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CAMEROON

2012 ARTICLE IV CONSULTATION

August 2012

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 2012 Article IV consultation with Cameroon, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 16, 2012, 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 27, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Staff Appraisal contained in the Staff Report.

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INTERNATIONAL MONETARY FUND

CAMEROON

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

June 27, 2012

KEY ISSUES

Context. The economy continues to recover from the impact of the 2008–09 global crisis. Growth reached 4.2 percent in 2011, as a result of the rebound of the global economy, increased public investment, and measures to boost agricultural production. Inflation has been contained below 3 percent. Despite an oil-revenue windfall, the fiscal situation deteriorated in 2011, mostly owing to pressure from past payment obligations, overruns on current expenditure, and the rise in the cost of fuel subsidies. The President was re-elected for a seven-year term in October 2011. Legislative elections have been postponed to 2013.

Outlook and risks. Economic growth is expected to increase gradually to 5½ percent by 2016. This outlook is driven by the projected increase in oil production, the ongoing public investment program, and initiatives to improve the business climate. However, the increasing stock of domestic arrears, the depletion of fiscal buffers, contingent liabilities arising from distressed banks and public enterprises, and the slow progress in improving non-oil revenue mobilization and public expenditure management threaten medium-term fiscal sustainability. There are risks to growth if the external environment, particularly in the euro area, further weakens.

Safeguarding financial sector stability and fostering financial intermediation. Banking sector vulnerabilities generated by the delayed resolution of troubled banks, financial distress in an additional bank, the repercussions of mounting domestic government arrears on banks, and insufficient regional supervisory resources threaten financial sector stability. Financially weak banks need to be rapidly restructured, in cooperation with the regional supervisory body as appropriate, and access to credit should be improved through measures aimed at deepening of financial intermediation.

Promoting higher and inclusive growth. Relatively moderate economic growth has led to almost stagnant growth in per capita income over the last five years, despite a diversified productive base. To launch the economy on a path of higher and inclusive growth, it is imperative to address the severe infrastructure gaps, promote sectors with high employment potential, improve the business climate, promote access to financial services, and strengthen public institutions.

Approved By
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura

Discussions took place in Douala and Yaoundé during May 2-16, 2012. The staff team comprised Messrs. de Zamaróczy (head), Nsengiyumva, O'Sullivan (all AFR), Versailles (FAD), Kpodar (resident representative), and Tchakoté (resident economist). Mr. Alle (OED) and staffs of the World and the African Development Banks attended policy meetings. The team met with Prime Minister Yang, Minister Secretary General at the Presidency Ngoh Ngoh, Finance Minister Ousmane Mey, Economy and Planning Minister Nganou Djoumessi, BEAC National Director Mani, several other cabinet members, senior officials, representatives of the business community, labor unions, civil society organizations, and development partners. Cameroon accepted the IMF's quota and voice reforms.

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Selected Abbreviations

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
COBAC	Regional Supervisory Body (*Commission Bancaire de l'Afrique Centrale*)
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
FSAP	Financial Sector Assessment Program
GFSM 2001	Government Financial Statistics Manual of 2001
HIPC	Heavily Indebted Poor Countries
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

BACKGROUND

1. **In recent years, Cameroon has maintained macroeconomic stability but its growth performance has been insufficient to improve social indicators.** Macroeconomic stability has been preserved, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives considerably reduced the debt burden (Figure 1). However, there has been almost no growth in per capita income during the last five years, despite a relatively diversified productive base (Text Table 1 and Figure 2) Poverty rates have stagnated at close to 40 percent, with 87 percent of the poor living in rural areas (Figure 3).

2. **Recent and forthcoming elections have a bearing on the political economy.** The President was re-elected for another seven-year term in October 2011. Legislative elections have been postponed to 2013.

Text Table 1. Cameroon: Economic and Social Indicators

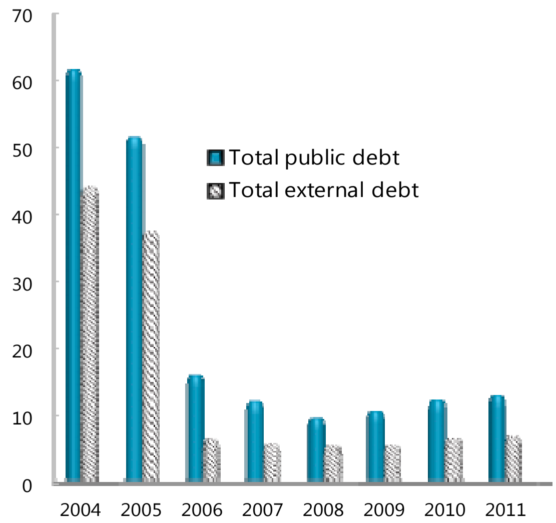
	Cameroon	SSA
Economic indicators, (average over 2007-11)		
Real per capita GDP (U.S. dollars, at 2000 prices)	680.8	680.1
Real GDP growth (percent)	3.0	5.2
Real non-oil GDP growth (percent)	3.7	6.0
Real per capita GDP growth	0.3	2.9
Total investment (percent of GDP)	16.7	22.3
Social indicators, 2010		
Employment to population ratio, ages 15+, total (percent)	62.0	65.0
Primary education completion rate, total (percent of relevant age group)	79.0	67.0
Ratio of female to male primary enrollment	86.0	92.0
Ratio of female to male secondary enrollment	83.0	79.0
Immunization, measles (percent of children ages 12-23 months)	79.0	75.0
Mortality rate, under–5 years of age (per 1,000)	136.0	121.0
Prevalence of HIV, total (percent of population ages 15-49)	5.3	5.5
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, 2011.

3. **Data provision is broadly adequate for surveillance, but important gaps exist.** Government financial operations on a commitment basis are not available. The quality and timeliness of balance of payments statistics need to be improved. Monetary data availability is subject to long delays. The authorities recognize the need to improve data collection and dissemination and are implementing, with outside technical assistance, a strategy for improving national accounts statistics.

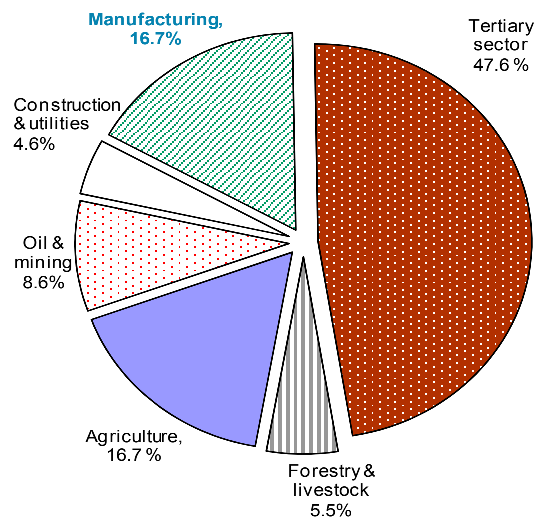
4. **The response to past IMF advice has been mixed** (Box 1). Fiscal policy has been saddled with the problems of domestic arrears and the high cost of fuel subsidies. Efforts were made, however, to improve the business climate and develop a government securities market.

Figure 1. Cameroon: Public Debt, 2004-11
(Percent of GDP)



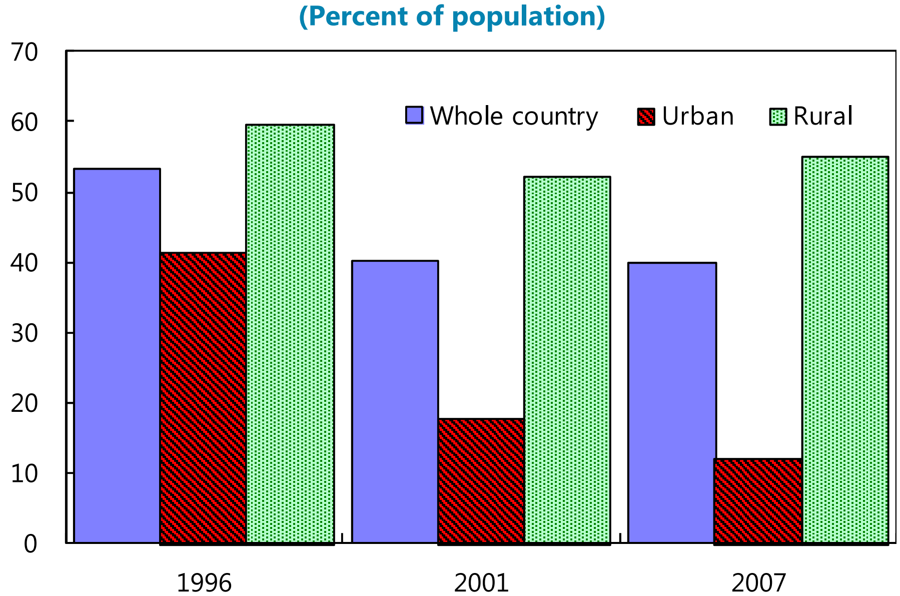
Source: Cameroonian authorities.

Figure 2. Cameroon: Nominal Gross Domestic Product, 2011
(Percent of total)



Source: IMF African Department Database.

Figure 3. Cameroon: Evolution of Poverty, 1996-2007
(Percent of population)



Source: Cameroonian, National Institute of Statistics, National Poverty Survey, December 2008.

Box 1. Cameroon: Response to Past Fund Advice

Policy Area	Fund Advice	Response
Fiscal policy and public financial management	Address the risks to the 2011 budget through tight treasury management, reduction of fuel subsidies, and spending reprioritization.	Treasury management was constrained by past payment obligations, overruns on current expenditure, and the delay of a planned bond issuance. Fuel subsidies were not reduced; and no significant spending reprioritization was undertaken.
	Improve non-oil revenue by broadening the tax base, streamlining exemptions, and increasing the efficiency of tax and customs administration.	Non-oil revenue was lower than expected, mostly because of lower-than-budgeted VAT collection. Measures to increase the efficiency of tax and customs administration are being implemented.
	Implement the planned measures to prevent new arrears.	Domestic arrears problems continued with the accumulation of unsettled payment obligations and arrears to the national oil refinery.
	Rebuild fiscal buffers, strengthen the budget execution process, and accelerate efforts to operationalize the medium-term expenditure framework.	Usable deposits were almost depleted; progress in strengthening budget execution was limited; and an operational medium-term expenditure framework is not yet in place.
Financial sector	Work closely with regional institutions in developing a government securities market.	Cameroon was the first issuer of treasury bills on the regional market.
	In collaboration with the regional bank supervisor, monitor vulnerabilities through regular analysis of banking sector soundness; press ahead with bank restructuring plans; and promote the reform of the bank resolution framework.	Little progress has been made in dealing with troubled banks, partly reflecting lack of cooperation between national and regional authorities. Regular analyses of banking sector soundness are conducted, but bank supervision continues to be hampered by inadequate resources at the regional level; a new crisis resolution framework is not yet in place.
Structural reforms	Address the severe infrastructure gap and improve the business climate and competitiveness by raising the execution rate of public investment projects, deepen the dialogue with the private sector, and improve public institutions and governance.	Public capital expenditure reached the budgeted level. Efforts to improve the business climate were pursued by intensifying the dialogue with the private sector and implementing an agreed on action plan. Progress in improving institutions and governance was moderate.

RECENT ECONOMIC DEVELOPMENTS: ECONOMIC RECOVERY BUT CONTINUED WEAKNESSES

A. Moderate Economic Recovery in 2011

5. The economy continues to recover from the global crisis, and inflation remains contained (Tables 1–6 and Figure 4). The economic rebound observed in 2010 strengthened in 2011, with growth reaching 4.2 percent (compared with 2.9 percent in 2010), despite a continuing decline in oil output (Text Table 2). This decline reflected shrinking reserves, aging equipment, and postponement of some investments following the 2008–09 global financial crisis. Average inflation edged up to 2.9 percent in 2011 (from 1.3 percent the year before) mostly reflecting a rise in food prices (Figure 5). However, the freezing of retail prices for petroleum products and subsidized imports of food contributed to containing measured inflation.[1]

Text Table 2. Cameroon: Sectoral Contribution to to Real GDP growth, 2007–11 (Percent)

	2007	2008	2009	2010	2011
Primary sector	1.2	1.1	0.6	1.2	0.9
Secondary sector, excl. oil	0.1	0.4	0.1	0.9	0.8
Oil sector	-0.3	-0.4	-0.8	-0.6	-0.3
Tertiary sector	2.4	1.4	2.0	1.4	2.8
Real GDP growth	**3.4**	**2.6**	**2.0**	**2.9**	**4.2**

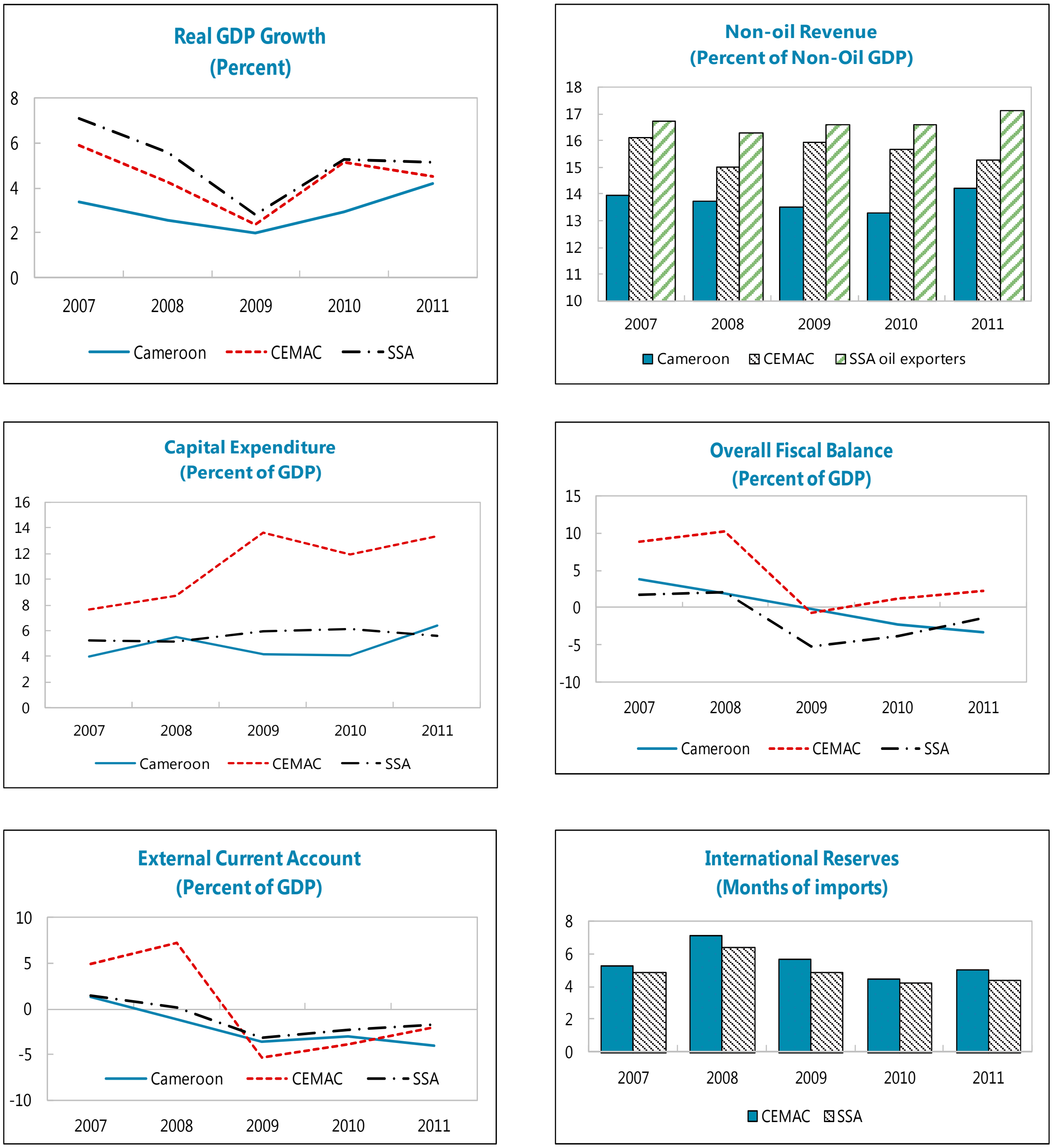
Source: Cameroonian authorities.

6. External balances in 2011 benefited from positive developments in commodity prices. The rebound in international oil prices more than compensated for the drop in the volume of oil exports, leading to an increase in the value of oil exports. Non-oil exports benefited from the rise in international commodity prices. The volume of imports grew by almost 16 percent as a result of greater domestic demand and imports of capital goods for large public infrastructure projects.

7. The moderate money supply growth in 2011 coincided with a strong expansion of bank credit to the private sector and a drop in net foreign assets. Broad money and credit to the private sector increased by 11 percent and 28 percent, respectively, while net foreign assets dropped by 12 percent, reflecting a surge in imports. Credit to the private sector expanded as a result of a surge in bank borrowing by companies involved in public investment projects and by the national oil refinery to compensate for delayed payments of fuel subsidies by the government. Despite the decline in net foreign assets imputed to Cameroon, the Central African Economic and Monetary Community's (CEMAC) official reserves, at about 5 months of total imports or nearly 100 percent of broad money, comfortably exceeded standard benchmarks.

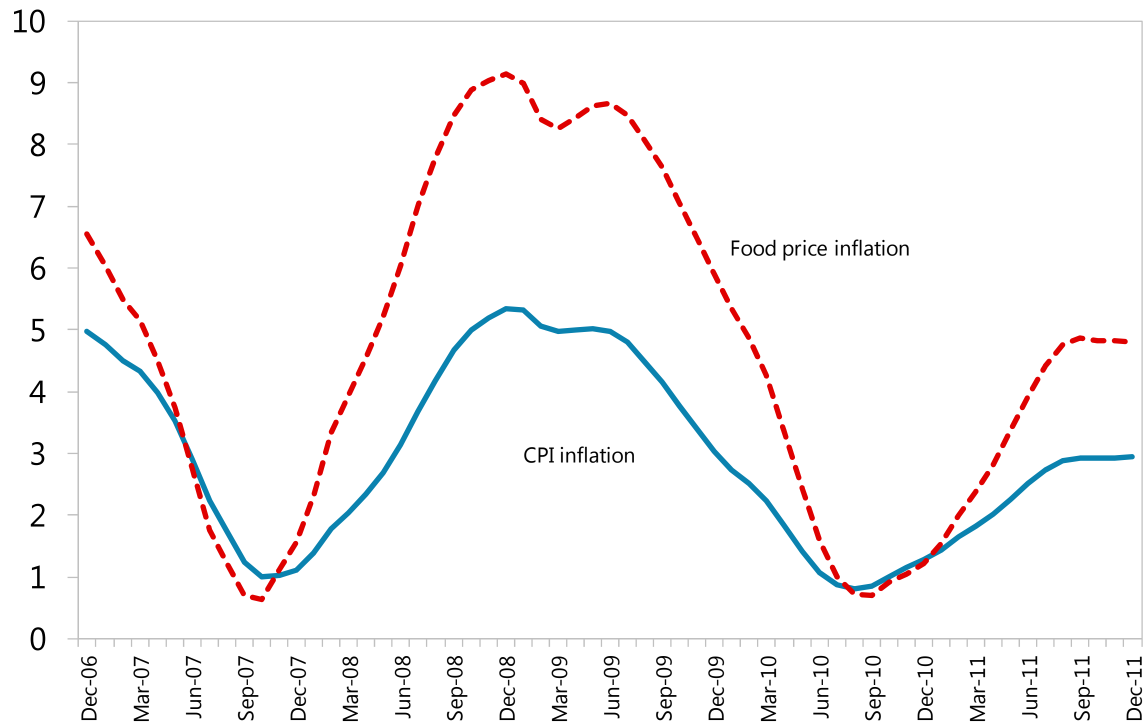
[1] Regulated electricity tariffs were raised in June 2012.

Figure 4. Cameroon: Selected Economic Indicators, 2007-11



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

Figure 5. Cameroon: Inflation Indicators, 2006–11
(Average annual percentage change)



Sources: Cameroonian authorities; and IMF staff estimates.

B. Continued Fiscal and Financial Sector Weaknesses

8. The government's fiscal situation remained difficult in 2011. Non-oil revenue performance was characterized by lower-than-budgeted value-added tax (VAT) receipts, mostly caused by parastatals not being able to meet their VAT obligations. The shortfall in non-oil revenue was offset by an oil revenue windfall generated by the surge in international oil prices (Text Table 3). On the expenditure side, budget execution was affected by the need to settle past unsettled payment orders (UPOs), pressure from fuel subsidies, and overruns on other current transfers. Consequently, the non-oil primary deficit (NOPD), on a cash basis, deteriorated from 5.7 percent to 8.5 percent of non-oil GDP, and the overall fiscal deficit was 0.8 percentage point of GDP higher than forecast in the budget. This additional deficit and the deferment of a planned bond issuance (CFAF 150 billion—1.3 percent of GDP) were compensated by a drawdown of government deposits at the regional central bank (BEAC), including those held by public institutions.

Text Table 3. Cameroon: Key Fiscal Indicators, 2008-11

	2008	2009	2010	2011	
				Budget	Est.
			(Percent of GDP)		
Total revenue, including grants	20.8	18.4	17.5	17.6	18.9
Of which:					
Oil revenue	7.6	4.8	4.5	3.5	5.4
Non-oil revenue	12.3	12.7	12.4	13.2	13.0
Total expenditure	18.6	18.4	18.6	18.9	21.7
Current	13.1	14.2	14.5	13.1	15.4
Capital	5.5	4.2	4.1	5.7	6.4
Payment of domestic arrears	0.4	0.2	1.1	1.3	0.5
Overall balance, including grants	2.0	-0.2	-2.3	-2.6	-3.4
Memorandum Items:			(Percent of non-oil GDP)		
Non-oil Revenue	13.7	13.5	13.3	14.4	14.2
Non-oil primary deficit	-5.5	-4.9	-5.7	-4.8	-8.5

Sources: Cameroonian authorites; and IMF staff estimates.

