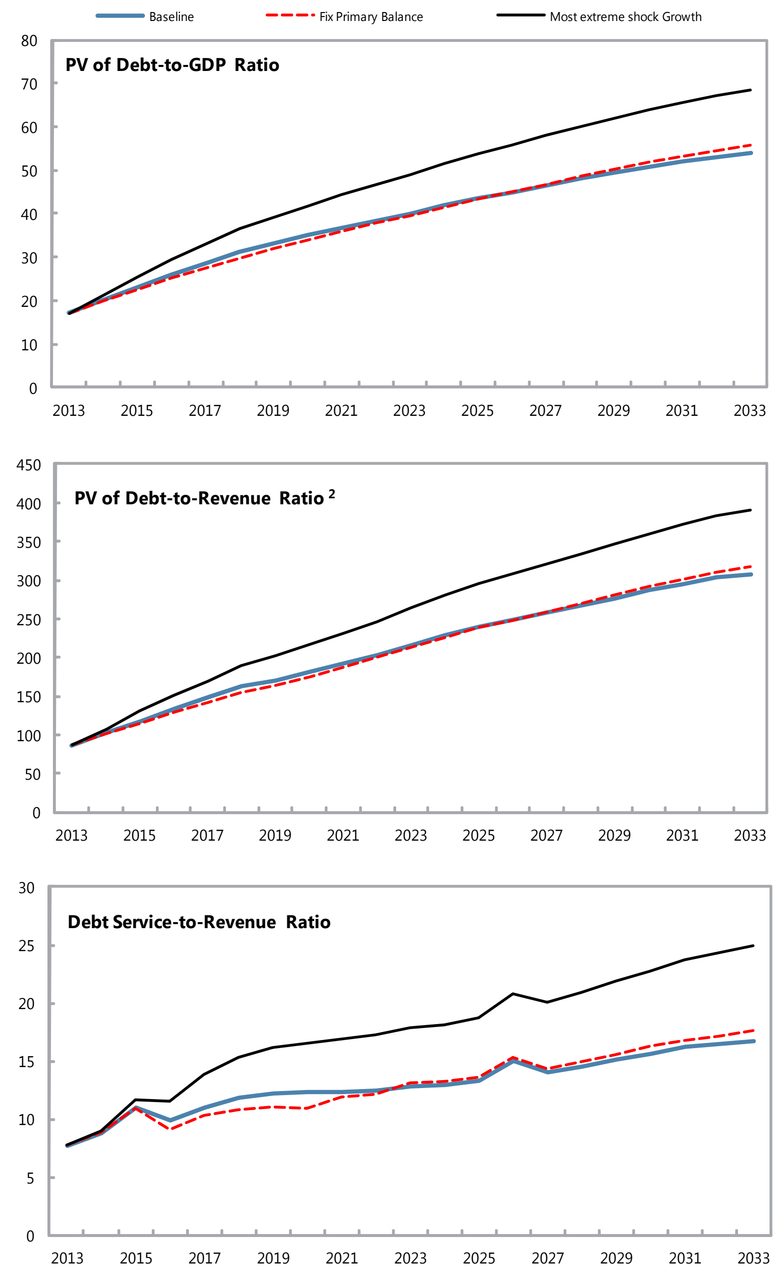
Figure 1. Cameroon: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013–2033[1]



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

[1] The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to an Exports shock; and in figure f. to a Non-debt flows shock

Figure 2. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2013–2033[1]



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

[1] The most extreme stress test is the test that yields the highest ratio in 2023.

[2] Revenues are defined inclusive of grants.