9. Budget execution was hampered by some of the same problems as in previous years. Despite efforts to settle past payment obligations to the National Oil Refinery (SONARA), new arrears were accumulated. The government settled some of its obligations to SONARA through a combination of cash payments, cancellation of taxes, and securitization, but it still owed SONARA CFAF 163 billion (1.4 percent of GDP) at end-2011, thus increasing the stock of government arrears. The government cleared a large amount of previous years' UPOs (CFAF 295 billion—2.5 percent of GDP), but also accumulated new ones (CFAF 110 billion). However, these regularization efforts resulted in eroded fiscal buffers and potential liquidity problems for public institutions, whose compulsory deposits were largely run down.

10. Conditions in the banking system remained worrisome (Appendix I). This reflects (i) financial distress of 4 (and possibly 5) banks out of the 13 commercial banks—the 5 banks account for 26 percent of total bank assets; (ii) excessive concentration in bank credit to SONARA; (iii) inadequate resources for the regional supervisory agency (COBAC); and (iv) weaknesses in the current framework for dealing with distressed banks. Financial sector soundness indicators deteriorated in 2011 and nonperforming loans (NPLs) increased by about 17 percent. At the same time, the number of banks in violation of the main prudential ratios continued to increase.

11. Cameroon complied with all four of the regional convergence criteria in 2011. These are a non-negative basic fiscal balance; consumer price inflation not higher than 3 percent; a level of public debt not higher than 70 percent of GDP; and nonaccumulation of government arrears. The fourth criterion is only related to audited arrears and does not encompass all government payment obligations.

MEDIUM-TERM ECONOMIC OUTLOOK AND RISKS

12. Economic growth is expected to increase moderately under current policies (Figure 6). Staff projects real GDP to increase gradually from 4.2 percent in 2011 to 5½ percent in 2016. The authorities are slightly more optimistic on growth prospects on hopes of faster execution of large infrastructure projects.

- Non-oil growth is to be supported by ongoing efforts to boost agricultural productivity and competitiveness; major public investment projects; and measures to improve the business environment.

- The oil sector is expected to boost real GDP growth in 2012–17, with projections of the National Oil Company (SNH) pointing to a sizeable increase in production. The increase reflects the coming on-stream of ongoing investments, following successful exploration efforts.

13. Inflation is expected to remain below the regional convergence criterion of 3 percent. Initiatives to boost agricultural production, subsidize food imports, build and maintain stocks, and improve the provision of information on food market conditions are likely to moderate the impact of a possible increase in world food prices.

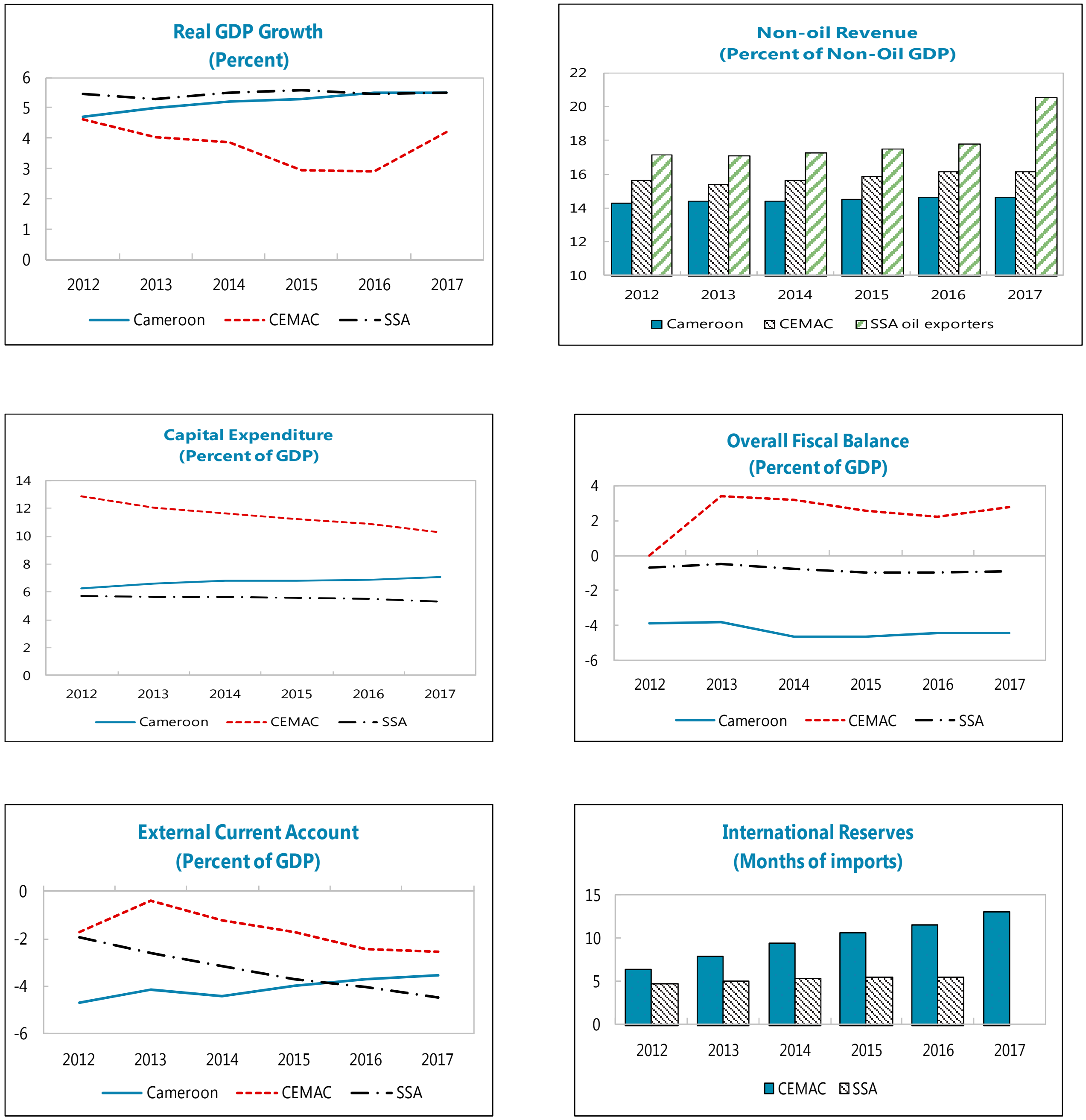
14. The external current account deficit is projected to remain sustainable. It is projected to decrease from 4.7 percent of GDP in 2012 to about 3.5 percent in 2017. The combination of a steady rise in non-oil exports and a sustained resumption in oil exports is expected to offset broadly the projected increase in imports. The current account deficit is expected to be financed mainly by new public external borrowing and private capital inflows.

15. The medium-term fiscal outlook is predicated on ongoing efforts to improve revenue mobilization and address infrastructure gaps. A gradual strengthening in non-oil revenue mobilization is expected to improve the ratio of non-oil revenue to non-oil GDP by about ½ percentage point from 2011 to 2017. Efforts to tackle infrastructure gaps will require a high level of public capital spending (6½–7 percent of GDP).

16. Risks to the medium-term outlook include (i) a downturn in the external environment, particularly in the euro area, which is still Cameroon's main trade partner; (ii) negative spillovers from the government's continued accumulation of arrears; and (iii) a vulnerable banking sector that may generate fiscal liabilities and affect the real sector.

17. The risk of debt distress remains low, but external borrowing commitments continued to increase sharply in 2011. The debt sustainability analysis (DSA; see companion paper) shows that all external debt ratios would remain below their respective policy-dependent thresholds, including under stress conditions. However, there are signs of vulnerabilities emerging from increasing domestic borrowing and accumulation of domestic arrears, which push total public debt indicators to levels significantly higher than in the 2011 DSA. Quasi-fiscal liabilities of state-owned enterprises and distressed banks, if they materialize, could lead to further deterioration of debt indicators.

Figure 6. Cameroon: Medium-Term Outlook, 2012–17



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

In addition, much of the increase in external borrowing commitments over the last two years was on nonconcessional terms. If this trend were to continue, it could compromise future debt sustainability. Moreover, incorporation of arrears into the DSA has a marked adverse impact on the domestic debt profile and results in a sharp increase in the overall debt-to-GDP ratio, from 13.7 percent in 2011 to 31.8 percent in 2017.

18. **Staff and the authorities discussed how Cameroon would be affected by a protracted and severe downturn in the euro area.** Given that Cameroon still has a non-oil export exposure of more than 60 percent to the euro area, staff prepared a downside scenario showing that a downturn in the euro area would have negative spillover effects on Cameroon's economic activity, public finances, and gross domestic investment (Box 2). In case of significant adverse spillover effects, the 2012 consultation report with CEMAC recommends a temporary monetary easing for the region. Increasing trade and investment relations with emerging markets would also help mitigate the latter risks. Staff concurred with the authorities that the currently low level of integration of Cameroon's financial sector with international financial markets limits its exposure to global financial turmoil.

POLICY DISCUSSIONS: PRESERVING MACROECONOMIC STABILITY AND PROMOTING HIGHER AND MORE INCLUSIVE GROWTH

The authorities recognized that the pressures on the 2012 budget, the erosion of fiscal buffers, continued weaknesses in public financial management (PFM) and the financial sector had increased risks to macroeconomic stability. Policy discussions therefore centered on (i) containing risks to the 2012 budget and ensuring fiscal sustainability over the medium term; (ii) improving PFM; (iii) safeguarding financial stability; (iv) fostering financial sector development; and (v) promoting higher and more inclusive economic growth, while preserving debt sustainability. However, pending forthcoming parliamentary elections, the authorities were generally not in a position to discuss specific corrective measures.

A. Containing Risks to the 2012 Budget

19. **The 2012 budget is based on unchanged revenue policies, but channels more expenditure toward capital spending.** The budget assumes a consolidation of ongoing reforms in tax and customs administration, projecting non-oil revenue to remain close to 13 percent of GDP. It projects current expenditure to be about 0.7 percentage point of GDP lower than in the 2011 budget and capital expenditure to be 0.5 percentage point of GDP higher. The budget foresees an overall fiscal deficit, on a

Box 2. Cameroon: Downside Scenario

This downside scenario incorporates an additional 5 percent depreciation of the euro/US dollar exchange rate and a 5 percent decrease in the international oil price in 2013, compared to the April 2012 World Economic Outlook's downturn scenario. For the specific variables affecting Cameroon's economy, the following deteriorations are assumed for 2012 and 2013, compared to the April 2012 WEO baseline scenario.

- GDP growth rates in Cameroon's trading partners are lower by 0.5 and 1 percentage points in 2012 and 2013, respectively;
- Oil prices per barrel are lower by US$10 in 2012 and in 2013;
- Non-oil export prices are lower by 5 percent in 2012 and 10 percent in 2013; and
- The nominal exchange rate of the CFA franc against the US dollar is higher by 5 percent (depreciation) in 2012 and 10 percent in 2013.

Compared to this report's baseline scenario, these assumptions lead to the projections presented below.

Impact of a Euro Area Downside Scenario, 2011-13

(Units indicated)

	2011	2012	2013	2012	2013
		Baseline		Downside scenario	
Economic growth and prices					
Real GDP[1]	4.2	4.7	5.0	4.2	4.0
Non-oil real GDP[1]	4.7	4.3	4.9	3.8	3.9
Consumer prices (period average)[1]	2.9	3.0	3.0	3.3	3.3
Oil export price (US$ per barrel)	111.6	102.7	101.0	92.7	91.0
Oil output (thousands of barrels a day)	59.2	68.8	73.7	68.8	73.7
Gross domestic investment (percent of GDP)[2]	18.9	18.9	19.4	18.1	17.8
Fiscal aggregates					
Total revenue, excluding grants[2]	18.4	18.4	18.2	17.6	17.1
Of which: oil[2]	5.4	5.5	5.1	4.3	5.3
non-oil[3]	14.2	14.3	14.4	13.8	13.4
Total expenditure[2]	21.7	22.0	22.3	21.8	21.9
Of which : Capital expenditure	6.4	6.2	6.6	6.0	6.1
Overall budget balance, including grants[2]	-3.4	-3.9	-3.8	-4.5	-4.5
External sector					
Volume of non-oil exports[1]	9.4	7.0	7.4	6.5	6.4
Volume of imports[1]	15.6	7.9	7.8	6.6	5.5
Current account, including grants[2]	-4.1	-4.7	-4.2	-4.6	-4.2
Terms of trade[1]	2.4	-6.8	2.2	-8.7	1.5

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

[1] Percentage change.

[2] Percent of GDP, unless otherwise indicated.

[3] Percent of non-oil GDP.

cash basis, of 2.5 percent of GDP. This deficit is expected to be financed in large part by the issuance of securities on the regional market (CFAF 250 billion; 2 percent of GDP).

20. Although the 2012 budget is expected to benefit from windfall oil revenue, it is facing pressure from multiple factors. Crude oil production and international prices are projected to be higher than assumed in the budget and thus are expected to result in higher oil revenue (1 percentage point of GDP). The budget is, however, under pressure from:

- Higher-than-budgeted fuel subsidies. At current world market prices, maintaining the present retail fuel price policy will require a subsidy of about CFAF 400 billion (3 percent of GDP), CFAF 230 billion more than budgeted (Appendix II).

- Uncertainty regarding the capacity of the regional market to absorb the planned securities issuance. This absorption capacity is limited by the prudential norms of risk concentration and liquidity.

- Contingent claims from the restructuring of distressed banks and public corporations in financial difficulty, which could require higher spending than the budget provision.

- Resources needed to clear UPOs. The budget does not include provisions for their clearance, which could require additional resources as high as CFAF 130 billion (1 percent of GDP).

21. Incorporating these factors in the fiscal projections results in a financing gap of up to 1.6 percent of GDP. To prevent this gap from leading to further accumulation of domestic arrears, staff advised the authorities to (i) step up implementation of administrative reforms to improve non-oil revenue collection; (ii) implement a strict cash flow plan and curb non-priority spending; and (iii) screen the launch of new public projects carefully and secure concessional financing to the extent possible.

Authorities' views

22. The authorities saw lower risks for this year's budget. They acknowledged that the fuel subsidy was likely to exceed its budget allocation, but said that various options to reduce it were being explored. The authorities remained confident that (i) the banking system has the capacity to fully absorb the planned securities issuance; (ii) ongoing negotiations with reputable investors and asset recovery efforts will help minimize contingent liabilities in the distressed banks; and (iii) improved cash flow management and the possibility of issuing Treasury bills had lessened the pressure resulting from UPOs.

B. Medium-Term Fiscal Sustainability

23. Continuing arrears accumulation threatens medium-term fiscal sustainability. Arrears and UPOs reached about 4.5 percent of GDP at end-2011 (Figure 7). The baseline medium-term projections assume a small improvement in revenue mobilization; a continued freeze in retail fuel prices; and execution of the government's ambitious public investment program. On this basis, the NOPD is forecast to remain in the range of 8.5 to 9 percent of non-oil GDP, while financing gaps remain around 3 percent of GDP. The projected financing gaps would contribute to further accumulation of domestic arrears in future years, up to 16 percent of GDP by 2017 (Table 6).

24. Staff called for a gradual adjustment of pump prices to international prices, accompanied by targeted social programs. Although recognizing the political difficulty associated with raising prices at the pump, staff highlighted that projections of world petroleum prices at high levels over the medium term would entail sizable fuel subsidies—on average, about 12 percent of total annual expenditure. Staff recommended an intensification of the public information campaign to explain the cost of the current policy in terms of foregone social and infrastructure spending. At the same time, staff called for the adoption of a plan to phase out fuel subsidies through gradual adjustments of pump prices to international oil prices. The plan could call for a reduced adjustment on kerosene, used primarily by the most vulnerable segments of the population, and a targeted safety net to ease the impact of price adjustments on them.

25. Staff recommended the following measures to ensure fiscal sustainability over the medium term:

- Accelerate the implementation of ongoing administrative reforms to widen the tax base, particularly by (i) rationalizing tax exemptions and tax incentive schemes; (ii) completing the reform of the unique tax payer identification number; (iii) strengthening tax centers for medium-size enterprises and those for small taxpayers; and (iv) simplifying tax and customs procedures.

- Adopt a tighter path for the NOPD, taking into account public investment needs for infrastructure, leading to a more sustainable fiscal situation over the medium and long term. Thus, the reform scenario discussed with the authorities (Section F) generates a lower NOPD compared to the baseline scenario.

- Raise fiscal buffers to build a security margin to mitigate exogenous shocks.

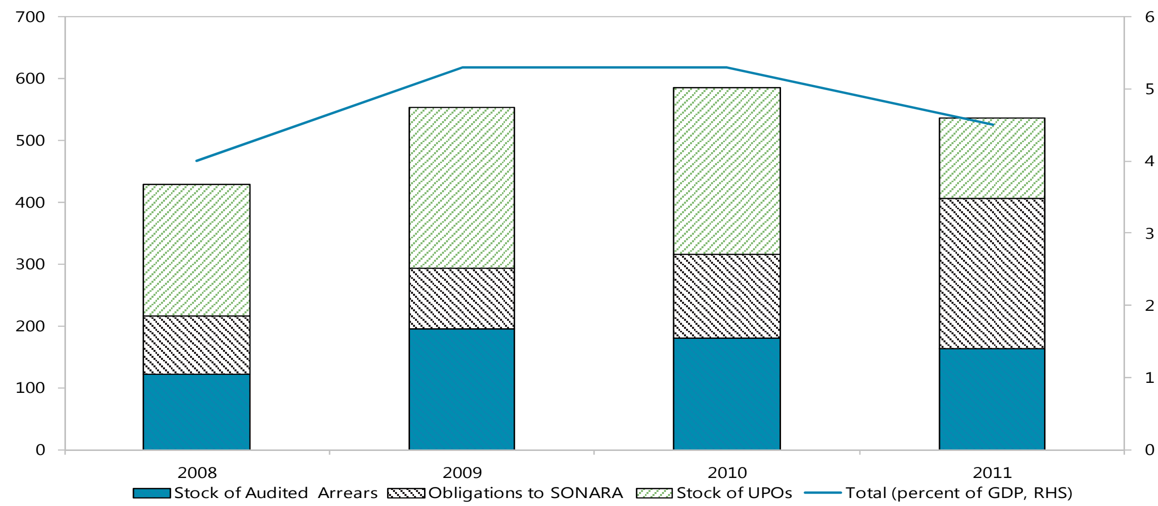
- Avoid a reemergence of debt vulnerability by contracting new external debt on concessional terms, to the extent possible.

- Strengthen public debt management by (i) enhancing the capacity of the national public debt committee; (ii) monitoring contingent liabilities from public enterprises; and (iii) conducting periodic audits of domestic arrears.

Authorities' views

26. The authorities concurred with staff on the need to ensure fiscal sustainability over the medium term. They emphasized that ongoing efforts to improve non-oil revenue mobilization and strengthen debt management will be pursued and that additional measures will be incorporated in future budgets. The authorities did not see, however, an urgent need to follow a tighter NOPD rule given the large public infrastructure gaps and basic public services needs. They agreed on the importance of gradually rebuilding fiscal buffers. They recognized that a gradual increase in pump prices was a desirable policy path in the medium term, but argued that it was incompatible with social peace in the short run.

Figure 7. Cameroon: Government Arrears and Other Payment Obligations, 2008–11
(CFAF billions, unless otherwise indicated)



Sources: Cameroonian authorities; and IMF staff estimates.

C. Improving Public Financial Management

27. Staff encouraged the authorities to strengthen PFM and improve expenditure efficiency. The authorities are working toward the implementation of program budgeting in the 2013 budget. Over the medium-term, their reforms will be guided by the six PFM directives adopted by the CEMAC in December 2011. These reforms will address medium-term budget sustainability objectives; alignment with Government Financial Statistics Manual (GFSM) 2001 standards (Tables 7 and 8); and strengthened external controls and parliamentary oversight.

28. For the containment of arrears and other payment obligations, staff recommended the following actions:

- Complete the ongoing audit of arrears and other UPOs before end-2012 and adopt a plan for the settlement of the audited arrears.

- Implement the recommendations of recent IMF technical assistance on moving from the current cash-based budget system to a payment-order system as an interim step towards accrual budgeting.

- Strengthen public expenditure management and transparency by (i) strengthening the management of the expenditure chain, especially to avoid derogatory spending commitments, to ensure the execution of the budget within the fiscal year; and (ii) improving the information management system to track the flow of funds throughout the expenditure chain.

29. Staff thinks there is further scope for improving cash management. The authorities made important progress in this respect through the issuance of two- and four-week Treasury bills through the BEAC. Staff reiterated the need to abide by the single Treasury account rule, notably by eliminating the use of SNH as a payment window for government operations.

30. The implementation of the PFM modernization plan, adopted in 2009, should be accelerated. Because progress so far remains insufficient, staff underscored the need to:

- Implement a concrete strategy to improve absorptive capacity for public investment programs, and build continuity for investment financing through multiyear commitment appropriations. Staff thus welcomed the authorities' plan to establish a central unit for project feasibility studies and evaluation.

- Ensure that the public procurement process is competitive and minimizes the incidence of single-source contracts. Staff welcomed the new ministry dedicated to procurement, but cautioned that its budgetary implications should be reduced to the minimum.

- Prepare the transition from a line-item budget to program-based budget by adopting sound management rules and establishing an organization of the financial function within line ministries.

- Improve the presentation of the fiscal reporting table by including revenue and expenditure on a gross basis, so the budgetary impact of off-setting tax/subsidy transactions between the government and public enterprises is clearly reflected.

- Pursue efforts to make the medium-term expenditure framework operational to facilitate the translation of the Growth and Employment Strategy Paper's (GESP) priorities into annual budgets.

Authorities' views

31. The authorities noted the preparations for the full implementation of the Budget Framework Law, to start on January 1, 2013. The focus has been on readying the budget for the move towards budget programming, with the 2012 budget already incorporating parts of the new presentation. The authorities explained how this move is also expected to improve the management of the expenditure chain.

32. The authorities recognized the need to deal with arrears, while stressing that important progress has been made. The stock of UPOs has come down substantially in 2011 thanks to improvements in cash management. Further, the authorities indicated that budget execution reports on a commitment basis will be available quarterly with the 2012 budget. The comprehensive arrears audit is expected to be available at the end-of 2012 including a plan for their eventual settlement.

D. Safeguarding Financial System Stability and Fostering Financial Intermediation

33. Banking sector vulnerabilities have significantly increased since the last Article IV consultation. These vulnerabilities reflect, in particular (i) delayed restructuring or dissolution of banks in financial distress; (ii) further deterioration in financial soundness indicators; (iii) an increasing number of banks failing to comply with prudential requirements; and (iv) accumulation of arrears and UPOs by the government, which pressures public enterprises into increasing their bank borrowing.

34. The number of financially troubled banks has increased from three to four since the last Article IV consultation. The number of distressed banks is likely to increase to five, as an additional bank is also reported to be in difficulty. No credible restructuring plans have emerged for any of the three banks reported to be in distress in the 2011 staff report. A fourth bank has moved into a position of negative net worth since the last consultation. Preliminary reports indicate that a fifth bank also has negative net worth and that its portfolio contains a high proportion of NPLs (almost 40 percent of total credit). At end-2011, the five banks concerned accounted for 29.2 percent of deposits and 28 percent of total bank credit.

35. Staff emphasized the need to take swift action to resolve the troubled banks, in close collaboration with COBAC. Failure to address the situation of these banks increases the potential fiscal costs of their resolution and the risks to the economy. Troubled banks with no credible restructuring plans should be liquidated as soon as possible. In parallel, the authorities should continue to monitor the liquidity conditions of these banks, set short deadlines to reach an agreement on recapitalization plans with shareholders, and limit the impact on the public finances by requiring full loss absorption by previous shareholders.

36. Staff expressed concerns about the weakening of the overall compliance of banks with the regional prudential norms. It stressed the need to avoid further accumulation of UPOs by the government, which is the main cause of the current high concentration of risk in the banking sector. In line with the recommendations of the 2012 consultation report with CEMAC, it called on the authorities to engage CEMAC members in (i) strengthening COBAC's resources; (ii) bringing the regional prudential regulations up to international standards and best practices; and (iii) closely collaborating with COBAC in monitoring banking sector vulnerabilities and enforcing prudential requirements in line with the recommended benchmarks of the Basel Committee on Banking Supervision, especially regarding credit concentration risk.

37. The protracted failure to address the situation of troubled banks points to the need to strengthen the regional bank crisis prevention and resolution framework. As noted during the recent consultation with CEMAC, weaknesses in the current framework for dealing with distressed banks have become increasingly apparent with respect to (i) delays in the coordination between regional and national authorities on corrective measures; (ii) the lack of clear rules and triggers for intervention; (iii) long delays in legal procedures; and (iv) the significant opportunity for interference afforded to shareholders of insolvent banks. Staff emphasized the need to engage CEMAC members in adopting the new regional regulation on crisis resolution, prepared with IMF assistance. This regulation is expected to (i) allow the authorities to intervene early to resolve banks in crisis; (ii) define the responsibilities of regional and national bodies and the scope of judicial review; and (iii) prevent shareholders of a troubled bank from participating in its restructuring. It is critical that the authorities provide full support for the early adoption of these reforms.

38. Staff pointed to the need to promote financial deepening. Access to credit in Cameroon remains lower than the SSA average, according to the World Bank's "Doing Business Indicators." The penetration rates, defined as the number of borrowers from banks or depositors to banks per 1,000 adults have remained well below the average for SSA (Figure 8). At the same time, credit to the private sector, in percent of GDP, has remained lower than the SSA average.

39. There has been some progress in improving access to bank credit in recent years. The authorities have been implementing an action plan to enhance financial deepening, which includes the following ongoing measures

- Facilitating greater access to retail banking services and diversifying the range of available financial instruments;
- Enhancing the availability of information on the cost of credit and payment default;
- Reinforcing the legal framework of collateral guarantees for securing loans;
- Reinforcing the supervision of microfinance institutions;
- Establishing a commercial court and a central bank credit registry; and
- Enacting a law on leasing.

40. Staff welcomed the authorities' agenda to deepen financial intermediation. This includes reactivating a delinquent payments registry; setting up a framework for monitoring the microfinance sector; establishing mechanisms for the financing of exports; and improving regional regulations on new financial products.

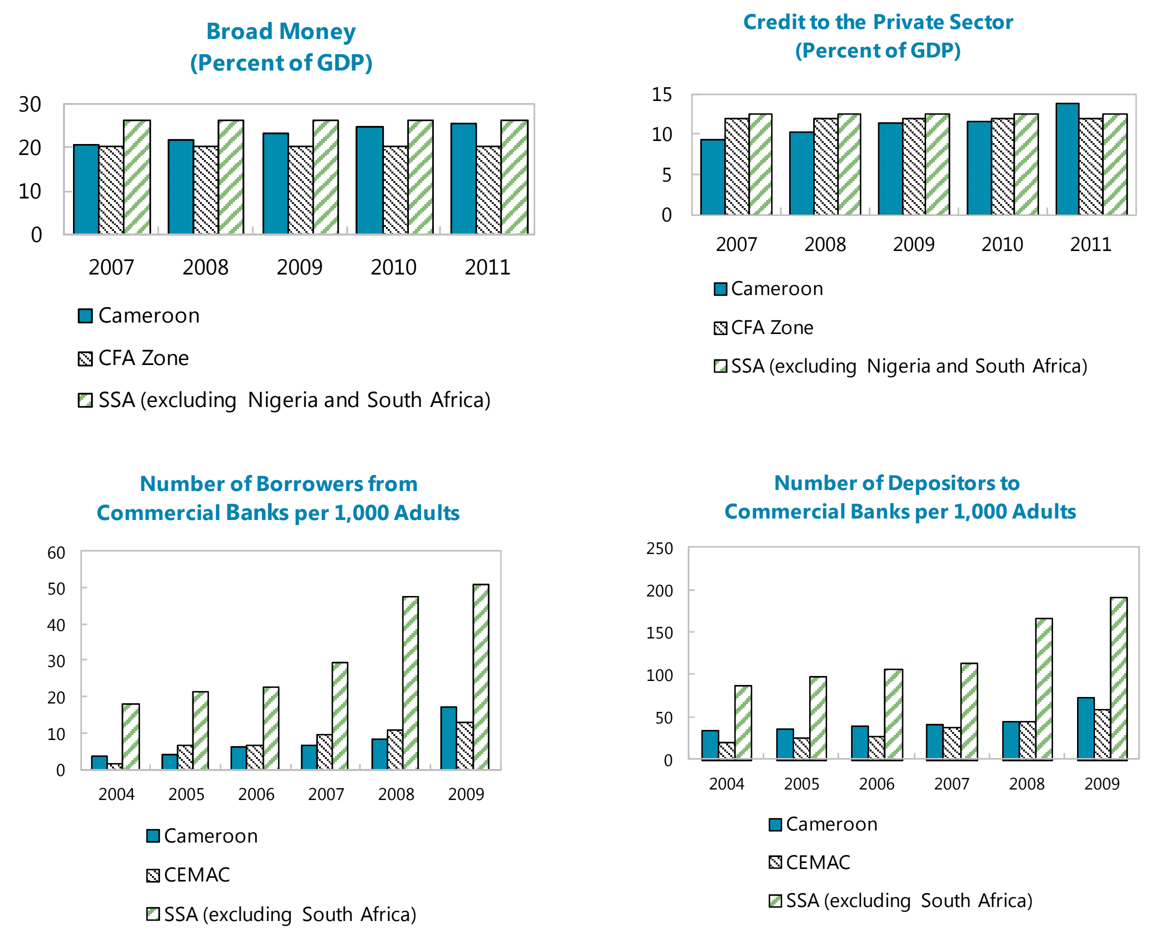
Authorities' views

41. The authorities agreed with the need to resolve the situation of distressed banks quickly. Although restructuring plans are under consideration, they are mired in difficulty. Because of substantial delays in dealing with these banks, which have increased the potential contingent liabilities associated with resolution, the authorities would consider liquidation only in the event that agreement is not reached by shareholders on a restructuring plan within the established deadlines. The authorities agreed on the immediate need for monitoring the liquidity of these banks to avoid a suspension of payments.

42. The authorities agreed that the issue of inadequate resources in COBAC has yet to be addressed. This constraint limits the frequency of on-site inspections, and may have resulted in a failure in early detection of problems in the distressed banks.

43. The authorities concurred that the bank resolution framework needs to be strengthened. The authorities thought that COBAC's ongoing consideration of reforms to the bank resolution framework should focus on (i) the appropriate division of responsibilities between the regional and national authorities; (ii) setting out clear procedures; and (iii) reducing the excessive delays before key decisions can be made.

Figure 8. Cameroon: Indicators of Financial Deepening, 2007–11



44. **The authorities underscored to the need to continue the implementation of the action plan for the development of the financial sector.** One of the primary objectives involves addressing continuing problems in accessing credit. The authorities agreed that the establishment of the commercial court and the central credit registry for banks; and the enactment of leasing laws were important steps toward improved financial intermediation, particularly for small- and medium-size enterprises.

E. Reducing Constraints to Higher and More Inclusive Growth

45. **Inadequate infrastructure and an unfavorable business environment remain key structural weaknesses hampering faster economic growth.** Efforts are underway to alleviate critical infrastructure bottlenecks. Large public infrastructure projects in ports, energy, roads, telecommunications, mining, and water supply have already been launched. Financing for most of them has already been mobilized or is under negotiation with external

lenders; 55 percent of external commitments signed in 2011, were for large infrastructure projects. The projected issuance of government bonds in 2012 is also intended to finance these projects.

46. Staff emphasized the need to improve the effectiveness of capital spending. Cameroon faces the twin problems of the low level and low quality of public investment. The average execution rate of public investment was below 70 percent during 2005–10, and Cameroon's ratings on the Public Investment Management Index (PIMI) and the Country's Policy and Institutional Assessment (CPIA) lag behind the SSA average. Staff welcomed the improved execution rate in 2011, but cautioned the authorities on the risks of debt and fiscal sustainability if the envisaged scaling up of public investment is not accompanied by improved effectiveness in capturing the expected growth payoff (Appendix III).

47. Staff estimates for Cameroon do not provide compelling evidence of substantial real effective exchange rate (REER) misalignment (Appendix IV). The REER depreciated by about 7 percent in 2010–11, following the depreciation of the euro against other major currencies. This depreciation did not, however, offset the cumulative appreciation of the REER in 1994–2009 (24 percent). Various model-based estimates suggest that Cameroon's REER was overvalued by about 8 percent at end-2011. This estimate is close to the findings of the recent Article IV consultation with CEMAC.

48. Cameroon's external competitiveness has continued to be hampered by structural constraints. These constraints are mostly related to an unpropitious business environment, substantial bottlenecks to trade, and high costs of services compared to other developing countries. Survey-based data presented by the World Bank and the Global Economic Forum rank Cameroon close to the bottom on most dimensions of business environment and external competitiveness**.**

49. Staff welcomed the initiatives to improve Cameroon's external competitiveness and its business environment. Efforts are under way, in particular, to improve basic public infrastructure, strengthen the dialogue with the business community, implement judicial reform, modernize tax and customs administration, simplify export and import procedures, and improve the functioning of the main port.

50. Progress on removing barriers to regional and international trade is constrained by a lack of progress at the regional level. External trade remains constrained by high customs duties, non-uniform implementation of regional trade regulations and significant physical and non-physical barriers. The planned reduction in the common external tariff, which is higher than in most SSA countries, is awaiting an economic impact study. A regional infrastructure program integrating national infrastructure projects has been developed, but is awaiting implementation.

Authorities' views

51. The authorities concurred with the need to strengthen Cameroon's external competitiveness and remove obstacles to trade. The real exchange rate remains, in their view, in line with fundamentals and it could even help improve the external competitiveness of the economy were the euro to depreciate further. They intend to pursue regular assessment of the implementation of recommendations made by the Cameroon Business Forum on measures to improve the business climate (Box 3). They regretted the slow progress in coming to an agreement with regional partners on issues related to internal and external trade liberalization.

Box 3. Cameroon: Ongoing Initiatives to Improve the Business Climate

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

Implementing action plans to improve the business climate. The government and private sector established the Cameroon Business Forum (CBF) in 2009 as a platform for public-private sector dialogue on improving the country's business climate. The forum was tasked with identifying obstacles to private sector development, proposing annual action plans to remove these obstacles, and monitoring the execution of those plans. For the fiscal years 2009–2012, reforms have mostly focused on removing obstacles to starting a business, registering property, ensuring property rights, enforcing contracts, paying taxes, trading across borders, and obtaining construction permits. The first business forum was held in February 2010 and the second and third ones in March 2011 and March 2012, respectively. The second forum concluded that 12 out of its previous 27 recommendations had been implemented. The third forum found that 35 out of its 48 previous recommendations had been executed or are close to being completed. Progress made in implementing these reforms allowed Cameroon to improve its ranking slightly in the World Bank 2012 Doing Business Indicators.

Fighting corruption. Efforts in this area have intensified since 2009, leading to the prosecution of high-level officials charged with misappropriation of public funds. A specialized court to handle economic crimes was created in December 2011. The authorities also stepped up an anticorruption campaign.[1] These efforts have still to generate tangible results in terms of improved international rankings.[2] Utilization of the anti-money laundering framework can further help combat corruption and thus improve the business climate.

Public enterprise reforms. Progress has been mixed. The sale of 51 percent of the telephone company (CAMTEL) and the selection of a strategic partner were inconclusive, and a new divestiture strategy is still being prepared. The restructuring of the postal service company (CAMPOST) is ongoing, through a partnership agreement signed with a foreign company in March 2010. The liquidation of the old public aviation company (CAMAIR) is nearing completion.

[1]The adoption of the national anticorruption strategy is, however, pending.

[2]Cameroon's rank on the Corruption Perceptions Index of Transparency International moved from 146 out of 178 countries in 2010 to 134 out of 182 countries in 2011. The World Bank Governance Indicators continue to rank Cameroon in the bottom quartile on most indicators.

F. Macroeconomic Policy Reform Scenario

52. A reform scenario, incorporating the impact of the key policy recommendations identified above, was discussed with the authorities. The scenario, presented in Text Table 4 and Tables 9–11, assumes gradual adjustments of pump prices to international oil prices; acceleration of the implementation of ongoing administrative reforms to widen the tax base; improved absorptive capacity and a higher growth pay-off of public investment; no financing gap or further accumulation of domestic arrears beyond 2012; and a gradual buildup of fiscal buffers to about one month of expenditure by 2017. This scenario leads to greater fiscal sustainability over the medium term, accompanied by slightly higher growth and inflation.[2]

53. The reform scenario provides a path towards fiscal sustainability over the medium term. Compared to the baseline scenario in which debt increases monotonically, the debt-to-GDP ratio stabilizes at around 25 percent in 2017 as there is no accumulation of domestic arrears in the reform scenario. Correspondingly, the NOPD improves substantially over the medium term (Table 11). This is also in tune with the ongoing public investment scaling up as envisaged in the GESP (Appendix III).

Authorities' Views

54. The authorities welcomed the reform scenario. They indicated that, if the financing gaps projected in the baseline scenario were to materialize, they would take corrective action in line with the recommendations contained in the reform scenario.

Text Table 4. Cameroon: Selected Macroeconomic Indicators, 2012–17
(Units as indicated)

	2012	2013	2015	2017	2013	2015	2017
	Common	Baseline Scenario			Reform Scenario		
Economic growth and prices[1]							
Real GDP	4.7	5.0	5.3	5.5	5.5	6.0	6.5
Non-oil real GDP	4.3	4.9	5.3	5.4	5.4	6.1	6.4
Consumer prices (period average)	3.0	3.0	2.5	2.5	3.5	3.0	3.0
Fiscal aggregates							
Total revenue (incl. grants)[2]	19.0	18.6	17.8	17.9	18.8	18.2	18.6
Of which: oil[2]	5.5	5.1	4.0	4.1	5.0	3.9	3.9
non-oil[3]	14.3	14.4	14.5	14.6	14.6	15.1	15.5
Total expenditure[2]	22.0	22.3	22.3	22.4	20.9	20.9	20.8
Of which : Noninterest current	15.4	15.2	14.8	14.6	13.7	12.8	12.5
Capital	6.2	6.6	6.8	7.1	6.7	7.5	7.6
Overall budget balance, cash basis[2]							
Including grants	-3.9	-3.8	-4.7	-4.5	-2.3	-2.8	-2.2
Financing gap[2]	1.6	2.8	3.4	3.0	0.0	0.0	0.0
Nonoil primary balance[3]	-9.0	-9.1	-8.5	-8.4	-7.3	-6.4	-5.8
External sector[2]							
Current account (incl. grants)	-4.7	-4.2	-4.0	-3.3	-4.4	-4.6	-4.7
Total public debt	17.2	20.0	26.5	31.8	18.3	21.7	24.5

Sources: Cameroonian authorities; and IMF staff estimates and projections.
[1] Percentage change.
[2] Percent of GDP.
[3] Percent of non-oil GDP.

[2] The reform scenario assumes that improved absorption capacity for public investment will lead to higher disbursements of external project loans than in the baseline scenario.

STAFF APPRAISAL

55. The economy continues to grow at a moderate pace, and measured inflation remains within the regional convergence limit of 3 percent. There are however significant risks to the outlook arising from (i) uncertainty surrounding the strength of the global recovery, particularly in Europe; (ii) the impact of the increase in fuel subsidies and the stock of domestic arrears on fiscal sustainability; (iii) increasing financial sector vulnerabilities; and (iv) reduced momentum for reform following the postponement of legislative elections to 2013.

56. Substantial risks to the 2012 budget need to be urgently addressed to prevent a further deterioration of the fiscal situation. The fiscal situation worsened in 2011 owing to pressure from past payment obligations, overruns on current expenditure, the rise in the cost of fuel subsidies, and the deferment of budgeted domestic financing through a bond issuance. The risks for the 2012 budget result from underbudgeting fuel subsidies, further arrears accumulation in 2011, limited capacity of the regional market to absorb the full amount of the planned securities issuance, and contingent liabilities of public enterprises and distressed banks.

57. Safeguarding fiscal sustainability over the medium-term will require corrective measures. These include improving non-oil revenue mobilization; avoiding accumulation of domestic arrears; rebuilding fiscal buffers; and tackling the infrastructure gap through significant public investment spending, which will need to be counterbalanced by containing current expenditure, particularly on fuel subsidies.

58. Strengthening PFM remains critical to maintaining fiscal sustainability. The authorities are encouraged to complete the ongoing audit of arrears and adopt a plan for the settling of audited arrears. Public expenditure management should be reinforced by strengthening control of the expenditure chain and better tracking of the flow of funds. The implementation of the PFM modernization plan should be accelerated, and efforts be made to implement the CEMAC PFM directives in a timely manner.

59. Financial sector stability needs to be restored in the face of increasing risks. The rising number of distressed banks and the delays in restructuring them, the concentration of bank credit to the national oil refinery, and the spillover from arrears accumulation combine to threaten financial sector stability. The necessary reforms require both a resolution of ailing banks and the implementation of the corrective fiscal measures to avoid further quasi-fiscal losses from excessive lending to state-owned enterprises.

60. Lasting financial stability can only be achieved through a more effective regional framework and better cooperation between national and regional bodies. The difficulties in addressing Cameroons's financial sector problems have revealed the weaknesses in the current regional arrangement, which is handicapped by a lack of resources. They also show that insufficient cooperation between national and regional bodies can lead to stalemate. As the largest economy in the CEMAC region, Cameroon should take a proactive stance in pressing toward the necessary regional reforms in the financial sector, and in other relevant areas to enhance the efficiency of the regional framework.

61. Higher and more inclusive growth requires addressing the significant infrastructure gaps and improving the business climate. Accelerating Cameroon's recent moderate economic growth performance will require the full implementation of a major program of public investment. This scaling up of public investment will need to be accompanied, however, by improved project selection to enhance the quality and effectiveness of expenditure and limits on the scale of external nonconcessional borrowing. Competitiveness in Cameroon remains challenged mainly by structural factors. Improving the business climate will require that the authorities tackle governance issues, deepen dialogue with private sector interests, take measures to increase the level of financial intermediation, and improve access to credit. Renewed efforts to reach agreements on trade liberalization among CEMAC countries would also support diversification and productivity growth in Cameroon's non-oil sector.

62. Containing domestic arrears and maintaining a prudent borrowing policy is necessary to preserve debt sustainability. The DSA shows that Cameroon's risk of debt distress remains low. Total public debt indicators are worse than in the 2011 DSA owing to the impact of domestic arrears on domestic debt and the need to cover fiscal financing gaps through increased securitization. There are further signs of vulnerabilities emerging from increasing quasi-fiscal liabilities of state-owned enterprises and distressed banks, and external borrowing at nonconcessional terms. Reform of the fuel subsidy mechanism, improved commitment control, and external borrowing at concessional terms to the extent possible would help to maintain domestic debt at sustainable levels.