Table 1. Cameroon: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average [5]	Standard Deviation [5]	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt [1]	12.1	13.8	15.7			19.3	22.5	25.6	28.5	31.3	34.0		42.8	56.4	
of which: foreign-currency denominated	6.5	7.7	8.8			9.8	11.2	12.5	13.8	15.0	15.9		17.9	15.8	
Change in public sector debt	1.5	1.7	1.9			3.6	3.3	3.1	2.9	2.8	2.7		1.7	0.9	
Identified debt-creating flows	0.8	2.1	0.7			2.8	2.9	2.7	2.5	2.4	2.3		1.3	0.8	
Primary deficit	1.0	2.7	0.8	-4.3	10.5	3.4	3.8	3.7	3.7	3.8	3.8	3.7	3.3	3.0	3.2
Revenue and grants	17.4	18.7	18.9			19.9	19.8	19.6	19.5	19.4	19.3		18.6	17.6	
of which: grants	0.6	0.5	0.4			0.4	0.4	0.3	0.3	0.2	0.2		0.1	0.0	
Primary (noninterest) expenditure	18.4	21.4	19.7			23.3	23.5	23.3	23.2	23.2	23.1		21.8	20.6	
Automatic debt dynamics	-0.2	-0.6	-0.6			-0.8	-0.9	-1.0	-1.2	-1.4	-1.5		-2.0	-2.2	
Contribution from interest rate/growth differential	-0.4	-0.5	-0.5			-0.8	-0.9	-1.0	-1.2	-1.4	-1.6		-1.9	-2.2	
of which: contribution from average real interest rate	-0.1	0.0	0.1			-0.1	0.0	0.1	0.0	0.1	0.1		0.0	0.1	
of which: contribution from real GDP growth	-0.3	-0.5	-0.6			-0.7	-0.9	-1.1	-1.3	-1.4	-1.6		-2.0	-2.3	
Contribution from real exchange rate depreciation	0.2	-0.1	0.0			-0.1	0.0	0.0	0.1	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.5			0.2	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	0.5			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.6	-0.4	1.2			0.8	0.4	0.4	0.4	0.4	0.4		0.4	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	13.7			17.2	20.3	23.2	26.0	28.7	31.3		40.1	54.1	
of which: foreign-currency denominated	...	...	6.8			7.7	8.9	10.0	11.3	12.3	13.2		15.1	13.5	
of which: external	...	...	6.8			7.7	8.9	10.0	11.3	12.3	13.2		15.1	13.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need [2]	1.7	4.0	2.5			5.0	5.5	5.8	5.6	5.9	6.1		5.7	5.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	72.5			86.5	102.5	118.0	132.9	147.8	162.3		216.0	307.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	74.2			88.3	104.4	119.9	134.9	149.7	164.0		217.2	308.6	
of which: external [3]	...	...	36.7			39.4	45.9	52.0	58.5	64.3	69.2		82.1	77.3	
Debt service-to-revenue and grants ratio (in percent) [4]	3.7	7.0	8.9			7.7	8.8	11.0	9.9	11.0	11.9		12.8	16.7	
Debt service-to-revenue ratio (in percent) [4]	3.8	7.2	9.1			7.8	9.0	11.2	10.0	11.1	12.0		12.9	16.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.4	1.0	-1.1			-0.2	0.5	0.6	0.8	1.0	1.2		1.6	2.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.3	4.1	4.4	3.3	0.8	4.8	5.0	5.1	5.2	5.3	5.5	5.1	5.0	4.2	4.7
Average nominal interest rate on forex debt (in percent)	1.2	2.8	2.4	2.0	1.1	1.1	1.2	1.3	1.5	1.7	1.7	1.4	1.9	1.9	1.9
Average real interest rate on domestic debt (in percent)	-1.8	-1.6	0.2	-0.4	2.4	-0.4	0.6	0.9	0.6	0.8	0.8	0.6	0.3	0.3	0.4
Real exchange rate depreciation (in percent, + indicates depreciation	4.6	-1.2	-0.6	-2.3	4.7	-1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.0	3.7	2.3	2.0	2.3	2.0	2.2	2.1	2.1	2.0	1.9	2.1	2.4	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percer	0.0	0.2	0.0	0.1	0.1	0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	18.0	17.3	16.3	15.8	15.3	15.1	16.3	14.5	13.3	...

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

1 Indicates coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

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.