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

Table 1. Cameroon: Selected Economic and Financial Indicators, 2010–17

	2010	2011 Est.	2012 Projections	2013	2014	2015	2016	2017
	(Annual percentage changes, unless otherwise indicated)							
National account and prices								
GDP at constant prices	2.9	4.2	4.7	5.0	5.2	5.3	5.5	5.5
Oil GDP at constant prices	-12.1	-7.3	16.2	6.8	2.7	4.3	7.4	8.7
Non-Oil GDP at constant prices	3.7	4.7	4.3	4.9	5.3	5.3	5.4	5.4
GDP deflator	3.0	2.9	2.0	2.9	2.0	2.0	2.1	2.2
GDP at market prices	11,107	11,908	12,719	13,745	14,746	15,844	17,065	18,392
Oil	785	997	1,177	1,227	1,149	1,138	1,200	1,300
Non-Oil	10,322	10,911	11,542	12,518	13,597	14,705	15,866	17,092
Oil output (thousands of barrels a day)	63.9	59.2	68.8	73.7	75.6	81.0	90.9	103.1
Consumer prices (average)	1.3	2.9	3.0	3.0	2.5	2.5	2.5	2.5
External trade								
Export volume	-0.5	6.3	9.8	6.8	6.9	7.9	8.8	9.2
Oil sector	-14.6	-8.7	26.0	3.7	2.7	7.6	12.8	14.1
Non-oil sector	3.1	9.4	7.0	7.4	7.8	8.0	8.0	8.2
Import volume	4.9	15.6	7.9	7.8	7.3	7.0	7.0	6.9
Average oil export price (US$ per barrel) [1]	79.6	111.6	102.7	101.0	93.8	88.2	84.3	82.0
Nominal effective exchange rate (depreciation -)	-4.4	1.2	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	-6.3	-0.3	...	...	...	...	...	...
Terms of trade	16.0	2.4	-6.8	2.2	-2.7	-2.1	-1.5	-0.9
Export price index	16.6	15.4	3.4	1.1	-4.0	-3.0	-1.7	-0.6
Non-oil export price index	-1.5	8.1	6.1	0.7	-1.4	-2.4	-2.8	-2.1
Import price index	0.6	12.6	11.0	-1.1	-1.3	-0.9	-0.2	0.3
Money and credit								
Broad money (M2)	11.3	10.6	6.0	7.2	7.3	8.0	8.0	7.8
Net foreign assets [2]	2.4	-7.4	-2.2	-0.9	-0.4	0.9	1.8	1.4
Net domestic assets [2]	8.9	18.0	8.3	8.2	7.7	7.0	6.2	6.4
Domestic credit to the private sector	8.2	28.3	10.0	9.2	8.7	8.5	8.5	8.5
	(Percent of GDP, unless othrwise indicated)							
Gross national savings	13.1	15.7	14.2	15.2	15.4	16.0	16.6	17.2
Gross domestic investment	16.1	19.8	18.9	19.4	19.8	20.0	20.3	20.5
Public investment	4.1	6.4	6.2	6.6	6.8	6.8	6.9	7.1
Private investment	12.0	13.4	12.7	12.8	13.0	13.2	13.4	13.4
Central government operations								
Total revenue (excluding grants)	16.8	18.4	18.4	18.2	17.6	17.4	17.5	17.7
Oil revenue	4.5	5.4	5.5	5.1	4.3	4.0	4.0	4.1
Non-oil revenue	12.4	13.0	12.9	13.1	13.3	13.4	13.6	13.6
Non-oil revenue (percent of nonoil GDP)	13.3	14.2	14.3	14.4	14.4	14.5	14.6	14.6
Total expenditure	18.6	21.7	22.0	22.3	22.4	22.3	22.2	22.3
Overall fiscal balance (cash basis)								
Excluding grants	-2.9	-3.9	-4.4	-4.3	-5.0	-5.0	-4.7	-4.7
Including grants	-2.3	-3.4	-3.9	-3.8	-4.6	-4.6	-4.4	-4.4
Non-oil primary balance (percent of nonoil GDP)	-5.7	-8.5	-9.0	-9.1	-8.9	-8.5	-8.3	-8.4
External sector								
Current account balance								
Including official grants	-3.0	-4.1	-4.7	-4.2	-4.4	-4.0	-3.7	-3.3
Excluding official grants	-4.3	-5.0	-5.6	-5.1	-5.3	-4.8	-4.4	-4.0
Gross official reserves								
Imputed reserves (billions of US$)	3.6	3.5	3.1	3.0	3.0	3.0	3.2	3.3
Imputed reserves (percent of broad money)	65.6	52.9	47.8	43.7	40.3	38.2	37.0	35.6
Public debt [3]								
Stock of public debt	12.1	13.7	17.2	20.0	23.4	26.5	29.3	31.8
Of which : External	6.5	7.6	8.9	9.8	10.9	12.0	13.1	14.2
	(Percent of exports of goods and services, unless otherwise indicated)							
Present value of external debt	20.0	20.9	22.8	24.5	28.2	31.2	34.4	37.1
External debt service	0.9	1.0	1.6	1.5	1.6	2.0	1.7	1.7
External debt service (percent of government revenue)	1.4	1.7	2.8	2.6	2.8	3.5	2.9	2.9

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

[1] Beyond 2011, 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 2012 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de desendettement et de developpement" (C2D).

Table 2. Cameroon: Central Government Operations, 2010–17

(CFAF billions, unless otherwise indicated)

	2010	2011	2012			2013	2014	2015	2016	2017
		Est.	Budget	March Prel.	Proj.	Projections				
Total revenue and grants	1,940	2,250	2,273	573	2,411	2,560	2,653	2,816	3,044	3,297
Total revenue	1,869	2,190	2,207	572	2,345	2,499	2,595	2,763	2,994	3,250
Oil sector revenue	497	638	557	104	699	699	640	632	679	756
Non-oil sector revenue	1,372	1,552	1,650	468	1,646	1,801	1,956	2,131	2,315	2,494
Direct taxes	343	405	426	183	437	479	520	563	607	654
Special tax on petroleum products	83	85	92	25	89	97	105	114	123	133
Other taxes on goods and services	612	701	778	177	759	831	903	986	1,075	1,158
Taxes on international trade	253	274	257	65	266	292	317	343	374	402
Non-tax revenue	81	88	97	17	94	101	110	125	136	147
Total grants	71	60	66	2	67	61	58	53	51	47
Projects	10	8	23	2	23	21	19	17	17	17
Other (debt relief)	62	53	43	0	43	40	38	37	34	30
Total expenditure	2,067	2,590	2,552	528	2,804	3,065	3,313	3,538	3,799	4,117
Current expenditure	1,611	1,828	1,760	380	2,012	2,162	2,306	2,458	2,621	2,816
Wages and salaries	634	685	735	160	735	799	860	915	985	1,060
Goods and services	613	550	559	116	559	606	652	705	753	811
Subsidies and transfers	331	550	426	96	662	689	708	734	766	807
Fuel subsidies	17	146	170	..	397	404	402	406	416	433
Pensions	117	138	121	32	130	138	147	156	165	174
Other	197	266	135	..	135	146	159	172	186	200
Interest due	33	45	40	8	55	68	85	105	117	138
External	26	31	21	7	39	39	41	48	54	61
Domestic	6	14	18	1	16	29	44	57	63	77
Capital expenditure	456	761	792	148	792	903	1,007	1,080	1,177	1,301
Domestically financed investment	315	563	526	91	526	574	622	668	734	823
Foreign-financed investment	100	163	206	51	206	249	305	331	363	398
Rehabilitation and participation	42	35	60	6	60	80	80	80	80	80
Overall balance (excl. payment of govt. obligations)										
Excluding grants	-198	-400	-345	44	-459	-566	-717	-776	-805	-867
Including grants	-127	-339	-279	46	-393	-505	-660	-722	-754	-820
Payment of government obligations	-125	-62	-26	-2	-102	-22	-20	-16	-10	-8
Audited arrears	-35	-15	-26	-2	-26	-22	-20	-16	-10	-8
Unsettled payment orders (UPOs)	…	…	0	0	0	0	0	0	0	0
Obligations to SONARA	-90	-47	0	0	-76	0	0	0	0	0
Overall balance (cash basis)										
Excluding grants	-323	-461	-371	42	-562	-588	-738	-792	-815	-875
Including grants	-252	-401	-305	44	-495	-528	-680	-738	-764	-828
Financing	252	401	305	-44	290	145	192	205	270	283
External financing, net	40	98	116	45	114	162	216	246	294	331
Amortization	-60	-58	-67	-3	-69	-67	-70	-69	-52	-50
Drawings	100	156	183	49	183	229	286	315	346	381
Domestic financing, net	212	303	189	-86	176	-17	-24	-41	-24	-47
Banking system	-62	151	21	-39	21	0	0	0	0	0
Use of SDR allocation	103	0	0	0	0	0	0	0	0	0
Amortization of domestic debt	-34	-47	-82	-19	-83	-117	-124	-141	-124	-147
Security issue	200	0	250	0	200	100	100	100	100	100
Securitization of arrears to SONARA	0	80	0	0	38	0	0	0	0	0
Other domestic financing	5	118	0	-27	0	0	0	0	0	0
Errors and omissions	0	1	0	-3	0	0	0	0	0	0
Financing gap	0	0	0	0	205	383	488	534	494	545
Memorandum items:										
Primary balance	-94	-295	-239		-337	-438	-575	-617	-637	-682
Non-oil primary balance	-591	-933	-796		-1,036	-1,136	-1,214	-1,249	-1,316	-1,438

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

Table 3. Cameroon: Central Government Operations, 2010–17
(Percent of GDP, unless otherwise indicated)

	2010	2011	2012		2013	2014	2015	2016	2017
		Est.	Budget	Proj.	Projections				
Total revenue and grants	17.5	18.9	17.9	19.0	18.6	18.0	17.8	17.8	17.9
Total revenue	16.8	18.4	17.4	18.4	18.2	17.6	17.4	17.5	17.7
Oil sector revenue	4.5	5.4	4.4	5.5	5.1	4.3	4.0	4.0	4.1
Non-oil sector revenue	12.4	13.0	13.0	12.9	13.1	13.3	13.4	13.6	13.6
Direct taxes	3.1 …	3.4	…	3.4	3.5	3.5	3.6	3.6	3.6
Special tax on petroleum products	0.7	0.7	…	0.7	0.7	0.7	0.7	0.7	0.7
Other taxes on goods and services	5.5 …	5.9	…	6.0	6.0	6.1	6.2	6.3	6.3
Taxes on international trade	2.3 …	2.3	…	2.1	2.1	2.1	2.2	2.2	2.2
Non-tax revenue	0.7	0.7	0.8	0.7	0.7	0.7	0.8	0.8	0.8
Total grants	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Projects	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other (debt relief)	0.6	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Total expenditure	18.6	21.7	20.1	22.0	22.3	22.5	22.3	22.3	22.4
Current expenditure	14.5	15.4	13.8	15.8	15.7	15.6	15.5	15.4	15.3
Wages and salaries	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Goods and services	5.5	4.6	4.4	4.4	4.4	4.4	4.5	4.4	4.4
Subsidies and transfers	3.0	4.6	3.3	5.2	5.0	4.8	4.6	4.5	4.4
Fuel subsidies	0.2	1.2	1.3	3.1	2.9	2.7	2.6	2.4	2.4
Pensions	1.0	1.2	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Other	1.8	2.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Interest due	0.3	0.4	0.3	0.4	0.5	0.6	0.7	0.7	0.7
External	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Domestic	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.4	0.4
Capital expenditure	4.1	6.4	6.2	6.2	6.6	6.8	6.8	6.9	7.1
Domestically financed investment	2.8	4.7	4.1	4.1	4.2	4.2	4.2	4.3	4.5
Foreign-financed investment	0.9	1.4	1.6	1.6	1.8	2.1	2.1	2.1	2.2
Rehabilitation and participation	0.4	0.3	0.5	0.5	0.6	0.5	0.5	0.5	0.4
Overall balance (excl. payment of govt. obligations)									
Excluding grants	-1.8	-3.4	-2.7	-3.6	-4.1	-4.9	-4.9	-4.7	-4.7
Including grants	-1.1	-2.9	-2.2	-3.1	-3.7	-4.5	-4.6	-4.4	-4.5
Payment of government obligations	-1.1	-0.5	-0.2	-0.8	-0.2	-0.1	-0.1	-0.1	0.0
Audited arrears	-0.3	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.0
Unsettled payment orders (UPOs)	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations to SONARA	-0.8	-0.4	0.0	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)									
Excluding grants	-2.9	-3.9	-2.9	-4.4	-4.3	-5.0	-5.0	-4.8	-4.8
Including grants	-2.3	-3.4	-2.4	-3.9	-3.8	-4.6	-4.7	-4.5	-4.5
Financing	2.3	3.4	2.4	2.3	1.1	1.3	1.3	1.6	1.5
External financing, net	0.4	0.8	0.9	0.9	1.2	1.5	1.6	1.7	1.8
Amortization	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3
Drawings	0.9	1.3	1.4	1.4	1.7	1.9	2.0	2.0	2.1
Domestic financing, net	1.9	2.5	1.5	1.4	-0.1	-0.2	-0.3	-0.1	-0.3
Banking system	-0.6	1.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Use of SDR allocation	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-0.3	-0.4	-0.6	-0.7	-0.9	-0.8	-0.9	-0.7	-0.8
Security issue	1.8	0.0	2.0	1.6	0.7	0.7	0.6	0.6	0.5
Securitization of arrears to SONARA	0.0	0.7	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Other domestic financing	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	1.6	2.8	3.3	3.4	2.9	3.0
Memorandum items:			(Percent of non-oil GDP, unless otherwise indicated)						
Non-oil revenue	13.3	14.2	14.3	14.3	14.4	14.4	14.5	14.6	14.6
Non-oil primary balance	-5.7	-8.5	-6.9	-9.0	-9.1	-8.9	-8.5	-8.3	-8.4
			(Percent of GDP, unless otherwise indicated)						
Primary balance	-0.8	-2.5	-1.9	-2.7	-3.2	-3.9	-3.9	-3.7	-3.7
Stock of total public debt	12.1 …	13.7	…	17.2	20.0	23.4	26.5	29.2	31.6

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

Table 4. Cameroon: Balance of Payments, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Projections					
				(CFAF billions)				
Current account balance	-334	-489	-601	-574	-653	-630	-631	-610
Trade balance	-104	-199	-452	-411	-494	-530	-527	-495
Exports, goods	2,235	2,741	3,113	3,360	3,451	3,612	3,860	4,187
Oil and oil products	1,086	1,381	1,569	1,690	1,675	1,740	1,895	2,105
Non-oil sector	1,149	1,360	1,545	1,670	1,776	1,872	1,965	2,082
Imports, goods	-2,339	-2,940	-3,566	-3,771	-3,945	-4,142	-4,387	-4,682
Services (net)	-271	-312	-210	-216	-209	-150	-149	-145
Income (net)	-130	-138	-117	-137	-144	-147	-154	-170
Of which: interest due on public debt	-26	-31	-39	-39	-41	-48	-54	-61
Transfers (net)	171	160	178	191	193	197	199	200
Inflows	269	215	227	242	246	254	261	268
Outflows	-98	-55	-49	-51	-53	-56	-62	-68
Capital and financial account balance	356	372	533	544	638	665	701	670
Capital account	12	8	23	21	19	17	17	17
Capital transfers	12	8	23	21	19	17	17	17
Of which: private transfers	2	0	0	0	0	0	0	0
Financial account	345	365	509	523	619	648	684	653
Official capital	45	122	122	169	224	256	305	343
Long-term borrowing	118	184	203	249	308	339	372	408
Amortization	-73	-62	-81	-80	-84	-83	-66	-66
Non-official capital (net)	299	243	388	355	395	392	379	310
Oil sector	39	45	79	77	76	75	90	72
Non-oil sector	260	198	309	278	319	318	289	237
Errors and omissions	92	-43	0	0	0	0	0	0
Overall balance	114	-159	-68	-30	-15	35	70	60
Financing	-114	159	68	30	15	-35	-70	-60
Use of IMF credit (net)	0	1	1	2	3	18	17	16
Change in imputed reserves (net, BEAC)	-114	158	67	28	12	-53	-87	-76
				(Percent of GDP)				
Current account balance								
Excluding grants	-4.3	-5.0	-5.6	-5.1	-5.3	-4.8	-4.4	-4.0
Including grants	-3.0	-4.1	-4.7	-4.2	-4.4	-4.0	-3.7	-3.3
Trade balance	-0.9	-1.7	-3.6	-3.0	-3.4	-3.3	-3.1	-2.7
Non-oil exports	10.3	11.4	12.1	12.2	12.0	11.8	11.5	11.3
Imports	21.1	24.7	28.0	27.4	26.8	26.1	25.7	25.5
Overall balance	1.0	-1.3	-0.5	-0.2	-0.1	0.2	0.4	0.3
				(Percentage change, unless otherwise indicated)				
Export volume	-0.5	6.3	9.8	6.8	6.9	7.9	8.8	9.2
Crude oil	-14.6	-8.7	26.0	3.7	2.7	7.6	12.8	14.1
Non-oil sector	3.1	9.4	7.0	7.4	7.8	8.0	8.0	8.2
Import volume	4.9	15.6	7.9	7.8	7.3	7.0	7.0	6.9
Terms of trade	16.0	2.4	-6.8	2.2	-2.7	-2.1	-1.5	-0.9
Non-oil export price index	-1.5	8.1	6.1	0.7	-1.4	-2.4	-2.8	-2.1
Export price index	16.6	15.4	3.4	1.1	-4.0	-3.0	-1.7	-0.6
Import price index	0.6	12.7	11.0	-1.1	-1.3	-0.9	-0.2	0.3
Exchange rate (CFAF per US$; period average)	494.4	464.3	...	...	...	...	...	...
Gross official reserves (imputed reserves, US$ billions)	3.6	3.5	3.1	3.0	3.0	3.0	3.2	3.3

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

Table 5. Cameroon: Monetary Survey, 2010–17

(CFAF billions, unless otherwise indicated)

	2010	2011		2012	2013	2014	2015	2016	2017
		June	Dec.	Projections					
Net foreign assets	1,830	1,673	1,627	1,559	1,529	1,514	1,549	1,619	1,679
Bank of Central African States (BEAC)	1,578	1,405	1,418	1,350	1,320	1,305	1,340	1,410	1,470
Commercial banks	253	268	209	209	209	209	209	209	209
Net domestic assets	911	1,041	1,406	1,657	1,920	2,186	2,447	2,696	2,971
Domestic credit	913	1,080	1,483	1,734	1,997	2,263	2,524	2,773	3,048
Net claims on the public sector	-391	-392	-196	-113	-20	63	136	180	229
Net credit to the central government	-340	-354	-189	-168	-168	-168	-168	-168	-168
Claims	207	239	245	247	246	243	226	210	194
Deposits	-546	-594	-434	-415	-414	-411	-394	-378	-362
Deposits of other public entities	-183	-178	-143	-143	-143	-143	-143	-143	-143
Credit to autonomous agencies	22	15	16	17	19	21	23	25	28
Credit to public enterprises	109	125	121	181	272	353	424	466	513
Credit to financial institutions	18	18	29	32	35	46	50	55	67
Credit to the private sector	1,285	1,454	1,649	1,815	1,983	2,155	2,338	2,537	2,753
Other items (net)	-2	-39	-77	-77	-77	-77	-77	-77	-77
Broad money	2,741	2,714	3,033	3,216	3,449	3,700	3,996	4,315	4,650
Currency outside banks	501	398	511	547	594	644	703	767	834
Deposits	2,240	2,316	2,522	2,669	2,855	3,056	3,293	3,548	3,816
Memorandum items:									
Contribution to the growth of broad money (percentage points)									
Net foreign assets	2.4	-2.8	-7.4	-2.2	-0.9	-0.4	0.9	1.8	1.4
Net domestic assets	8.9	11.3	18.0	8.3	8.2	7.7	7.0	6.2	6.4
Of which : net credit to the central government	-1.5	-0.2	5.5	0.7	0.0	0.0	0.0	0.0	0.0
Credit to the private sector									
Annual percentage change	8.2	19.3	28.3	10.0	9.2	8.7	8.5	8.5	8.5
In percent of GDP	11.6	12.2	13.9	14.3	14.4	14.6	14.8	14.9	15.0
Broad money (annual percentage change)	11.3	8.5	10.6	6.0	7.2	7.3	8.0	8.0	7.8
Currency outside banks	12.0	4.6	1.9	7.2	8.5	8.5	9.2	9.1	8.7
Deposits	11.2	9.2	12.6	5.8	7.0	7.0	7.7	7.8	7.6
Velocity (GDP/average M2)	4.2	4.4	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Government usable deposits[1]	33.3	138.3	34.2	13.2	13.2	13.2	13.2	13.2	13.2
In months of total expenditure[2]	0.2	0.7	0.2	0.1	0.1	0.1	0.0	0.0	0.0

Sources: BEAC; and IMF staff estimates and projections.

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

[2] Excluding foreign-financed investment.

Table 6. Cameroon: Government Arrears and Other Payment Obligations, 2011–17

	2011	2012		2013		2014		2015		2016		2017	
	End-year stocks	Net flows	End-year stocks	Net flows	End-year stocks	Net flows	End-year stocks	Net flows	End-year stocks	Net flows	End-year stocks	Net flows	End-year stocks
	(CFAF billions, unless otherwise indicated)												
A. Audited arrears [1]	163.1	-26.0	137.2	-22.5	114.7	-20.1	94.6	-16.1	78.6	-9.8	68.8	-8.2	60.6
(Percent of GDP)	*1.4*	*-0.2*	*1.1*	*-0.2*	*0.8*	*-0.1*	*0.6*	*-0.1*	*0.5*	*-0.1*	*0.4*	*0.0*	*0.3*
B. Unsettled payment orders (UPOs) [2]	131.0	0.0	131.0	0.0	131.0	0.0	131.0	0.0	131.0	0.0	131.0	0.0	131.0
(Percent of GDP)	*1.1*	*0.0*	*1.0*	*0.0*	*1.0*	*0.0*	*0.9*	*0.0*	*0.8*	*0.0*	*0.8*	*0.0*	*0.7*
C. Obligations to SONARA (including securitized arrears) [3]	243.2	102.0	345.2	226.1	571.3	220.5	791.7	223.9	1,015.7	234.3	1,249.9	251.4	1,501.3
(Percent of GDP)	*2.0*	*0.8*	*2.7*	*1.7*	*4.2*	*1.6*	*5.4*	*1.5*	*6.4*	*1.4*	*7.3*	*1.4*	*8.2*
Non-securitized obligations to SONARA	163.2	63.8	227.0	234.1	461.1	232.3	693.4	235.7	929.1	246.1	1,175.2	263.2	1,438.4
Securitized arrears to SONARA	80.0	38.1	118.1	-8.0	110.1	-11.8	98.3	-11.8	86.5	-11.8	74.7	-11.8	62.9
D. Residual obligations from financing gap [4]	0.0	141.3	141.3	126.5	267.7	235.7	503.4	281.9	785.3	238.2	1,023.6	273.1	1,296.7
(Excluding arrear categories A,B, and C above)													
(Percent of GDP)	*0.0*	*1.1*	*1.1*	*0.9*	*1.9*	*1.6*	*3.4*	*1.8*	*5.0*	*1.4*	*6.0*	*1.5*	*7.1*
E. Total arrears and other payment obligations (A+B+C+D)	537.3	217.3	754.6	330.1	1,084.7	436.1	1,520.8	489.8	2,010.6	462.7	2,473.3	516.3	2,989.7
(Percent of GDP)	*4.5*		*5.9*		*7.9*		*10.3*		*12.7*		*14.5*		*16.3*

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

1. A partial audit conducted in 2010 revealed a stock of about CFAF 18 billion in new arrears, which are included in the end-2010 stock. A new audit is being conducted in 2012.

2. The end-of year stock of UPOs is assumed to stay at CFAF 131 billion beyond 2011, implying that UPOs will be slowly going down as a percentage of total expenditures.

3. The authorities securitized CFAF 80 billion of arrears to SONARA in 2011 and plan to securitize some of the end-2011 outstanding stock of obligations to SONARA (CFAF 38.1 billion) in 2012. The projection of flows for 2012 onwards assumes that annual obligations to SONARA will remain at about CFAF 400 billion and the authorities will continue to pay about CFAF 170 billion per year as budgeted in 2012. Amortization of the securitized part (for 2011 and 2012) is over 10 years with a 2-year grace period.

4. The residual financing gap is different from the financing gap in Table 2, as the net payment of arrears need to be subtracted to avoid double counting. For 2012, treatment of the settlement of 2011 arrears needs to be taken into account which is equal to CFAF 26 billion (audited arrears) plus CFAF 38.1 billion (cash payments). The amount securitized does not need to be subtracted as it figures both above and below the line and thus does not affect the financing gap. It is further assumed that the residual financing gap is financed ex post by accumulation of domestic arrears.

Table 7. Cameroon: Central Government Operations–GFSM 2001 Presentation, 2010–17

(CFAF billions, unless otherwise indicated)

	2010	2011	2012			2013	2014	2015	2016	2017
		Est.	Budget	March Act.	Proj.	Projections				
Revenue	1,940	2,250	2,274	573	2,411	2,560	2,653	2,816	3,044	3,297
Taxes	1,375	1,561	1,663	450	1,702	1,852	1,985	2,141	2,319	2,497
Taxes on income, profits, and capital gains	427	502	536	183	587	632	660	698	748	804
o/w tax on oil corporations	84	97	110	0	150	153	140	136	141	150
Taxes on goods and services	695	785	870	202	848	928	1,008	1,100	1,198	1,290
o/w special tax on petroleum products	83	85	92	25	89	97	105	114	123	133
Taxes on international trade	253	274	257	65	266	292	317	343	374	402
Grants	71	60	67	2	67	61	58	53	51	47
Other revenue	494	629	544	121	643	647	610	621	675	753
o/w royalties from crude oil	413	541	447	104	550	546	500	496	538	606
Expenditure	2,067	2,590	2,552	528	2,804	3,065	3,310	3,533	3,791	4,106
Expense	1,653	1,864	1,820	386	2,072	2,242	2,383	2,533	2,693	2,886
Compensation of employees	634	685	735	160	735	799	860	915	985	1,060
Use of goods and services	613	550	559	116	559	606	652	705	753	811
Interest	33	45	40	8	55	67	82	99	109	127
Subsidies	214	412	305	64	532	550	561	578	602	633
o/w fuel subsidies	17	146	170	…	397	404	402	406	416	433
Social benefits	117	138	121	32	130	138	147	156	165	174
Other Expense	42	35	60	6	60	80	80	80	80	80
o/w Rehabilitation and participation 1/	42	35	60	6	60	80	80	80	80	80
Net acquisition of nonfinancial assets	414	726	732	141	732	823	927	1,000	1,097	1,221
Domestically financed	315	563	526	91	526	574	622	668	734	823
Foreign financed	100	163	206	51	206	249	305	331	363	398
Gross operating balance	288	387	454	187	340	318	270	283	351	411
Net lending / borrowing (overall balance, incl. grants)	-127	-339	-278	46	-393	-505	-657	-717	-746	-809
Net financial worth, transactions	127	339	278	-46	187	122	172	189	260	275
Net acquisition of financial assets ("+": increase in assets)	-62	151	21	-39	21	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	188	188	258	-3	166	122	172	189	260	275
Domestic	46	90	142	-48	52	-40	-44	-57	-34	-55
Debt Securities	205	198	250	-27	238	100	100	100	100	100
Loans	-34	-47	-82	-19	-83	-117	-124	-141	-124	-147
Amortization	-34	-47	-82	-19	-83	-117	-124	-141	-124	-147
Other accounts payable (arrears)	-125	-62	-26	-2	-102	-22	-20	-16	-10	-8
Obligations to SONARA	-90	-47	0	0	-76	0	0	0	0	0
Change in arrears	-35	-15	-26	-2	-26	-22	-20	-16	-10	-8
Foreign	142	98	116	45	114	162	216	246	294	331
Statistical discrepancies	0	1	-1	-3	0	0	0	0	0	0
Financing gap	0	0	0	0	205	383	485	528	486	534
Memorandum items:										
Overall balance (cash basis, incl. grants)	-252	-401	-304	44	-495	-527	-677	-733	-756	-817
Oil revenue	497	638	557	104	699	699	640	632	679	756
Non-oil revenue	1,372	1,552	1,650	468	1,646	1,801	1,956	2,131	2,315	2,494
Capital expenditure	456	761	792	148	792	903	1,007	1,080	1,177	1,301
Primary balance	-94	-295	-239	53	-337	-438	-575	-617	-637	-682
Non-oil primary balance	-591	-933	-796	-51	-1,036	-1,136	-1,214	-1,249	-1,316	-1,438

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

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

Table 8. Cameroon: Central Government Operations–GFSM 2001 Presentation, 2010–17
(Percent of GDP, unless otherwise indicated)

	2010	2011	2012		2013	2014	2015	2016	2017
		Est.	Budget	Proj.	Projections				
Revenue	17.5	18.9	17.9	19.0	18.6	18.0	17.8	17.8	17.9
Taxes	12.4	13.1	13.1	13.4	13.5	13.5	13.5	13.6	13.6
Taxes on income, profits, and capital gains	3.8	4.2	4.2	4.6	4.6	4.5	4.4	4.4	4.4
o/w tax on oil corporations	0.8	0.8	0.9	1.2	1.1	0.9	0.9	0.8	0.8
Taxes on goods and services	6.3	6.6	6.8	6.7	6.8	6.8	6.9	7.0	7.0
Other taxes on goods and services	1.4	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4
o/w special tax on petroleum products	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on international trade	2.3	2.3	2.0	2.1	2.1	2.1	2.2	2.2	2.2
Grants	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Other revenue	4.4	5.3	4.3	5.1	4.7	4.1	3.9	4.0	4.1
o/w royalties from crude oil	3.7	4.5	3.5	4.3	4.0	3.4	3.1	3.2	3.3
Expenditure	18.6	21.7	20.1	22.0	22.3	22.5	22.3	22.3	22.4
Expense	14.9	15.7	14.3	16.3	16.3	16.2	16.0	15.8	15.7
Compensation of employees	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Use of goods and services	5.5	4.6	4.4	4.4	4.4	4.4	4.5	4.4	4.4
Interest	0.3	0.4	0.3	0.4	0.5	0.6	0.7	0.7	0.7
Subsidies	1.9	3.5	2.4	4.2	4.0	3.8	3.6	3.5	3.4
o/w fuel subsidies	0.2	1.2	1.3	3.1	2.9	2.7	2.6	2.4	2.4
Social benefits	1.0	1.2	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Other Expense	0.4	0.3	0.5	0.5	0.6	0.5	0.5	0.5	0.4
o/w Rehabilitation and participation 1/	0.4	0.3	0.5	0.5	0.6	0.5	0.5	0.5	0.4
Net acquisition of nonfinancial assets	3.7	6.1	5.8	5.8	6.0	6.3	6.3	6.4	6.6
Domestically financed	2.8	4.7	4.1	4.1	4.2	4.2	4.2	4.3	4.5
Foreign financed	0.9	1.4	1.6	1.6	1.8	2.1	2.1	2.1	2.2
Gross operating balance	2.6	3.2	3.6	2.7	2.3	1.8	1.8	2.0	2.2
Net lending / borrowing (overall balance, incl. grants)	-1.1	-2.9	-2.2	-3.1	-3.7	-4.5	-4.6	-4.4	-4.5
Net financial worth, transactions	1.1	2.8	2.2	1.5	0.9	1.2	1.2	1.5	1.5
Net acquisition of financial assets ("+": increase in assets)	-0.6	1.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities ("+": increase in liabilities)	1.7	1.6	2.0	1.3	0.9	1.2	1.2	1.5	1.5
Domestic	0.4	0.8	1.1	0.4	-0.3	-0.3	-0.4	-0.2	-0.3
Debt securities	1.8	1.7	2.0	1.9	0.7	0.7	0.6	0.6	0.5
Loans	-0.3	-0.4	-0.6	-0.7	-0.9	-0.8	-0.9	-0.7	-0.8
Other accounts payable (arrears)	-1.1	-0.5	-0.2	-0.8	-0.2	-0.1	-0.1	-0.1	0.0
Obligations to SONARA	-0.8	-0.4	0.0	-0.6	0.0	0.0	0.0	0.0	0.0
Change in arrears	-0.3	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.0
Foreign	1.3	0.8	0.9	0.9	1.2	1.5	1.6	1.7	1.8
Statistical discrepancies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	1.6	2.8	3.3	3.4	2.9	3.0
Memorandum items:									
Overall balance (cash basis, incl. grants)	-2.3	-3.4	-2.4	-3.9	-3.8	-4.6	-4.7	-4.5	-4.5
Oil revenue	4.5	5.4	4.4	5.5	5.1	4.3	4.0	4.0	4.1
Non-oil revenue	12.4	13.0	13.0	12.9	13.1	13.3	13.4	13.6	13.6
Capital expenditure	4.1	6.4	6.2	6.2	6.6	6.8	6.8	6.9	7.1
Primary balance	-0.8	-2.5	-1.9	-2.7	-3.2	-3.9	-3.9	-3.7	-3.7
Non-oil primary balance	-5.3	-7.8	-6.3	-8.1	-8.3	-8.2	-7.9	-7.7	-7.8
Non-oil primary balance (percent of non-oil GDP)	-5.7	-8.5	-6.9	-9.0	-9.1	-8.9	-8.5	-8.3	-8.4

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

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

Table 9. Cameroon: Reform Scenario—Selected Economic and Financial Indicators, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Projections					
	(Annual percentage change, unless otherwise indicated)							
National account and prices								
GDP at constant prices	2.9	4.2	4.7	5.5	5.7	6.0	6.2	6.5
Oil GDP at constant prices	-12.1	-7.3	16.2	6.8	2.7	4.3	7.4	8.7
Non-Oil GDP at constant prices	3.7	4.7	4.3	5.4	5.8	6.1	6.2	6.4
GDP deflator	3.0	2.9	2.0	3.4	2.4	2.5	2.5	2.6
GDP at market prices	11,107	11,908	12,719	13,871	15,017	16,314	17,767	19,415
Oil	785	997	1,177	1,226	1,148	1,136	1,196	1,294
Non-Oil	10,322	10,911	11,542	12,645	13,870	15,178	16,571	18,121
Oil output (thousands of barrels a day)	63.9	59.2	68.8	73.7	75.6	81.0	90.9	103.1
Consumer prices (average)	1.3	2.9	3.0	3.5	3.0	3.0	3.0	3.0
External trade								
Export volume	-0.5	6.3	9.8	6.8	6.9	7.9	8.8	9.2
Oil sector	-14.6	-8.7	26.0	3.7	2.7	7.6	12.8	14.1
Non-oil sector	3.1	9.4	7.0	7.4	7.8	8.0	8.0	8.2
Import volume	4.9	15.6	7.9	8.6	8.0	8.0	8.0	7.8
Average oil export price (US$ per barrel) [1]	79.6	111.6	102.7	101.0	93.8	88.2	84.3	82.0
Nominal effective exchange rate (depreciation -)	-4.4	1.2	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	-6.3	-0.3	...	...	...	...	...	...
Terms of trade	16.0	2.4	-6.8	2.2	-2.7	-2.1	-1.5	-0.9
Export price index	16.6	15.4	3.4	1.1	-4.0	-3.0	-1.7	-0.6
Non-oil export price index	-1.5	8.1	6.1	0.7	-1.4	-2.4	-2.8	-2.1
Import price index	0.6	12.6	11.0	-1.1	-1.3	-0.9	-0.2	0.3
Money and credit								
Broad money (M2)	11.3	10.6	6.0	8.2	8.3	9.2	9.2	9.3
Net foreign assets [2]	2.4	-7.4	-2.2	1.6	2.2	3.4	4.0	4.1
Net domestic assets [2]	8.9	18.0	8.3	6.6	6.1	5.7	5.1	5.2
Domestic credit to the private sector	8.2	28.3	10.0	9.7	10.0	10.3	11.4	12.3
	(Percent of GDP, unless othrwise indicated)							
Gross national savings	13.1	15.7	14.2	15.4	15.8	16.5	17.3	17.5
Gross domestic investment	16.1	18.9	18.9	19.8	20.6	21.1	21.9	22.2
Public investment	4.1	6.4	6.2	6.7	7.2	7.5	7.6	7.6
Private investment	12.0	12.5	12.7	13.2	13.4	13.7	14.2	14.6
Central government operations								
Total revenue (excluding grants)	16.8	18.4	18.4	18.3	17.9	17.9	18.1	18.3
Oil revenue	4.5	5.4	5.5	5.0	4.3	3.9	3.8	3.9
Non-oil revenue	12.4	13.0	12.9	13.3	13.7	14.0	14.3	14.5
Non-oil revenue (percent of nonoil GDP)	13.3	14.2	14.3	14.6	14.8	15.1	15.3	15.5
Total expenditure	18.6	21.7	22.0	20.9	20.8	20.9	21.0	20.8
Overall fiscal balance (cash basis)								
Excluding grants	-2.9	-3.9	-4.4	-2.7	-3.0	-3.2	-3.0	-2.5
Including grants	-2.3	-3.4	-3.9	-2.3	-2.7	-2.8	-2.7	-2.2
Non-oil primary balance (percent of nonoil GDP)	-5.7	-8.5	-9.0	-7.3	-6.7	-6.4	-6.2	-5.8
External sector								
Current account balance								
Including official grants	-3.0	-3.1	-4.7	-4.4	-4.9	-4.6	-4.6	-4.7
Excluding official grants	-4.3	-4.1	-5.6	-5.3	-5.7	-5.4	-5.3	-5.3
Gross official reserves								
Imputed reserves (billions of US$)	3.6	3.5	3.1	3.1	3.2	3.4	3.6	3.8
Imputed reserves (percent of broad money)	65.6	52.9	47.8	45.1	43.2	41.7	40.5	39.3
Public debt[3]								
Stock of public debt	12.1	13.7	17.2	18.3	20.0	21.7	23.4	24.5
Of which : External	6.5	7.6	8.9	10.3	12.3	14.7	17.0	18.9
	(Percent of exports of goods and services, unless otherwise indicated)							
Present value of external debt	20.0	20.9	22.8	25.8	32.0	38.8	45.7	51.3
External debt service	0.9	1.0	1.6	1.5	1.7	2.1	2.0	2.1
External debt service (percent of government revenue)	1.4	1.7	2.8	2.6	2.8	3.5	3.1	3.2

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

[1] Beyond 2011, 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 2012 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de desendettement et de developpement" (C2D).

Table 10. Cameroon: Reform Scenario–Central Government Operations, 2010–17
(CFAF billions, unless otherwise indicated)

	2010	2011	2012		2013	2014	2015	2016	2017
		Est.	Budget	Proj.	Projections				
Total revenue and grants	1,940	2,250	2,273	2,411	2,601	2,748	2,968	3,259	3,608
Total revenue	1,869	2,190	2,207	2,345	2,541	2,690	2,915	3,208	3,561
Oil sector revenue	497	638	557	699	698	639	630	676	751
Non-oil sector revenue	1,372	1,552	1,650	1,646	1,842	2,051	2,285	2,532	2,809
Direct taxes	343	405	426	437	489	544	604	670	740
Special tax on petroleum products	83	85	92	89	100	111	124	137	151
Other taxes on goods and services	612	701	778	759	852	949	1,054	1,168	1,303
Taxes on international trade	253	274	257	266	298	331	368	408	450
Non-tax revenue	81	88	97	94	104	116	135	150	165
Total grants	71	60	66	67	61	58	53	51	47
Projects	10	8	23	23	21	19	17	17	17
Other (debt relief)	62	53	43	43	40	38	37	34	30
Total expenditure	2,067	2,590	2,552	2,804	2,899	3,127	3,416	3,723	4,035
Current expenditure	1,611	1,828	1,760	2,011	1,974	2,042	2,196	2,366	2,553
Wages and salaries	634	685	735	735	799	865	935	1,012	1,094
Goods and services	613	550	559	559	612	665	720	763	809
Subsidies and transfers	331	550	426	662	494	428	441	484	525
Fuel subsidies	17	146	170	397	199	100	77	71	55
Pensions	117	138	121	130	135	145	156	167	179
Other	197	266	135	135	160	183	208	246	291
Interest due	33	45	40	55	69	84	100	107	124
External	26	31	21	39	40	45	55	67	80
Domestic	6	14	18	16	29	39	44	40	44
Capital expenditure	456	761	792	792	926	1,085	1,220	1,357	1,482
Domestically-financed investment	315	563	526	526	516	540	556	637	730
Foreign-financed investment	100	163	206	206	330	465	584	641	672
Rehabilitation and participation	42	35	60	60	80	80	80	80	80
Overall balance (excl. payment of govt. obligations)									
Excluding grants	-198	-400	-345	-459	-358	-437	-501	-515	-474
Including grants	-127	-339	-279	-392	-298	-380	-448	-465	-427
Payment of government obligations	-125	-62	-26	-102	-22	-20	-16	-10	-8
Audited arrears	-35	-15	-26	-26	-22	-20	-16	-10	-8
Unsettled payment orders (UPOs)	...	...	0	0	0	0	0	0	0
Obligations to SONARA	-90	-47	0	-76	0	0	0	0	0
Overall balance (cash basis)									
Excluding grants	-323	-461	-371	-561	-381	-457	-517	-525	-482
Including grants	-252	-401	-305	-495	-320	-400	-464	-475	-435
Financing	252	401	305	290	320	400	464	475	435
External financing, net	40	98	116	114	242	376	498	572	605
Amortization	-60	-58	-67	-69	-67	-70	-69	-52	-50
Drawings	100	156	183	183	309	446	567	624	655
Domestic financing, net	212	303	189	176	78	24	-34	-97	-170
Banking system	-62	151	21	21	-5	-33	-53	-113	-143
Use of SDR allocation	103	0	0	0	0	0	0	0	0
Amortization of domestic debt	-34	-47	-82	-83	-117	-144	-181	-184	-227
Security issue	200	0	250	200	200	200	200	200	200
Securitization of arrears to SONARA	0	80	0	38	0	0	0	0	0
Other domestic financing	5	118	0	0	0	0	0	0	0
Errors and omissions	0	1	0	0	0	0	0	0	0
Financing gap	0	0	0	205	0	0	0	0	0
Memorandum items:									
Primary balance	-94	-295	-239	-337	-229	-296	-348	-357	-303
Non-oil primary balance	-591	-933	-796	-1,036	-927	-935	-978	-1,033	-1,054

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

Table 11. Cameroon: Reform Scenario—Central Government Operations, 2010–17

(Percent of GDP, unless otherwise indicated)