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

CAMEROON

Table 2. Cameroon: Sensitivity Analysis for Key Indicators of Public Debt 2013–2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	17	20	23	26	29	31	40	54
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	17	13	9	5	1	-3	-20	-50
A2. Primary balance is unchanged from 2013	17	20	23	25	28	30	40	56
A3. Permanently lower GDP growth[1]	17	20	23	26	29	32	42	61
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	17	21	26	29	33	36	49	68
B2. Primary balance is at historical average minus one standard deviations in 2014-201	17	22	28	30	33	35	43	56
B3. Combination of B1-B2 using one half standard deviation shocks	17	18	19	23	26	30	43	63
B4. One-time 30 percent real depreciation in 2014	17	23	26	29	31	33	42	57
B5. 10 percent of GDP increase in other debt-creating flows in 2014	17	30	32	35	37	39	46	58
PV of Debt-to-Revenue Ratio[2]								
Baseline	86	102	118	133	148	162	216	308
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	86	66	45	25	5	-15	-110	-284
A2. Primary balance is unchanged from 2013	86	101	115	129	142	155	214	318
A3. Permanently lower GDP growth1	86	103	119	135	150	166	228	347
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	86	107	130	150	170	189	264	390
B2. Primary balance is at historical average minus one standard deviations in 2014-201	86	114	141	155	169	183	233	320
B3. Combination of B1-B2 using one half standard deviation shocks	86	91	95	115	136	155	231	359
B4. One-time 30 percent real depreciation in 2014	86	118	132	146	160	174	226	323
B5. 10 percent of GDP increase in other debt-creating flows in 2014	86	150	164	177	191	203	250	332
Debt Service-to-Revenue Ratio[2]								
Baseline	8	9	11	10	11	12	13	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	9	10	-9	-10	-17	-26	-55
A2. Primary balance is unchanged from 2013	8	9	11	9	10	11	13	18
A3. Permanently lower GDP growth[1]	8	9	11	10	11	12	14	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	8	9	12	12	14	15	18	25
B2. Primary balance is at historical average minus one standard deviations in 2014-201	8	9	11	15	17	15	14	19
B3. Combination of B1-B2 using one half standard deviation shocks	8	9	11	3	5	11	16	21
B4. One-time 30 percent real depreciation in 2014	8	9	12	11	13	14	17	24
B5. 10 percent of GDP increase in other debt-creating flows in 2014	8	9	13	31	13	21	14	20