	2010	2011	2012		2013	2014	2015	2016	2017
		Est.	Budget	Proj.	Projections				
Total revenue and grants	17.5	18.9	17.9	19.0	18.8	18.3	18.2	18.3	18.6
Total revenue	16.8	18.4	17.4	18.4	18.3	17.9	17.9	18.1	18.3
Oil sector revenue	4.5	5.4	4.4	5.5	5.0	4.3	3.9	3.8	3.9
Non-oil sector revenue	12.4	13.0	13.0	12.9	13.3	13.7	14.0	14.3	14.5
Direct taxes	3.1	3.4	…	3.4	3.5	3.6	3.7	3.8	3.8
Special tax on petroleum products	0.7	0.7	…	0.7	0.7	0.7	0.8	0.8	0.8
Other taxes on goods and services	5.5	5.9	…	6.0	6.1	6.3	6.5	6.6	6.7
Taxes on international trade	2.3	2.3	…	2.1	2.1	2.2	2.3	2.3	2.3
Non-tax revenue	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.9
Total grants	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.2
Projects	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other (debt relief)	0.6	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Total expenditure	18.6	21.7	20.1	22.0	20.9	20.8	20.9	21.0	20.8
Current expenditure	14.5	15.4	13.8	15.8	14.2	13.6	13.5	13.3	13.1
Wages and salaries	5.7	5.7	5.8	5.8	5.8	5.8	5.7	5.7	5.6
Goods and services	5.5	4.6	4.4	4.4	4.4	4.4	4.4	4.3	4.2
Subsidies and transfers	3.0	4.6	3.3	5.2	3.6	2.9	2.7	2.7	2.7
Fuel subsidies	0.2	1.2	1.3	3.1	1.4	0.7	0.5	0.4	0.3
Pensions	1.0	1.2	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Other	1.8	2.2	1.1	1.1	1.2	1.2	1.3	1.4	1.5
Interest due	0.3	0.4	0.3	0.4	0.5	0.6	0.6	0.6	0.6
External	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Domestic	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.2	0.2
Capital expenditure	4.1	6.4	6.2	6.2	6.7	7.2	7.5	7.6	7.6
Domestically-financed investment	2.8	4.7	4.1	4.1	3.7	3.6	3.4	3.6	3.8
Foreign-financed investment	0.9	1.4	1.6	1.6	2.4	3.1	3.6	3.6	3.5
Rehabilitation and participation	0.4	0.3	0.5	0.5	0.6	0.5	0.5	0.5	0.4
Overall balance (excl. payment of govt. obligations)									
Excluding grants	-1.8	-3.4	-2.7	-3.6	-2.6	-2.9	-3.1	-2.9	-2.4
Including grants	-1.1	-2.9	-2.2	-3.1	-2.1	-2.5	-2.7	-2.6	-2.2
Payment of government obligations	-1.1	-0.5	-0.2	-0.8	-0.2	-0.1	-0.1	-0.1	0.0
Audited arrears	-0.3	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Unsettled payment orders (UPOs)	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations to SONARA	-0.8	-0.4	0.0	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)									
Excluding grants	-2.9	-3.9	-2.9	-4.4	-2.7	-3.0	-3.2	-3.0	-2.5
Including grants	-2.3	-3.4	-2.4	-3.9	-2.3	-2.7	-2.8	-2.7	-2.2
Financing	2.3	3.4	2.4	2.3	2.3	2.7	2.8	2.7	2.2
External financing, net	0.4	0.8	0.9	0.9	1.7	2.5	3.1	3.2	3.1
Amortization	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3
Drawings	0.9	1.3	1.4	1.4	2.2	3.0	3.5	3.5	3.4
Domestic financing, net	1.9	2.5	1.5	1.4	0.6	0.2	-0.2	-0.5	-0.9
Banking system	-0.6	1.3	0.2	0.2	0.0	-0.2	-0.3	-0.6	-0.7
Use of SDR allocation	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-0.3	-0.4	-0.6	-0.7	-0.8	-1.0	-1.1	-1.0	-1.2
Security issue	1.8	0.0	2.0	1.6	1.4	1.3	1.2	1.1	1.0
Securitization of arrears to SONARA	0.0	0.7	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Other domestic financing	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(Percent of non-oil GDP, unless otherwise indicated)						
Nonoil revenue	13.3	14.2	14.3	14.3	14.6	14.8	15.1	15.3	15.5
Non-oil primary balance	-5.7	-8.5	-6.9	-9.0	-7.3	-6.7	-6.4	-6.2	-5.8
			(Percent of GDP, unless otherwise indicated)						
Primary balance	-0.8	-2.5	-1.9	-2.7	-1.7	-2.0	-2.1	-2.0	-1.6
Stock of total public debt	12.1	13.7	…	17.2	18.3	20.0	21.7	23.4	24.5
			In months of total expenditure, excluding foreign financed investment						
Government usable deposits	0.2	0.2		0.1	0.2	0.3	0.5	0.9	1.2

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

Table 12. Cameroon: Millennium Development Goals, 1990–2010

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	60	61	61	62	62
Employment to population ratio, ages 15-24, total (%)	44	44	43	43	42
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 5)	18	..	18	17	..
Poverty gap at $1.25 a day (PPP) (%)	..	6	2	1	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	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
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
Ratio of female to male primary enrollment (%)	86	90	85	84	86
Ratio of female to male secondary enrollment (%)	69	69	81	79	83
Ratio of female to male tertiary enrollment (%)	..	..	64	66	81
Share of women employed in the nonagricultural sector (% of tc	..	19.2	22.2	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	56	46	49	68	79
Mortality rate, infant (per 1,000 live births)	85	91	91	88	84
Mortality rate, under-5 (per 1,000)	137	147	148	142	136
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	143	139	131	123
Births attended by skilled health staff (% of total)	58	..	60	63	..
Contraceptive prevalence (% of women ages 15-49)	16	..	26	29	..
Maternal mortality ratio (modeled estimate, per 100,000 live bir	680	680	660	640	600
Pregnant women receiving prenatal care (%)	79	..	75	82	..
Unmet need for contraception (% of married women ages 15-4	22	..	20	3	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children u	..	..	66	58	..
Condom use, population ages 15-24, female (% of females ages	..	..	16	24	..
Condom use, population ages 15-24, male (% of males ages 15-	..	..	27	52	..
Incidence of tuberculosis (per 100,000 people)	81	116	168	202	177
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	3.9
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	1.6
Prevalence of HIV, total (% of population ages 15-49)	0.6	4.2	5.5	5.4	5.3
Tuberculosis case detection rate (%, all forms)	60	20	20	61	69
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
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$)	36	32	24	24	34
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding worker:	13	17	12	10	1
Internet users (per 100 people)	0.0	0.0	0.3	1.4	4.0
Mobile cellular subscriptions (per 100 people)	0	0	1	13	42
Telephone lines (per 100 people)	0	0	1	1	3
Fertility rate, total (births per woman)	6	5	5	5	5
Other					
GNI per capita, Atlas method (current US$)	910	720	630	930	1,180
GNI, Atlas method (current US$) (billions)	11.1	10.0	9.8	16.3	23.2
Gross capital formation (% of GDP)	17.8	13.3	16.7	19.1	..
Life expectancy at birth, total (years)	53	52	50	49	51
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
Trade (% of GDP)	37.5	41.4	42.9	41.9	60.5

Source: World Development Indicators.

Appendix I. Cameroon: Issues in the Banking System

A. Structure of the Banking System

1. The Cameroonian banking system has a diversified ownership structure.[1] The 13 commercial banks in the sector comprise (i) subsidiaries of international banking groups based outside sub-Saharan Africa (SSA) (five banks); (ii) banks controlled by groups headquartered in SSA (five banks) ; and (iii) domestic banks (three banks). Together, they represent more than 40 percent of banking assets in the Central African Economic and Monetary Community (CEMAC; Table 1).

2. The large international groups based outside SSA dominate the Cameroonian banking sector. By end-2011, these groups accounted for 57.3 percent of the credit market, an increase of 1.3 percentage point from 2010. French affiliates dominated this sub-group, controlling more than 40 percent of the credit market. Domestic banks had a total share of 24 percent of the credit market. The government has significant shares in both French affiliates and in the Moroccan bank recently acquired from another French group active in Cameroon until last year.

3. The remaining 19 percent of the credit market was covered by four relatively small subsidiaries of Nigerian, Togolese, and Gabonese banking groups. Ecobank, the fifth-largest bank in Cameroon (10 percent of the credit market), belongs to the Togo-based Ecobank group, which has recently purchased the Nigerian Oceanic Group, parent of the Union Bank of Cameroon (2.1 percent of the credit market)**.** A new Gabonese affiliate, Banque Gabonaise et Française Internationale, which entered the sector in 2011, has established a 2.5 percent share in the credit market. The remaining banks are the Togolese-owned Banque Atlantique du Cameroun (1.6 percent of the credit market) and the Nigerian affiliate United Bank for Africa (2.2 percent of the credit market).

4. The microfinance sector in Cameroon is of significant size, equal to one of the country's medium-sized banks. The regional bank supervisory agency, the Central African Banking Commission (COBAC), is responsible for supervising the sector but is unable to fulfill its mandate because of capacity constraints and the large number of entities involved, which totaled 495 institutions at end-2010. A large number of these are reported by the regulatory authorities to be in financial difficulty.

B. Banking System Vulnerabilities

5. There has been a significant increase in banking sector vulnerability in Cameroon since the last Article IV consultation. There are now four banks facing insolvency and a fifth one reportedly also in difficulty (compared to three at end-2010) reflecting (i) mismanagement issues at individual banks, particularly related to connected lending; (ii) continued failure to assemble viable restructuring plans for the banks already in distress; and (iii) inadequate human resources

[1] This is an updated and expanded version of a similar appendix in the 2011 staff report. It was prepared by Liam O'Sullivan.

in some banks to deal with the requirements of changing market conditions. The net negative equity related to losses on nonperforming loans (NPLs) associated with one of the larger domestic banks has been estimated at CFAF 60 billion (compared to assets valued at CFAF 113 billion), in addition to an estimated CFAF 20 billion for the other troubled banks. The number of banks in difficulty and the significant share of the retail market under their control constitute a risk. While the virtual absence of interbank lending reduces the risk of contagion, the failure of one bank could precipitate a loss of confidence in other undercapitalized banks. The principal risk attached to eventual bank closures is thus reputational via faltering public confidence in the banking system and the authority of the regulators.

6. **Financial soundness indicators in Cameroon have deteriorated further since the last Article IV consultation**. The number of banks exceeding the limit on single large exposure has risen to 9 (out of 13 banks) from 5 (out of 12) in 2010 (Table 2). At the aggregate level, there has been a sharp decline in capital adequacy ratios (CARs) with the average falling from 7.4 percent of risk-weighted assets in 2010 to 5.2 percent in 2011 (Table 3). The statutory limit is 8 percent. This decline in the overall CARs results from the increased number of banks in distress and the need for increased provisioning for NPLs. The overall CAR numbers mask major divergences in the positions of international banks and regional and domestic banks, with the former keeping buffers well in excess of the statutory limit, while the majority of regional and domestic banks either have low buffers or hold negative equity.

7. **Cameroon's fulfillment of all the CEMAC convergence criteria in 2011 has resulted in a downward revision of its sovereign debt risk premium.** The scale of this revision is reported to be from 85 percent to 0 percent. Banks' holdings of government bonds accounted for 6.9 percent of total assets at end-2010. Although the absence of confirmed data makes it difficult to assess the impact the revision has on bank prudential ratios, the reduction in the risk premium would likely improve the CARs of the banks which hold government bonds. This improvement is, however, contingent on the condition that Cameroon meets the CEMAC criteria every year in the future.

8. **Nonperforming loans have continued to increase as the number of banks in the sector facing insolvency rises**. NPLs grew by a further 17.5 percent in value relative to 2010, although the rapid increase in gross lending means the share of NPLs in total loans remains practically unchanged at 12.3 percent. Provisioning for NPLs has increased to 96.7 percent of gross NPLs from 89.2 percent in 2010, although the infrequency of on-site supervisory visits may affect the reliability of these data. Rules, which allow for up to four years for provisioning NPLs, may also be an explanatory factor—the improved coverage of NPLs may therefore also relate to delayed provisioning of loans that were made in the aftermath of the financial crisis.

9. **There has been a marked increase in risk concentration**. Data on prudential ratios indicate that 9 of the 13 banks are in breach of the limit on single large exposure. In the majority of cases, credit concentration risk is primarily linked to the national oil refinery (SONARA). Large common borrowers, confronted with liquidity problems because of

protracted delays in receiving government payments, continue to represent a serious threat to the banking system. Moreover, public enterprises forced to finance operating needs through bank borrowing crowd out private sector borrowing and constrain growth. Recent stress tests at the regional level suggest that the banking system is particularly vulnerable to credit risk and that the concentration of lending to a few large borrowers and to the public sector is a major source of risk. It also constitutes a potential liquidity risk for the banks concerned.

C. Dealing with Distressed Banks

10. It is critical that restructuring or resolution of distressed banks is carried out promptly. The necessary arrangements should be put in place immediately. Ongoing efforts to identify new investors to recapitalize the banks concerned and avoid closures should continue aggressively. Restructuring plans are under consideration for the troubled banks. However, in many cases these plans are mired in difficulty.

- For one of the banks concerned, the next steps comprise (i) finalizing the details of the recapitalization plans; (ii) reaching a decision on government participation in the recapitalization of the bank; and (iii) submitting a restructuring plan to the COBAC for approval.
- Another bank is in the process of finalizing preparations and will shortly seek shareholder approval for a revised restructuring plan.
- The intentions of the parent group regarding the onward sale or absorption need to be confirmed for a third bank. This will enable shareholders to reach an early decision on the restructuring plan and seek COBAC approval as soon as possible.
- A COBAC decision on a fourth bank's restructuring plan submitted in March 2012 should be finalized as soon as possible.
- A timetable for discussions on the capitalization needs of a fifth bank reported to be in distress should be established as soon as possible.

There have been substantial procedural delays in dealing with these banks, which have increased the potential contingent liabilities associated with resolution.

11. The government should, in close co-ordination with COBAC, also take the following immediate measures:

- Closely monitor the liquidity of the troubled banks to avoid a suspension of payments.
- Set short deadlines for specific prior actions in the case of each bank to reach an agreement on their restructuring plans. The authorities should consider liquidation in the event that agreement is not reached with shareholders on the restructuring plans within the established deadlines.
- Require credible full loss absorption by previous shareholders to reduce the impact of the restructuring on public finances.

D. Issues in the Regulatory Environment

12. The regulatory environment is the source of a number of concerns. The 2012 consultation report with CEMAC refers to the need to strengthen the common institutional framework. Prudential regulations related to provisioning for NPLs and exposure to single creditors need to be reviewed urgently. The bank resolution framework needs to be strengthened as a matter of priority as part of broader reform efforts to enhance crisis management frameworks at CEMAC level. The increase in risk concentration and the high level of NPLs suggest moreover that the statutory limit of 8 percent for capital adequacy is insufficient in terms of building buffers against emerging risks, and could be increased in line with the Basel Committee on Banking Supervision guidance already being adopted elsewhere. There is also a need to strengthen the institutional framework of the financial sector to facilitate access to financial services.

13. COBAC lacks sufficient resources. The lack of adequate resources, highlighted in the 2006 Financial Sector Assessment Program (FSAP) report as a constraint to COBAC's fulfilling its supervisory mandate, has yet to be addressed. This resource constraint limits the frequency of on-site inspections and hinders early detection of problems in distressed banks. It also severely restricts COBAC in its activities as the supervisory authority for the microfinance sector. Staffing levels continue to be low and this lack of resources does not allow COBAC to conduct on-site examinations with sufficiently in-depth assessments of loan portfolios with appropriate regularity. These can instead take two to four years per bank resulting in the inability of COBAC to enforce provisioning standards. Accordingly, and in line with the 2006 FSAP report, COBAC's capacity needs to be reinforced urgently.

E. Improving the Regulatory Framework

14. Deficiencies in key prudential regulations need to be addressed. Provisioning rules that allow for up to four years for provisioning NPLs need to be tightened because of COBAC's limited capacity to enforce regulations. In addition, the 45 percent regulatory capital limit on exposures to a single borrower is extended to up to 90 percent for large public enterprises, although the suggested BCBS benchmark is 15–25 percent. For off-site supervision, although there is a well-developed reporting platform, the rating system needs updating and is subject to maintenance delays.

15. There is a need for consolidated banking group surveillance. COBAC assessment of restructuring plans for international banks is impaired by the absence of a mandate to carry out consolidated surveillance of international banking groups.

16. The bank resolution framework needs to be reinforced to deal with insolvency cases. This applies particularly to the need for the establishment of clear rules and time bound procedures, and greater cohesion between COBAC and local authorities in enforcing regulations. COBAC's ongoing consideration of reforms to the bank resolution framework should focus on (i) the appropriate division of responsibilities between the regional and national authorities; (ii) setting out clear procedures to be followed; and (iii) reducing excessive delays in decision making. Although a special resolution regime has been drawn up as a crisis management tool, it still needs to be formally adopted by CEMAC. More effective tools are also needed at the CEMAC level to handle problem banks, particularly regarding mandatory recapitalization, transfer of assets and liabilities, and orderly winding up. It is critical that the authorities fully support these reforms in view of the importance of the Cameroonian banking system to the CEMAC region.

17. A regional deposit insurance scheme was established in 2009. The *Fonds de Garantie des Dépôts en Afrique Centrale* (FOGADAC) started accepting contributions in March 2011. The FOGADAC is supervised by COBAC, under the oversight of BEAC and banking sector representatives. The scheme, funded by fees from financial institutions, will insure deposits up to CFAF 5 million once it becomes operational.

Table 1. Cameroon: Banking System Structure

	Controlled by: Group	Controlled by: Country of HQ	Controlled by: Controlling Share 2009 (Percent)	Ownership Participation of Cameroon Government (Percent)	Credit Market Share in: Cameroon 2011 (Percent)	Credit Market Share in: CEMAC (Group) 2009 (Percent)	Share in Total Deposits in Cameroon 2011 (Percent)
Domestically controlled							
Afriland First Bank	SBF etc.	Cameroon	80.7		14.5	8.0	17.7
CBC	Fotso Group etc.	Cameroon	90.0		6.6	4.1	4.7
NFC	Various	Cameroon	100.0		2.9		2.4
Subtotal:					24.1	12.1	24.8
Foreign controled - regional							
Ecobank	Ecobank	Togo	79.6		10.2	3.4	9.5
UBC	Ecobank	Togo	54.0		2.1		2.3
BAC	AFG C ET EA	Togo	54.5		1.6		2.1
UBA	UBA Plc	Nigeria	100.0		2.2	0.7	2.7
BGFI	BGFI	Gabon	100.0		2.5		0.8
Subtotal:					18.6	4.0	17.3
Foreign controled - other							
BICEC	Banque Populaire	France	52.5	17.5	19.9	10.3	18.1
SGBC	Société Générale	France	58.1	25.6	20.6	9.4	17.8
SCB	Attijariwafa	Morocco	51.0	49.0	11.0	5.2	12.5
SCBC	Standard Chartered	UK	100.0		3.2		6.8
Citibank	Citibank N.A.	US	100.0		2.6	1.1	2.7
Subtotal:					57.3	25.9	57.9
TOTAL / AVERAGE:					**100.0**	**42.0**	**100.0**

Sources: Banking Commission of Central Africa (COBAC) data; and IMF staff calculations.

Table 2. CEMAC: Number of Banks in Violation of Prudential Ratios, 2009–11

	Capital Adequacy (Minimum 8 percent)			Liquidity[1] (Minimum 100 percent)			Fixed Assets[2]			Maturity Transformation[3] (Minimum 50 percent)			Minimum[4] Capital			Limit on Single[5] Large Exposure		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Cameroon (out of 13 banks)	3	3	5	0	0	1	4	5	8	4	6	5	1	4	5	2	4	9
Other CEMAC (out of 32 banks)	8	4	2	3	3	4	8	5	2	6	4	1	1	9	5	4	8	10
	Percent of deposits[6]																	
Cameroon	27	17	21	0	0	2	14	39	46	30	45	19	6	13	19	9	19	37
Average CEMAC	32	13	7	2	4	15	20	24	12	27	17	6	3	15	10	17	24	31

Sources: Banking Commission of Central Africa (COBAC); and IMF Staff Calculations. This table is an abridged version of Table 13 in the 2012 Staff Report on Common Policies of Member Countries in the CEMAC Region.

[1] Short-term assets of up to one month (remaining maturity) over short-term liabilities of up to one month (remaining maturity).

[2] Net capital and other premanent resources over fixed assets.

[3] Long-term assets of more than five years over long term liabilities of more than five years.

[4] Minimum capital varied by country until May 2010 (CFA millions): Cameroon 1,000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; and Gabon 1,000. From June 2010, minimum capital is CFAF 5 billion for all the countries.

[5] Single large exposure is limited to 45 percent of capital.

[6] Percentage of deposits represented by the number of banks in violation in the country.

Table 3. Cameroon: Aggregate Banking System Financial Soundness Indicators, 2009–11

	2009	2010	2011
Growth			
Deposit growth (percent p.a.)	n.a.	11.5	11.8
Credit growth (gross) (percent p.a.)	n.a.	12.0	16.9
Capital adequacy			
Regulatory capital to risk-weighted assets (percent)	10.0	7.0	5.2
Tangible net worth (net) to risk-weighted assets (percent) 1/	10.2	7.9	4.9
Tangible net worth (net) to Total tangible assets (percent) 2/	5.3	4.1	2.7
Asset quality and composition			
Loans (net) to assets (percent)	48.9	48.8	50.4
NPLs to gross loans (percent)	9.8	12.4	12.3
Provisions to gross loans (percent)	10.2	11.1	11.9
Provisions to gross NPLs (percent)	103.6	89.2	96.7
NPLs less provisions to net worth (percent)	23.7	44.1	59.0
Earnings and profitability			
Return on Average Assets (percent p.a.)	-0.2	n.a.	n.a.
Return on Average Equity (percent p.a.)	-2.2	n.a.	n.a.
Net interest income to gross interest income (percent)	74.8	n.a.	n.a.
Administrative expenses to average assets (percent p.a.)	4.1	n.a.	n.a.
Liquidity			
Liquid assets to total assets (percent)	40.4	38.8	36.2
Liquid assets to deposits (percent)	49.2	47.0	44.0

Source: IMF staff calculations based on data provided by the Banking Commission of Central Africa.
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.

Appendix II. Cameroon: Fuel Subsidies

A. Current Issues Regarding Fuel Subsidies

1. **Application of an automatic fuel pricing formula to reflect international market conditions was halted in February 2008.**[1] Pump prices remained constant from February to December 2008, when they were adjusted downward. They have been frozen since then. The freeze was accompanied by a decision to compensate the national oil refinery (SONARA) for the difference between the notional retail price derived from the oil pricing formula adopted in 2007 and the administratively fixed pump price.[2]

2. **Cameroon produces the bulk of its domestic consumption of refined oil products**. SONARA's current processing capacity is 2.1 million tons of light crude oil per year.[3] Because its current technology is unsuitable for using Cameroon's crude oil, about 90 percent of processed crude oil is imported from Nigeria and Equatorial Guinea. The refinery worked at full capacity in 2011 and exported 44 percent of its production (mostly to other CEMAC countries).

3. **Fuel subsidies impose a heavy burden on the budget**. Required subsidies reached CFAF 146 billion (1.3 percent of GDP) in 2010 and CFAF 309 billion (2.5 percent of GDP) in 2011 (Figure 1). In 2011, subsidies represented about 29 percent of the notional retail prices for gasoline, 32 percent for diesel, and 49 percent for kerosene.

4. **The government has accumulated substantial arrears to SONARA since 2008.** Those amounted to CFAF 98 billion (0.9 percent of GDP) at end-2009. Required fuel subsidies amounted to CFAF 146 billion in 2010. The government paid the refinery CFAF 107 billion, of which CFAF 90 million were from the proceeds of the 2009 SDR allocation. This payment, however, left a stock of payment obligations amounting to CFAF 136 billion (1.2 percent of GDP) at end-2010.