Sources: Cameroonian authorities; and IMF and World Bank 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, 2010–2033[1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6]	Standard [6]	Projections									
				Average	Deviation							2013-2018			2019-2033
	2010	2011	2012			2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
External debt (nominal)[1]	**6.5**	**7.7**	**8.8**			**9.8**	**11.2**	**12.5**	**13.8**	**15.0**	**15.9**		**17.9**	**15.8**	
of which: public and publicly guaranteed (PPG)	6.5	7.7	8.8			9.8	11.2	12.5	13.8	15.0	15.9		17.9	15.8	
Change in external debt	1.0	1.2	1.1			1.0	1.4	1.3	1.4	1.2	1.0		0.2	-0.5	
Identified net debt-creating flows	1.5	0.1	1.5			1.2	1.6	1.4	1.4	1.4	1.1		0.3	-0.6	
Non-interest current account deficit	**2.9**	**2.8**	**3.6**	**1.1**	**1.4**	**3.6**	**3.6**	**3.7**	**3.9**	**4.1**	**4.0**		**3.7**	**5.4**	4.8
Deficit in balance of goods and services	3.4	2.8	2.9			3.0	2.9	3.2	3.7	3.9	4.0		3.8	5.7	
Exports	25.5	29.5	29.0			28.4	28.2	27.6	27.1	26.8	26.5		25.1	19.5	
Imports	28.9	32.2	31.9			31.4	31.1	30.8	30.8	30.7	30.5		28.9	25.2	
Net current transfers (negative = inflow)	-1.5	-1.0	-0.8	-1.6	0.6	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7		-0.4	-0.2	-0.3
of which: official	-1.0	-1.0	-0.9			-1.0	-1.0	-0.9	-0.9	-0.8	-0.7		-0.6	-0.4	
Other current account flows (negative = net inflow)	1.1	1.0	1.5			1.5	1.6	1.3	1.0	0.9	0.7		0.3	-0.1	
Net FDI (negative = inflow)	**-1.4**	**-2.1**	**-2.4**	**-4.7**	**7.8**	**-2.1**	**-1.7**	**-1.9**	**-2.0**	**-2.3**	**-2.4**		**-3.0**	**-5.7**	-4.4
Endogenous debt dynamics[2]	**0.0**	**-0.6**	**0.3**			**-0.3**	**-0.3**	**-0.4**	**-0.4**	**-0.5**	**-0.5**		**-0.5**	**-0.4**	
Contribution from nominal interest rate	0.1	0.2	0.2			0.1	0.1	0.1	0.2	0.2	0.2		0.3	0.3	
Contribution from real GDP growth	-0.2	-0.2	-0.3			-0.4	-0.5	-0.5	-0.6	-0.7	-0.8		-0.8	-0.6	
Contribution from price and exchange rate changes	0.1	-0.5	0.4			...	...	...	...	...	...		...	...	
Residual (3-4)[3]	**-0.5**	**1.1**	**-0.4**			**-0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.2**	**-0.2**		**-0.1**	**0.2**	
of which: exceptional financing	1.0	-1.3	0.3			-0.2	-0.1	0.2	0.4	0.3	0.3		0.2	0.1	
PV of external debt[4]	...	...	6.8			7.7	8.9	10.0	11.3	12.3	13.2		15.1	13.5	
In percent of exports	...	...	23.4			27.0	31.5	36.4	41.5	46.0	49.7		60.2	69.4	
PV of PPG external debt	**...**	**...**	**6.8**			**7.7**	**8.9**	**10.0**	**11.3**	**12.3**	**13.2**		**15.1**	**13.5**	
In percent of exports	**...**	**...**	**23.4**			**27.0**	**31.5**	**36.4**	**41.5**	**46.0**	**49.7**		**60.2**	**69.4**	
In percent of government revenues	**...**	**...**	**36.7**			**39.4**	**45.9**	**52.0**	**58.5**	**64.3**	**69.2**		**82.1**	**77.3**	
Debt service-to-exports ratio (in percent)	**0.9**	**1.1**	**1.7**			**1.6**	**1.6**	**2.2**	**2.0**	**2.3**	**2.6**		**3.3**	**5.1**	
PPG debt service-to-exports ratio (in percent)	**0.9**	**1.1**	**1.7**			**1.6**	**1.6**	**2.2**	**2.0**	**2.3**	**2.6**		**3.3**	**5.1**	
PPG debt service-to-revenue ratio (in percent)	**1.4**	**1.7**	**2.6**			**2.4**	**2.4**	**3.2**	**2.9**	**3.2**	**3.7**		**4.5**	**5.7**	
Total gross financing need (Billions of U.S. dollars)	0.4	0.3	0.4			0.6	0.7	0.8	0.8	0.9	0.9		0.9	0.9	
Non-interest current account deficit that stabilizes debt ratio	1.9	1.6	2.5			2.6	2.2	2.4	2.5	2.9	3.1		3.6	5.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.3	4.1	4.4	3.3	0.8	4.8	5.0	5.1	5.2	5.3	5.5	5.1	5.0	4.2	4.7
GDP deflator in US dollar terms (change in percent)	-1.6	8.8	-5.4	5.6	8.9	5.4	1.4	1.4	1.3	1.2	1.2	2.0	3.4	3.2	3.2
Effective interest rate (percent)[5]	1.2	2.8	2.4	1.9	1.1	1.1	1.2	1.3	1.5	1.7	1.7	1.4	1.9	1.9	1.9
Growth of exports of G&S (US dollar terms, in percent)	10.1	30.9	-3.0	11.8	17.5	8.3	5.9	4.1	4.6	5.4	5.7	5.7	6.7	6.0	5.9
Growth of imports of G&S (US dollar terms, in percent)	3.5	26.5	-2.4	11.9	15.0	8.9	5.6	5.5	6.3	6.5	6.1	6.5	6.9	5.8	6.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	18.0	17.3	16.3	15.8	15.3	15.1	16.3	14.5	13.3	14.1
Government revenues (excluding grants, in percent of GDP)	16.8	18.2	18.4			19.4	19.4	19.3	19.3	19.2	19.1		18.4	17.5	18.2
Aid flows (in Billions of US dollars) [7]	0.3	0.4	0.5			0.2	0.3	0.3	0.2	0.2	0.2		0.2	0.2	
of which: Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.2	0.2	0.4			0.1	0.1	0.1	0.2	0.2	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP)[8]	...	...	...			0.8	0.8	0.7	0.7	0.6	0.6		0.4	0.2	0.3
Grant-equivalent financing (in percent of external financing)[8]	...	...	...			15.0	15.1	14.5	14.3	14.0	14.0		13.7	12.9	13.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	22.5	25.5	25.2			27.8	29.6	31.5	33.6	35.8	38.3		58.0	122.5	
Nominal dollar GDP growth	1.6	13.2	-1.2			10.5	6.4	6.5	6.5	6.6	6.8	7.2	8.6	7.6	8.1
PV of PPG external debt (in Billions of US dollars)			1.8			2.1	2.6	3.2	3.8	4.4	5.1		8.4	14.4	
(PVt-PVt-1)/GDPt-1 (in percent)						1.5	1.8	1.8	1.9	2.0	1.9	1.8	1.3	0.4	1.0
Gross workers' remittances (Billions of US dollars)	0.3	0.4	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.4	0.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	6.7			7.6	8.8	9.9	11.2	12.2	13.1		15.0	13.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	22.5			26.0	30.4	35.1	40.1	44.5	48.2		58.7	67.9	
Debt service of PPG external debt (in percent of exports + remittance	...	...	1.6			1.6	1.6	2.1	2.0	2.2	2.6		3.2	5.0	

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

[1] Includes both public and private sector external debt.

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

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

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

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

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

[7] Defined as grants, concessional loans, and debt relief.

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

Table 3b. Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	8	9	10	11	12	13	**15**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033[1]	8	4	0	-3	-7	-9	**-20**	-25
A2. New public sector loans on less favorable terms in 2013-2033[2]	8	10	11	13	15	17	**20**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	8	9	11	12	13	14	**15**	12
B2. Export value growth at historical average minus one standard deviation in 2014-2015[3]	8	12	18	19	19	20	**19**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	8	9	11	12	14	15	**16**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015[4]	8	13	19	20	20	21	**20**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	8	10	13	15	16	17	**17**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	8	13	14	16	18	19	**21**	16
PV of debt-to-exports ratio								
Baseline	27	32	36	42	46	50	**60**	69
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033[1]	27	13	0	-12	-24	-36	**-80**	-127
A2. New public sector loans on less favorable terms in 2013-2033[2]	27	34	41	49	56	62	**78**	96
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	27	31	36	41	46	50	**58**	59
B2. Export value growth at historical average minus one standard deviation in 2014-2015[3]	27	46	79	85	90	94	**93**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	27	31	36	41	46	50	**58**	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015[4]	27	47	68	72	76	80	**78**	65
B5. Combination of B1-B4 using one-half standard deviation shocks	27	37	48	53	58	62	**67**	63
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	27	31	36	41	46	50	**58**	59
PV of debt-to-revenue ratio								
Baseline	39	46	52	58	64	69	**82**	77
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033[1]	39	19	0	-17	-34	-50	**-109**	-142
A2. New public sector loans on less favorable terms in 2013-2033[2]	39	49	59	68	78	87	**106**	107
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	39	47	54	61	68	73	**83**	69
B2. Export value growth at historical average minus one standard deviation in 2014-2015[3]	39	60	91	96	101	106	**103**	71
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	39	48	57	64	71	77	**87**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015[4]	39	68	97	102	107	111	**106**	72
B5. Combination of B1-B4 using one-half standard deviation shocks	39	53	69	76	82	87	**92**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	39	65	74	83	92	99	**112**	94

Table 3b.Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033 (continued)
(In percent)

Debt service-to-exports ratio								
Baseline	2	2	2	2	2	3	**3**	5
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2013-2033[2]	2	2	2	2	2	3	**4**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	3	**3**	5
B2. Export value growth at historical average minus one standard deviation in 2014-2015[3]	2	2	3	3	4	4	**6**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	3	**3**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015[4]	2	2	3	3	3	3	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	3	3	**4**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	2	2	2	2	2	3	**3**	5
Debt service-to-revenue ratio								
Baseline	2	2	3	3	3	4	**5**	6
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2013-2033[2]	2	2	3	3	3	4	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	3	3	3	4	**5**	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015[3]	2	2	3	4	4	5	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	3	3	4	4	**5**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015[4]	2	2	4	4	4	5	**7**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	3	4	4	**6**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	2	3	4	4	5	5	**6**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline)[6]	8	8	8	8	8	8	**8**	8

Sources: Cameroonian authorities; and IMF and World Bank 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.