5. **Budget constraints in 2011 led the government to securitize its payment obligations to SONARA.** Cumulative obligations to SONARA at end-2011, including the end-2010 stock of arrears, were CFAF 445 billion (3.7 percent of GDP). The government settled these obligations by (i) cash payment (CFAF 97 billion); (ii) cancellation of tax due from SONARA (CFAF 105 billion), and (iii) issuance of securities (with a maturity of 10 years) in favor of SONARA (CFAF 80 billion). These operations left a stock of CFAF 163 billion of payment obligations at end-2011.

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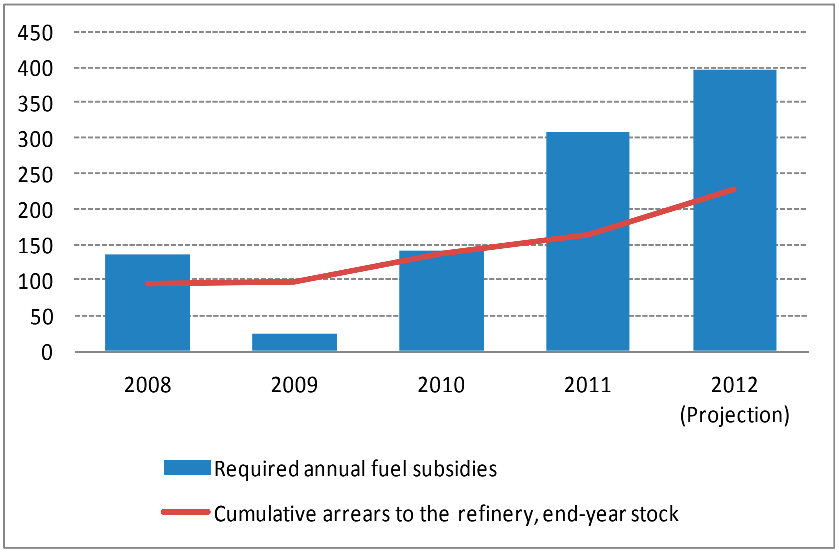
[1] This is an updated and shortened version of a similar appendix in the 2011 staff report. It was prepared by Fabien Nsengiyumva.

[2] SONARA is the only significant supplier to the local market. There is a quota of 20 percent reserved for other importers in place since 2000. However, less than one-fourth of the import quota has been used so far owing to the monopolistic position enjoyed by SONARA and the difficulties faced by importers in recovering fuel subsidies.

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

Figure 1. Cameroon: Fuel Subsidies and Arrears to the Refinery, 2008–12 (CFAF billions)



Sources: Cameroonian authorities; and IMF staff estimates.

The government agreed with SONARA in March 2012 to clear that amount by (i) cancellation of taxes due from SONARA in the second half of 2011 (CFAF 87 billion); (ii) cash payment (CFAF 38 billion); and (iii) additional securities (CFAF 38 billion).

6. In line with the recommendations of the 2011 Article IV consultation, the authorities included a number of measures in the 2012 budget aimed at reducing fuel subsidies. These measures, which were made effective in March 2012, include (i) a reduction from 10 to 5 percent in the tariff rate on imports of crude oil from non-CEMAC countries; (ii) a decrease in the margin for SONARA ("adjustment coefficient") from 15 to 12 percent; and (iii) elimination of the "dead freight" in the calculation of the import parity price (Box 1).[4] The authorities estimated that these measures would reduce the required fuel subsidies by about CFAF 50 billion in 2012. Taking into account the projected savings, the authorities project required fuel subsidies to reach about CFAF 400 billion (3.1 percent of GDP) in 2012. The required fuel subsidies in 2012 will be equivalent to 20 percent of total projected current expenditure and about three-fourths of domestically financed government capital expenditure. Staff's estimates, based on current WEO oil price projections and a growth rate of 6 percent in the volume of domestic consumption, indicate that the required fuel subsidies would average CFAF 415 billion (2.6 percent of GDP) per year in 2013–17, under the assumption of unchanged retail fuel prices.

[4] The dead freight was previously fixed at US$10 per ton. It was supposed to cover the cost of transboarding imported fuel from large ships into smaller ones when approaching the port of Douala.

Box 1. Cameroon: Calculating the Fuel Subsidy

The fuel subsidy is calculated through a pricing formula in place since 2007 (Box Table).[1] The formula is designed to reflect the notional retail prices of imported refined oil products, assuming that any private importer will require a profit margin (adjustment coefficient). The formula calculates a local wholesale price for final products (f) by adding to the prevailing import parity price of imported refined products: (i) a profit margin (or a producer subsidy to SONARA) of 12 percent; (ii) value added taxes (VAT); and (iii) coastal navigation costs.

The notional retail price, that would prevail if there was no fuel subsidy, is calculated from the wholesale price by adding taxes levied by the port, distribution costs, a contribution to the anti-smuggling fund, and a special tax on petroleum products (earmarked for road maintenance). The formula calculates the shortfall (subsidy) per liter of final product as the difference between the notional retail price and the fixed pump price.

Cameroon: Fuel Pricing Formula
(In CFAF per liter; As of May 2012)

Designation	Gasoline	Kerosene	Diesel
a) Import parity price, CIF 1/	458.8	458.1	456.7
b) Adjustment coefficient (margin for SONARA: about 12% of (a)) 2/	52.6	52.3	52.0
c) VAT (19.25% of (a) + (b)	98.4	98.3	97.9
d) Transportation costs Limbé-Douala	7.9	8.1	8.2
e) VAT on transportation costs Limbé-Douala	1.5	1.6	1.6
f) Wholesale price (a+b+c+d+e)	619.3	618.3	616.4
g) Port fees (redevances portuaires)	2.4	2.6	2.7
h) VAT on Port fees	0.5	0.5	0.5
i) distribution costs (including margins and VAT)	91.9	65.6	76.6
j) Equalization transportation costs 3/	41.0	26.0	40.5
k) contribution to the anti-smuggling fund	0.3	1.9	0.2
l) Special Tax on petroleum products	120.0	0.0	65.0
m) Notional retail price (g+h+i+j+k+l)	875.3	714.9	801.9
n) Pump price fixed since December 2008	569.0	350.0	520.0
o) Shortfall (required subsidy)(m-n)	306.3	364.9	281.9
Memorandum items:			
Required subsidy as a percentage of fixed pump price (n/m)	54%	104%	54%
Pump Price as a percentage of notional retail price (k/j)	65%	49%	65%

1/ The import parity price is derived from international price on refined products on which are added transportation and insurance costs as well as the import tarif.
2/ Some components of (a) are excluded from the computation of the margin.
3/ Transportation costs from staorage depots in Douala and Limbe to five regional depots.

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

7. **The fuel subsidy is not targeted, and the associated resources could be redeployed to generate significantly higher benefits for the poor.** A 2007 IMF assessment showed that more than 70 percent of fuel price subsidies accrue to the richest 40 percent of households. The study also showed that the poorest 20 percent of households receive less than 1 percent of the subsidy for gasoline. Even in the case of kerosene subsidies, which are typically assumed to be pro-poor, the poorest 20 percent of households receive only

13 percent of the subsidy. In addition, the consumption of kerosene is small compared to the consumption of gasoline and diesel. Out of the CFAF 309 billion of required fuel subsidies in 2011, the share of kerosene was only 12.5 percent, equivalent to 0.3 percent of GDP. Eliminating subsidies on gasoline and diesel only would free resources equivalent to 2.3 percent of GDP annually in 2013–17 for alternative use.

8. The fuel pricing formula raises two important issues:

- The margin for SONARA increases with world market prices. Setting the margin on an ad valorem basis leads to increasing government transfers to SONARA as international fuel prices increase.
- The formula could be made simpler and more transparent. In particular, it is not clear why and how customs duties on crude oil imported by SONARA from non-CEMAC countries are included in the calculation of the import parity price of refined products. There seems also to be double counting between the distribution and the price equalization costs.

B. The Way Forward

9. Further modification of the pricing formula could help reduce the level of the fuel subsidy. Options for consideration include (i) in the short term, delinking the supplementary margin for SONARA from international fuel price levels by setting a specific nominal transfer per liter of final product; (ii) over the medium term, estimating the wholesale price (item f in Box 1, Table 1) on the basis of SONARA's production costs, taking into account efficiency gains from SONARA's investments; and (iii) reassessing the distribution and price equalization costs and margin to bring more efficiency into the sector.

10. Staff has recommended that a comprehensive reform of fuel pricing be adopted. A plan aimed at gradual adjustments of pump prices to international prices should be implemented. The adjustment could be reduced for kerosene, which is a product used primarily by the poorest segments of the population. At the same time, targeted safety net programs aimed at easing the impact of price adjustments should be put into place. Such programs could be designed and carried out with support from donors, including the World Bank.

Appendix III. Cameroon: Public Investment and Fiscal Sustainability[1]

Cameroon's fiscal sustainability is confronted with dwindling oil reserves while the country has embarked upon an ambitious investment program of "grands projets structurants"[2] in the face of large infrastructure needs. To finance these, Cameroon uses oil revenue when it becomes available in contrast to Permanent Income Hypothesis (PIH) recommendations. A dynamic stochastic general equilibrium (DSGE) model is developed to assess the impact of the public investment scaling up fully on growth and fiscal sustainability. The model shows that unless Cameroon manages to improve the effectiveness of its public investment, the envisaged capital spending increase will not be sufficient to lift Cameroon's growth above its historical average. Fiscal sustainability deteriorates significantly under this baseline scenario, but does not become alarming because Cameroon starts from very low debt levels due to previous debt relief.

A. Introduction

1. **A case can be made for Cameroon, which recently has had low public investment, to invest more of its natural resource income in the near future, compared to what the permanent income hypothesis (PIH) would recommend**. In 2001–12, the public-investment-to-GDP ratio in Cameroon averaged 3.5 percent, compared to 10 percent in the Central African Economic and Monetary Community (CEMAC) and more than 7 percent for sub-Saharan Africa (SSA).[3] Further, over the past decade, capital spending has been driven by the cyclicality of oil-related revenue. Lack of adequate infrastructure is a key bottleneck to Cameroon's economic growth. Dominguez-Torres and Foster (2011) estimate that to reach the infrastructure level of Africa's middle-income countries, Cameroon would need to invest an additional US$350 million a year. The same authors estimate potential efficiency gains from reforming infrastructure related utilities at $586 million annually.[4] Taken together, if such an increase in both the quantity and quality of public investment were to be sustained over 15 years, Cameroon would enjoy an increase in its long-run per capita GDP growth rate of about 3.3 percentage points.

2. **Public investment budgets have not been fully spent in recent years because of implementation problems.** This is related to low administrative capacity and recurring governance problems, as acknowledged by recent initiatives including the setting up of a new ministry for public procurement in 2012. Hence, preliminary results from the Public Investment Management Index (PIMI) show Cameroon lagging behind the SSA average. The World Bank's Country Policy and

[1] This appendix, which was prepared by Bruno Versailles, summarizes the findings of a forthcoming IMF Working Paper by I. Samake, P. Muthoora (both WHD) and B. Versailles (FAD). It was discussed with the Cameroonian authorities during the 2012 Article IV consultation and incorporates some of their observations.

[2] This expression refers to large infrastructure projects.

[3] This is also below what researchers have found to be optimal. Fosu, Getachew and Ziesemer, (2011), for example, put the optimal level of public investment in SSA between 8 and 11 percent.

[4] A large contributor to these losses is the power sector, owing to underpricing of power and distributional losses.

Institutional Assessment (CPIA) corroborates this finding.[5] In what follows, 'quality' and 'effectiveness' of public investment are used interchangeably, denoting everything related to the mechanisms for screening, monitoring, and oversight of investment decisions (Chakraborty and Dabla-Norris, 2009, page 5). This twin problem of low quantity and quality of public investment is the focus of this paper, which is structured as follows. Section B provides a benchmark for the discussion by looking at the fiscal implications of applying the PIH approach to Cameroon. To explore the scaling up of public investment and its impact on growth and fiscal sustainability, a fully specified DSGE model is introduced in Section C. The model focuses on the importance of public investment effectiveness for growth and fiscal sustainability. Section D explores policy implications for Cameroon.

B. Applying the Permanent Income Hypothesis

3. **A simple application of the PIH approach to Cameroon suggests a sustainable non-oil primary deficit (NOPD) of just below 3 percent of non-oil GDP.**[6] The standard PIH implies that oil revenue is mostly saved during high production years, with the proceeds from the savings drawn down in later years to ensure a smooth public spending profile. Figure 1 applies this reasoning to Cameroon. Oil wealth is gradually depleted between 2012 and 2032. Net assets, defined as the government's net position with the central bank minus the total debt stock, initially increase, as some of the oil wealth is invested in the early years, before declining from 2020 onwards, as oil wealth declines and proceeds from the assets are spent. By 2032, it is assumed that the government exhausts its oil revenue and that net assets return to their initial value of -13.5 percent of non-oil GDP. Other assumptions made are (i) the oil price follows the World Economic Outlook (WEO) projections, with a small discount for the lower quality of Cameroon's crude oil; (ii) non-oil revenue increases from 14 percent of non-oil GDP in 2011 to 16 percent in 2032; (iii) the average nominal annual discount rate is 5.5 percent; (iv) the average nominal annual growth rate is 4.5 percent; and (v) oil revenue remains at its historical level of 65 percent of oil GDP (for 2002–10).

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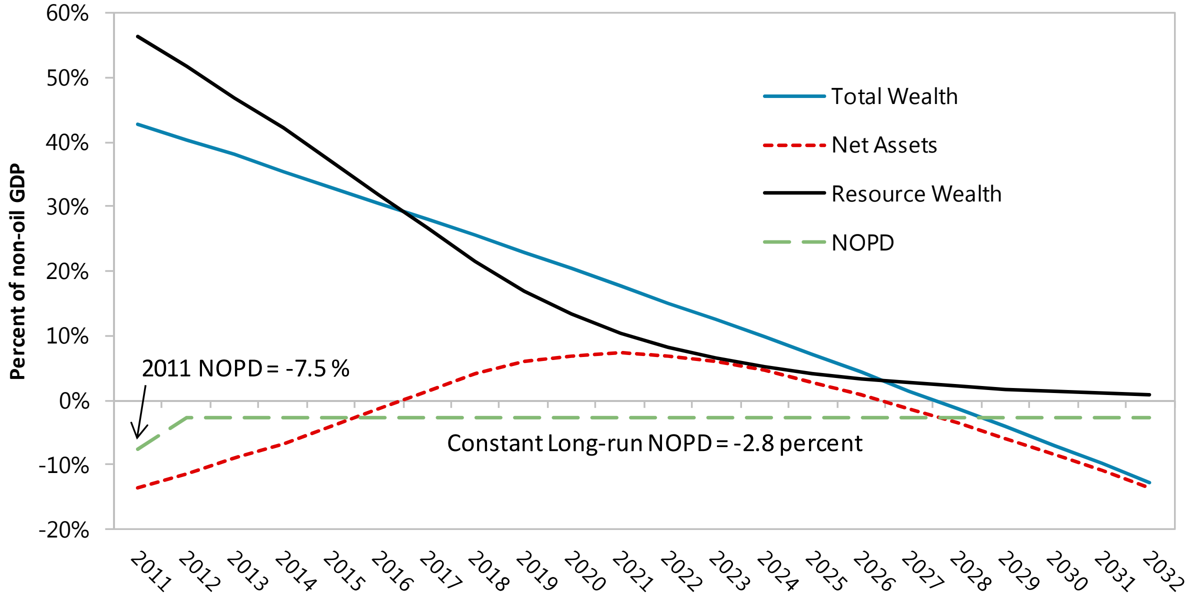
[5] The PIMI is a multidimensional index of public investment management efficiency. Introduced in 2011 by IMF and World Bank staff, its first assessments were based on 2008 data (see Dabla-Norris, et al., 2011). The Public Expenditure and Financial Accountability (PEFA) diagnostic tool shows a similar assessment for Cameroon.

[6] We consider the NOPD a better fiscal anchor than the CEMAC fiscal convergence criterion of the basic fiscal balance (which excludes foreign-financed capital spending). The latter would allow countries to spend oil revenue windfalls, and could thus accommodate procyclical fiscal policies while not taking into account the temporary nature of oil revenue. See Iossifov, et al. (2009) for a discussion in the context of CEMAC.

Figure 1. Cameroon: Application of the Permanent Income Hypothesis, 2011–32



Note: net assets consist of the government's net position with the central bank minus the stock of debt. Total wealth = net assets + resource wealth. Oil revenue projections uses WEO prices and assume depletion of oil revenue by 2032.

Source: IMF staff calculations.

4. **Assuming a continuation of current fiscal policies, staff estimates the average NOPD to be around 9 percent of non-oil GDP over the medium term.**[7] This is much higher than the PIH benchmark and thus, the current path of the NOPD is unsustainable. This conclusion does not depend fundamentally on the level of net assets reached by the end of the time horizon. For instance, if the target for net assets is set at -30 percent of non-oil GDP by 2032, the 'allowed' constant NOPD for 2012–32 would be around 3.5 percent, still much lower than the staff estimates mentioned above.

5. **Recent research[8] shows that the PIH may not be optimal for resource-rich low-income countries (LICs).** First, the PIH does not answer the question whether resources should be saved in financial assets abroad or in domestic physical capital. Second, it may be optimal to alter somewhat the shape of the spending path implied by the PIH to speed up the rate of public capital investment, especially in capital-scarce countries. The PIH is silent however, on possible links between public investment and growth. To address the latter issue, we need to integrate the main features of the PIH with public investment and growth.

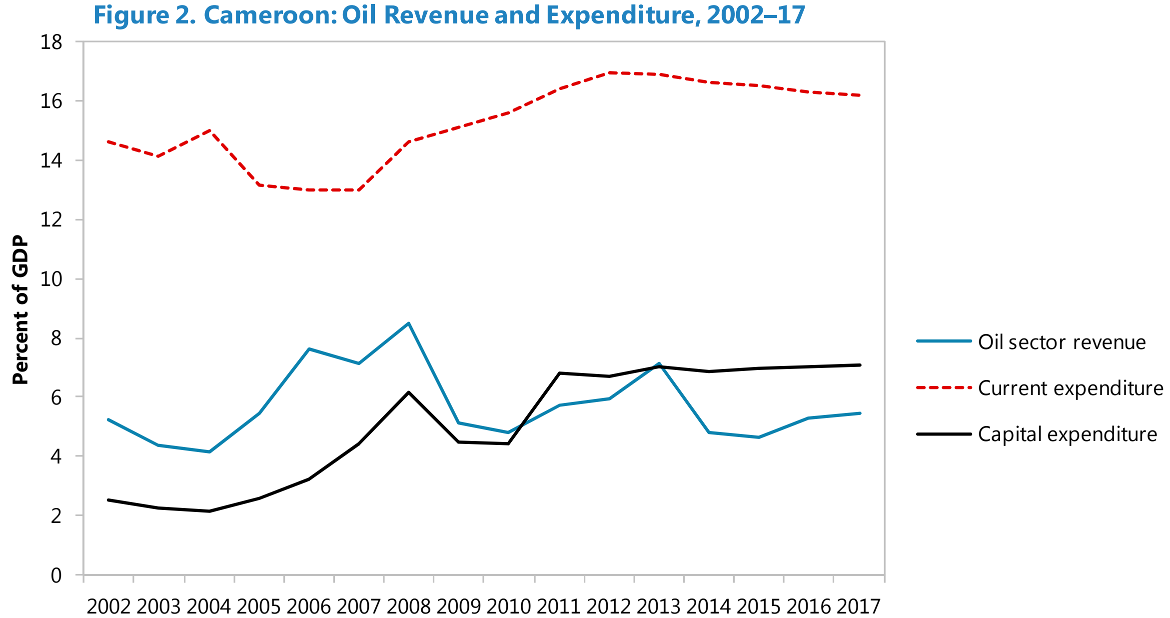
[7] This assumes that currently projected financing gaps are closed by financing. If the adjustment would fully fall on revenue or expenditure, the average NOPD would still be a sizeable 6.3 percent of non-oil GDP.

[8] For example Collier, Van der Ploeg, Spence, and Venables, 2010 or Baunsgaard, Villafuerte, Poplawski-Ribeiro and Richmond, 2012.

C. Adding the Public Investment and Growth Link

6. Compared to historical levels, Cameroon is increasing its public investment. Cameroon is effectively frontloading public investment, increasing it from below 4 percent of GDP in the previous decade to 6.4 in 2011 and maintaining it at this level in the medium term—as projected in the Growth and Employment Strategy Paper (GESP). At the same time, current spending is also up, from 11.6 percent of GDP in 2006 to more than 15 percent in 2011. To finance public investment and current spending, all oil revenue is being spent as it becomes available (Figure 2). Accordingly, Cameroon is currently not following the PIH approach. This also suggests that shifting from current to capital expenditure would improve growth prospects and fiscal sustainability—if projects are carefully chosen. To analyze the links between these issues, a more formal modeling approach is adopted.

Figure 2. Cameroon: Oil Revenue and Expenditure, 2002–17



Source: IMF staff calculations.

7. We build a two-sector DSGE model to assess frontloaded public investment and its effect on growth and fiscal sustainability. The model explicitly takes into account the growth impact of public investment and fiscal sustainability. There are two sectors: oil and non-oil. The model is calibrated using behavioral equations based on Cameroon's recent economic performance.

The main characteristics of the model are as follows:

- The economy consists of representative households who maximize intertemporal utility according to the following utility function:

$$Max\ E_0 = \Sigma_{t=0}^{\infty}\ \beta_t * \left(C_t^{1-\eta}/1-\eta\right)$$

subject to the aggregate budget constraint for households:

$$C_t + I_t + CA_t = Y_{o,t} + Y_{no,t}$$

Where C_t, I_t, CA_t, $Y_{o,t}$ and $Y_{no,t}$ are domestic consumption, investment, the current account, oil and non-oil GDP, respectively.