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IMF Executive Board Concludes 2013 Article IV Consultation with Cameroon

On June 26, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cameroon.[1]

Background

The economic recovery strengthened in 2012, with growth reaching 4.4 percent (compared to 4.2 percent in 2011), reflecting an increase in the value of oil exports. Average inflation moderated to 2.4 percent (from 2.9 percent in 2011), helped by stable food prices. The current account deficit (including grants) widened from 2.9 percent of gross domestic product (GDP) in 2011 to 3.7 percent of GDP in 2012 following a decrease in net income owing to higher profit repatriation by local subsidiaries of international companies. Although Cameroon has had robust growth in the past few years, there has been little growth in per capita income, despite a relatively diversified and well-endowed economy.

The fiscal situation eased in 2012. Non-oil revenue was higher than expected, mostly because of a stronger yield of the corporate income tax. Oil revenue increased slightly, as the dip in international oil prices was compensated by higher production. On the expenditure side, budget execution was close in nominal terms to that of the year before, and thus represented a contraction of expenditure in terms of GDP. As a result, the overall deficit (including grants) on a cash basis narrowed from 3.6 percent of GDP in 2011 to 2.0 percent of GDP in 2012.

[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 banking system has stabilized, but remains a cause for concern. Two of the five commercial banks in financial distress appear to be in the process of re-establishing their financial soundness; but the other three show few signs of progress. Moreover, commercial banks remain exposed to excessive concentration in bank credit, payment difficulties of the national oil refinery, and weaknesses in the framework for dealing with troubled banks.

Cameroon's debt burden remains low, thanks in part to debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) Initiatives. However, external financing in 2012 increasingly relied on nonconcessional borrowing. On current trends, the updated debt analysis points to a deterioration of debt sustainability indicators by 2018. The stock of debt would rise from 16 percent of GDP in 2012 to 34 percent of GDP in 2018.

Economic growth is expected to increase moderately under current policies, which would imply a modest per capita growth in 2013. Staff projects real GDP to increase gradually to 5½ percent by 2018. Non-oil growth is projected to be supported by major public investment projects; ongoing efforts to boost agricultural productivity and competitiveness; and measures to improve the business environment. The oil sector is also expected to contribute to growth, following successful exploration efforts and new extraction techniques. Meanwhile, inflation is expected to remain below the regional convergence criterion of 3 percent.

However, fuel subsidies are slated to increase in 2013 and crowd out more productive expenditure. Their level is expected to reach 3.2 percent of GDP in the absence of efficiency gains or retail price adjustments. High subsidies, increasingly nonconcessional external financing, and an unpropitious business environment fuel macroeconomic vulnerabilities.

Executive Board Assessment

Executive Directors welcomed the recovery of economic activity in a low inflation environment, but noted that the economy still faces vulnerabilities and impediments to private-sector-led growth. They encouraged the authorities to renew efforts on fiscal, financial, and structural reforms needed to meet Cameroon's growth potential.

Directors emphasized the need to address the significant fiscal challenges. They noted that the fiscal deficit in 2012 was contained mainly by higher oil revenue and under-execution of the investment budget. Going forward, risks to fiscal sustainability arise from fuel subsidies, which are crowding out developmental expenditure and contributing to outstanding payment obligations. Directors urged the authorities to contain the 2013 budget deficit and to rebuild fiscal space over time. They called on the authorities to wind down fuel subsidies gradually, clear outstanding payment obligations, and develop mitigating programs for the neediest segments of the population. They also saw a need to reduce tax exemptions and strengthen revenue mobilization.

Directors welcomed efforts to implement program-based budgeting. They encouraged the authorities to consolidate reforms in public financial management, including public procurement, and strengthen expenditure execution and control. Directors noted Cameroon's low risk of debt distress. Nevertheless, they urged caution in tapping nonconcessional financing and advised the authorities to be prudent in their selection of externally financed projects, focusing on investments with a high return.

Directors noted that risks to financial sector stability have abated. They emphasized that decisive action is needed to put financial intermediation back on a sound footing, and called for swift action to restructure distressed banks. They also recommended close supervision of the important microfinance sector.

Directors stressed that achieving higher, private-sector-led growth will require stronger efforts to improve the business environment and address infrastructure and energy bottlenecks. They encouraged the authorities to work with Central African Economic and Monetary Community (CEMAC) member countries to ensure adequate external buffers and foster regional integration in order to support trade and diversification of the economy.

Directors also encouraged the authorities to strengthen economic and financial statistics.

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, 2011–14

	2011	2012	2013	2014
	Act.	Est.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)			
National income and prices				
GDP at constant prices	4.1	4.4	4.8	5.0
Oil GDP at constant prices	-7.3	3.5	15.2	7.4
Non-oil GDP at constant prices	4.6	4.5	4.4	4.9
GDP deflator	3.7	2.3	2.0	2.2
Consumer prices (average)	2.9	2.4	2.5	2.5
External trade				
Export volume	-4.4	0.1	8.9	7.7
Of which: non-oil sector	-3.5	-1.5	7.4	6.6
Import volume	15.6	1.0	7.8	9.0
Terms of trade ("-" is a deterioration)	10.8	1.4	-2.0	-0.4
Money and credit				
Net domestic assets[1]	18.0	4.6	6.2	7.8
Net credit to the public sector[1]	6.0	4.3	1.5	1.4
Credit to the private sector	28.3	2.6	8.5	10.9
Broad money (M2)	10.6	1.4	5.3	7.3
	(Percent of GDP, unless otherwise indicated)			
Central government operations				
Total revenue (excluding grants)	18.2	18.4	19.4	19.4
Non-oil revenue (percent of non-oil GDP)	14.1	14.3	15.5	15.5
Total expenditure	21.6	20	23.5	23.9
Overall fiscal balance (cash basis)				
Excluding grants	-4.1	-2.5	-6.2	-4.6
Including grants	-3.6	-2	-5.8	-4.3
Non-oil primary balance (percent of non-oil GDP)	-8.6	-6.7	-9.2	-9.5
External sector				
Current account balance (including grants)	-2.9	-3.7	-3.7	-3.7
Imputed reserves (percent of broad money)	52.9	53.7	50.0	46.2
Public debt				
Total	13.4	15.9	19.2	22.5
External	7.3	9.0	9.7	11.1

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

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

Statement by Mr. Assimaidou on Cameroon
June 26, 2013

Introduction

My Cameroonian authorities would like to thank the IMF team for the open and constructive discussions during the mission and the useful analysis and recommendations included in the staff report. The report presents a balanced assessment of the strengths and risks faced by the Cameroonian economy. My authorities value the advice of the staff on the different sectors of the economy. This advice is an important input in the design of their policies. My Cameroonian authorities broadly concur with staff's assessment and welcome the recognition that the authorities are making progress, but still face low but rising macroeconomic risks to achieve their ambitious goal of becoming an emerging market by 2035.

Recent Economic Developments

Cameroon's macroeconomic performance improved further in 2012, with real GDP growth reaching 4.4 percent, and projected to reach 4.8 percent in 2013. The increase is due mainly to a turnaround in oil production, strong growth of the non-oil sector (agriculture and forestry), and a robust domestic demand. Inflation continues to be moderate at 2.4 percent, and the fiscal deficit was reduced. The external debt remains low and sustainable with all external debt ratios staying below their respective thresholds.

On the fiscal side, the overall fiscal deficit was reduced to 2 percent of GDP in 2012 (from 3.6 percent in 2011) as revenue exceeded budget projections. This deficit reduction was driven by higher-than-expected non-oil revenue, mostly because of a stronger yield of the corporate income tax, while expenditure was in line with budget appropriations. However, the stock of government arrears increased on account of rising fuel subsidies, although the government did settle all outstanding arrears at end-2011 toward the national refinery (SONARA). Delayed payments of taxes by corporations are an important factor in the accumulation of arrears, and my authorities will continue to take steps to improve their treasury management to limit further arrears.

Developments and Policies in 2013 and over the Medium Term

Based on their policies and continued reforms as well as the implementation of a number of important public projects, my authorities expect annual average real growth to be about 6 percent over the medium term. This reflects conservative assumptions regarding the pace of execution of large infrastructure and power supply projects, as well as ongoing investment in the hydrocarbon sector and efforts to raise agricultural production. However, following legislative and municipal elections, the political uncertainty is expected to be removed which should enable a strengthening of policies and an improvement in the business environment thus leading to stronger growth. Inflation is expected to be kept under control below 3 percent, although it could be affected by volatile food prices which are an important component of the inflation basket.

The fiscal deficit is likely to show an increase over the medium term, reflecting higher capital expenditure linked to the large infrastructure projects and a projected decline in revenue from oil. However, non-oil revenue is expected to increase on account of tax and customs administrations reforms. On the issue of fuel subsidies, my authorities agree with staff that they should be reined in through a number of measures, including a gradual adjustment in pump prices. However, the authorities would like to point out that it is a very sensitive issue with direct social impact and needs to be implemented cautiously. Reforms will have to be carefully prepared with extensive consultation and accompanied by mitigating measures so as to build a consensus and preserve social peace.

Nevertheless, my Cameroonian authorities agree with staff that they should take steps to rebuild fiscal buffers and ensure fiscal sustainability over the medium term. In this regard, they will continue to take measures to raise non-oil revenue. They are also thankful to staff for the detailed recommendations of structural measures aimed at strengthening medium term fiscal sustainability. This will be helpful in the formulation of their fiscal policies. In the same spirit of strengthening fiscal control, my Cameroonian authorities have also embarked upon an ambitious plan to strengthen and modernize Public Financial Management. In this regard, they welcome staff's recommendations. Although the introduction of the reforms are challenging, as they require a fundamental change in administrative culture, the authorities intend to implement them, albeit gradually.

The financial system is broadly sound. My Cameroonian authorities will continue to take steps to address the weaknesses in the system and are working with the regional bank regulator (COBAC) to strengthen supervision.

My authorities agree with staff that the overarching policy issue is how to spur reform momentum to set Cameroon on a higher growth path, while mitigating low but growing risks to macroeconomic stability. Developing Cameroon's growth potential requires continuous reforms in fiscal policy, public finance management, and the business climate and tackling barriers to greater competitiveness and sustainable growth. My authorities believe that the acceleration of the pace of the large infrastructure development on the way, and the continuous improvement of the business environment will remove these impediments and place the country on a higher GDP growth path that is inclusive and sustainable. These reforms will also help in the efforts to reduce poverty.

Debt and Development

As the DSA shows, the level of debt distress remains low. The authorities are mindful of the need to maintain debt sustainability. They take this into full consideration in the broader context of achieving the country's long-term growth through their ambitious public investment program.

That said, given the needs of the country, and the global financial conditions, it has become very difficult to obtain financial grants or concessional loans to finance these vital projects. The authorities will, nevertheless, always endeavor to secure concessional financing as much as possible, and will contract non concessional loans only in the absence of such concessional resources and for projects that are of critical importance to the development of the country. They will also take into consideration the returns on the projects. As hinted above, the authorities are also of the view that the country's competitiveness will greatly benefit from the completion of the large public investment projects, and would like to stress that financing of most of the projects have already been mobilized or under negotiations. They are also working closely with the World Bank regarding the ceiling on contracted nonconcessional loans.

Conclusion

Cameroon is at a cross roads, and the authorities understand the need to maintain prudent policies to ensure macroeconomic stability while developing the growth potential of the country. In their efforts, they will be guided by the need to maintain debt sustainability and ensure external competitiveness. Domestic stability continues to be anchored by membership to the Zone franc, which has served the economy well. Already the country has been able to significantly raise its real rate of growth, the policies being followed by the authorities are intended to raise this growth further and make it inclusive. They are hopeful to benefit from Fund's continued assistance in this endeavor.