- The government chooses the level of public investment, which has a positive relationship to non-oil growth. The relationship depends on a key parameter, φ, which captures the level of efficiency of translating public investment into public capital (following Hulten, 1996). Public investment crowds in private investment:

$$Y_{no,t} = z_t K_{pt}^{\gamma} \left(\varphi K_{gt}\right)^{1-\gamma}$$

Where z_t is a productivity parameter; and K_{pt} and K_{gt} are the public and private capital stocks, respectively.

- The potential for extra growth via increased public investment is balanced by a reaction function governing the NOPD. This function, incorporating how the authorities have adjusted the NOPD in the past, effectively limits the level of debt build-up:

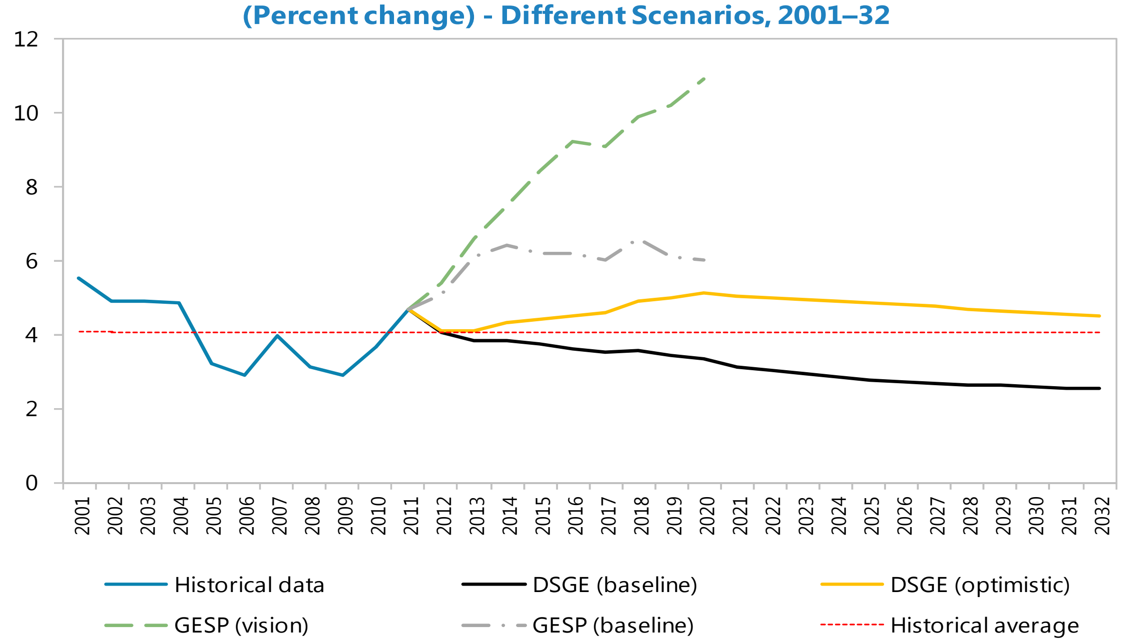
$$NOPD_t = \theta NOPD_{t-1} + \omega d_{t-1} + \sigma \frac{\Delta Y_{no,t}}{Y_{no,t}} + FIN_t$$

Where d is the debt stock; and FIN is a financing variable capturing a non-systemic component of the NOPD path. We expect the value of θ to be less than 1, and ω to be negative, indicating the influence of the previous year's conditions on improving the current fiscal position. σ measures the effect of non-oil growth on the NOPD and is also expected to be negative, suggesting that the fiscal authorities would implement a countercyclical fiscal policy if an economic downturn is expected.

- Firms have access to technology that evolves over time and they hire capital and labor to produce non-oil goods (maximizing their profits). Oil resources belong to the government, whereas non-oil goods are produced by firms owned by households. The latter optimally choose their intertemporal consumption levels and the level of private investment. The rest of the world finances government financing gaps.

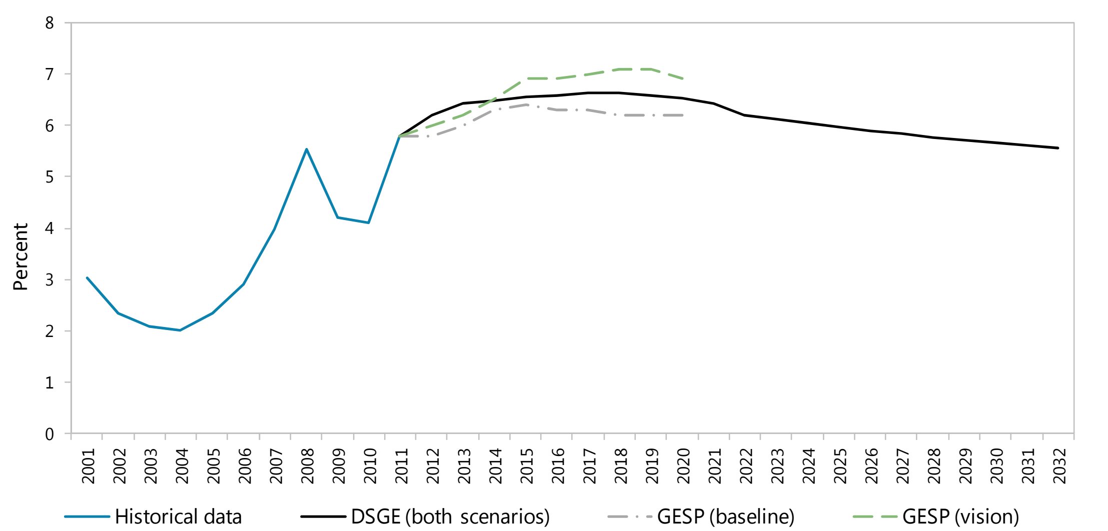
8. The model shows Cameroon will need to improve the effectiveness of its public investment to capture the expected growth pay-off from the *grands projets structurants*. We consider two DSGE scenarios with the same public investment path, but with different values for the parameter φ (Figure 3). In both scenarios, public investment gradually increases from 4.1 percent of GDP in 2010 to 6.6 percent by 2018, before coming down to 5.6 percent by 2032 (following the debt sustainability analysis projections). The values for φ for the "baseline" and "optimistic" scenarios are taken from Hulten (1996), who shows the lower value to be more typical for African LICs. Hence, this is the scenario that we consider currently valid for Cameroon. This seems reasonable because projected annual real growth in the 'baseline' scenario is similar to the historical average of 3.3 percent. If public capital can be made more effective, average annual growth increases to 5 percent. The growth pay-offs assumed in the GESP scenarios are much higher, even though the public investment paths are very similar to those of the DSGE model (Figure 4), because the GESP assumes the impact of the public investment increase to be much more significant.

Figure 3. Cameroon: Real Non-oil GDP Growth Rate (Percent change) - Different Scenarios, 2001–32



Source: Growth and Employment Strategy (GESP); and IMF staff

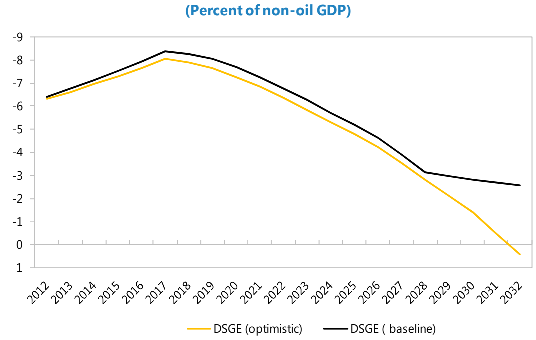
Figure 4. Cameroon: Public Investment / GDP, Different Scenarios, 2001–32



Sources: Growth and Employment Strategy (GESP); and IMF staff calculations.

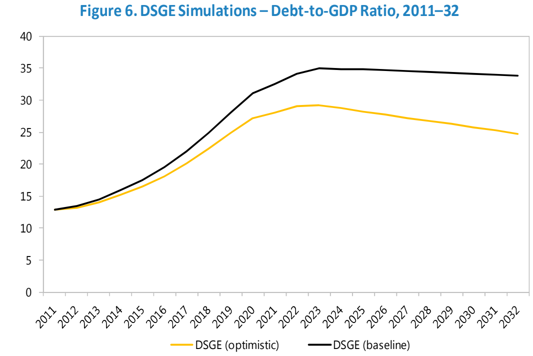
9. In the baseline scenario, the fiscal consequences of the muted growth response to the public investment increase causes fiscal indicators to deteriorate substantially. The NOPD increases substantially in the medium term in both DSGE scenarios, but recovers much better under the optimistic scenario in the long run (Figure 5). By the end of the projection period, the optimistic scenario shows a non-oil primary surplus, while under the baseline scenario, the deficit stabilizes at 2.5 percent. This is at a moment when oil revenue is nearing depletion. This translates into much higher public-debt-to-GDP ratios for the baseline scenario (35 percent of GDP by 2032), compared to the optimistic scenario (25 percent by 2032; Figure 6).

Figure 5. DSGE simulations - Non-Oil Primary Balance, 2011–32
(Percent of non-oil GDP)



Source: IMF staff calculations.

Figure 6. DSGE Simulations – Debt-to-GDP Ratio, 2011–32



Source: IMF staff calculations.

10. For Cameroon to reach the higher growth path of the optimistic scenario, it needs to increase the effectiveness of its public investment and attract private investment. A strategy to make this happen would contain two essential pillars; (i) address the issues linked to the low φ; and (ii) ensure that there is an enabling environment for private investment. Elements linked to the former would typically include better project management, development of capital markets, reform of public utilities, and improvement of public financial management. Issues related to the latter include taking measures aimed at creating an improved business climate.

D. Conclusion and Policy Recommendations

Cameroon's challenge is how to increase much needed public investment, using inter alia oil revenue, while remaining fiscally prudent.

11. Assuming no substantial change to the structure of the Cameroonian economy or public finances, the current scaling up of public investment will result in a low-growth trajectory in line with Cameroon's historical performance. Both the PIH and the DSGE baseline show that the planned public investment increase results in high NOPDs and fast-accumulating debt. Hence, for the current scaling-up effort to be effective, the effectiveness of the public investment program needs to increase substantially and an enabling environment for private sector investment needs to be created. The optimistic scenario shows that if these conditions were fulfilled, growth would reach a long-run level of around 5 percent, with debt indicators becoming more sustainable.

12. Cameroon is currently spending all its oil revenue in a way that could jeopardize future fiscal sustainability. Even though there is a case for frontloading public investment, this does not imply that the precautionary rationale behind the PIH approach becomes invalid. The NOPD should be used to guide future changes in the design and management of Cameroon's public finances while taking into account the depletion of oil reserves. Without an improvement in the effectiveness of public investment, the public investment scaling-up will not generate the growth needed for a sustainable NOPD path. In the current high-oil-price environment, at least some of the oil revenue should be saved, and released for public investment in future years as its effectiveness picks up. This would be in tune with the optimistic DSGE scenario which also sees the non-oil primary balance turn positive by the end of the projection period.

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Appendix IV. Cameroon: External Competitiveness[1]

The results of the Consultative Group on Exchange Rates Issues (CGER) model-based approaches suggest that Cameroon's real effective exchange rate (REER) was overvalued by some 8 percent at end-2011. These results are consistent with the findings of the 2012 Article IV consultation with the Central African Economic and Monetary Community (CEMAC), that concluded that the REER for the aggregate CEMAC group was overvalued by about 11 percent. The analysis of key relative price indicators suggests that the environment for Cameroon's exportables has improved since 1994, but price incentives currently discourage the production of importables. Available survey data indicate that Cameroon's competitiveness remains particularly hampered by a weak business environment, substantial obstacles to trade, and high costs of services.

A. Developments in the Real Effective Exchange Rate

1. **Cameroon's REER has remained on a slightly increasing trend since the 1994 devaluation, suggesting that some of the competitiveness gained with the devaluation has eroded** (Figure 1).[1] In 2010-11, the REER depreciated by 6.6 percent, mostly as a result of the depreciation of the euro against other major currencies, mirroring the evolution of the nominal effective exchange rate (NEER). This depreciation did not, however, offset the cumulative appreciation of 1994–2009 (24 percent).

2. **Two approaches for assessing the REER could be followed.** A first approach is to assume that the REER was close to its long-run equilibrium level (LREER) during a base period, defined as the two years following the devaluation, and measure the misalignment as the difference between the actual REER and this base-period value, on the implicit assumption that the LREER has remained at its base-year level. An alternative approach considers the sample mean of the REER at its long-run equilibrium. Application of the first approach suggests that the REER was overvalued by about 10 percent at end-2011. Using the sample mean in 1994–2011 indicates an overvaluation of 1.5 percent at end-2011. The utility of these two approaches is, however, limited by the underlying assumption of a constant LREER and their inability to allow for permanent changes in the LREER that could have been generated by changes in its determinants. The overall declining trend of the terms of trade (TOT) since 1994 (and their strong volatility) is one of the fundamentals suggesting that the LREER may have shifted during the period under review.

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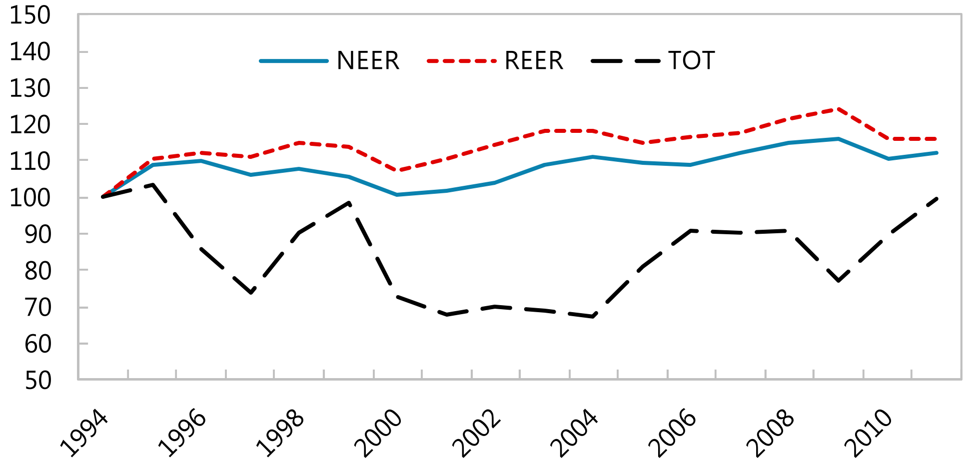
[1] This appendix was prepared by Fabien Nsengiyumva.

Figure 1. Cameroon: Effective Exchange Rates and Terms of Trade, 1994-2011
(1994=100)



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

B. Model-Based Assessments

3. We use the three CGER approaches to assess the REER— the equilibrium real exchange rate (ERER) approach; the macroeconomic balance (MB) approach; and the external sustainability (ES) approach.[2] We complement these approaches with an adjusted macroeconomic balance approach taking into account Cameroon's oil wealth and the projected exhaustion of oil resources in estimating a current account norm.

4. The ERER approach models the medium-run equilibrium value of the REER as a function of fundamental factors that cause persistent deviations from long-run purchasing power parity. It involves three steps. First, a reduced-form equation relating the REER and a set of relevant fundamentals is estimated. Second, the medium-term equilibrium level of the REER is constructed by multiplying the estimated coefficient from the reduced-form equation by the medium-term forecasts of the fundamentals. Finally, the exchange rate adjustment needed to restore equilibrium over the medium term is calculated as the difference between the estimated equilibrium real exchange rate and its current value.

[2] The IMF's REER assessment tool kit contains templates with annual observations on several macroeconomic variables for 184 economies in 1973–2011, together with the projections of these variables over the period 2012–17 consistent with the April 2012 World Economic Outlook.

5. **The ERER approach indicates that Cameroon's REER was undervalued by about 3 percent at end-2011.**[3] However, the 90 percent confidence interval is wide (from an undervaluation of about 14 percent to an overvaluation of 8 percent) and includes zero (Figure 2). Forward-looking estimates obtained using for the fundamentals the values projected in the macro framework presented in this report show that the REER would be overvalued by about 7 percent in 2016 (again with a wide margin including zero) if the benchmark REER stayed at the 2011 level.

6. **The MB approach estimates the exchange rate adjustment needed to close the gap between the current account (CA) balance projected over the medium term at the prevailing exchange rate (the "underlying" CA) and an estimated equilibrium CA balance (or "CA norm"), based on economic fundamentals.** Cameroon's oil trade surplus is one of the determinants used to estimate this norm. The approach again consists of three steps. First, panel regressions estimating the current account balance as a function of a set of macroeconomic fundamentals are run. Second, current account norms are computed as a function of the levels of fundamentals projected over the medium term, using the coefficients estimated in the first steps. Cameroon's oil trade surplus is one of the determinants used to estimate this norm. Third, the degree of exchange rate misalignment is inferred as the proportional change in the real exchange rate needed to close the gap between the underlying CA balance and the CA norm, using the country-specific elasticity of the CA with respect to the real exchange rate.

7. **The MB approach indicates that Cameroon's REER was overvalued by about 13 percent at end-2011.** The CA norm for Cameroon is estimated at about 2 percent of GDP and the underlying CA deficit is about 3 percent.[4] With an elasticity of the CA balance with respect to the real exchange rate of -0.4 (deduced from estimates of export and import elasticities for similar countries), the approach suggests that the real exchange rate would need to depreciate by about 13 percent to close the external CA gap (with lower and upper bounds of 4 and 22 percent, respectively).[5] Forward-looking calculations resulted in an underlying CA deficit close to 4.5 percent in 2017 and a CA norm close to 0.5 percent of GDP, implying almost the same CA gap as the backward-looking approach.

8. **For oil-producing countries, the MB approach has been adjusted to take into account the expected return on oil wealth and the projected depletion of oil reserves in deriving the CA norm.** The 2012 Article IV CEMAC consultation team applied one of those methodologies[6] to the whole CEMAC

[3] The determinants included in the panel regression model to estimate the LREER for Cameroon are the terms of trade, relative productivity, relative government consumption, initial net foreign assets, and aid flows and remittance inflows.

[4] The estimation considers the following macroeconomic fundamentals: fiscal balance, old-age dependency ratio, population growth, per capita income growth, oil trade balance, and initial net foreign assets.

[5] The higher the elasticity is (in absolute value), the lower the degree of REER overvaluation. Recent REER assessments for SSA countries use elasticities of the current account to the REER ranging from -0.3 to -0.6.

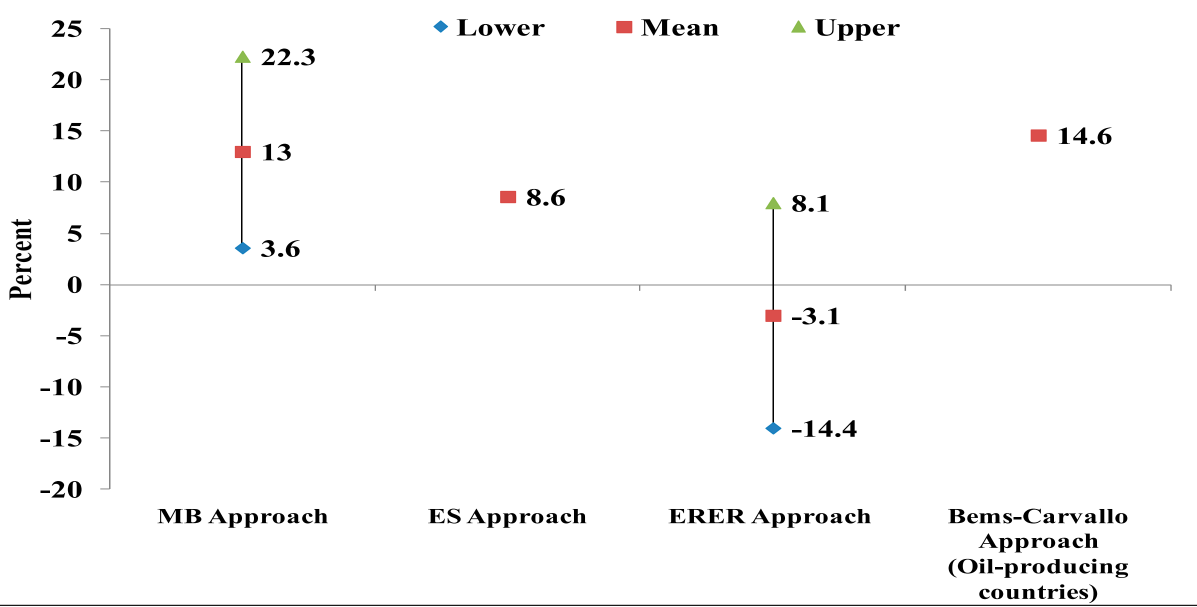
[6] Bems, Rudolfs, and Irineu de Carvalho Filho, 2009, Exchange Rate Assessments: Methodologies for Oil Exporting Countries, IMF Working Paper No. 09/281, Washington, IMF.

group, and to individual CEMAC countries, and found that Cameroon's REER was overvalued by about 15 percent, based on an estimated CA norm of 2.3 percent, an underlying CA deficit of about 3 percent of GDP, and an elasticity of the CA to the REER of -0.37. An elasticity of -0.40 would have given an overvaluation of about 13 percent.

9. The ES approach calculates the difference between the actual CA balance and the CA balance that would stabilize the net foreign asset (NFA) position at some benchmark level. On the basis of the estimated elasticity of the CA balance to the REER, this difference is translated into the real exchange rate adjustment that—over the medium term—would bring the CA balance in line with its NFA-stabilizing level, under a particular assumption about the economy's medium-term nominal growth rate. Based on an estimated NFA-stabilizing CA balance close to 1 percent of GDP over the medium-term, as well as the same elasticity of the CA to the REER as in the MB approach (-0.40), the ES approach finds that the REER was overvalued by about 9 percent at end-2011 and would be overvalued by about 13 percent by 2017 under the baseline scenario.

10. In summary, the estimation results point to an overvaluation of Cameroon's REER in three out of the four approaches used. The average overvaluation for the four methods is about 8 percent, indicating that Cameroon's external competitiveness has deteriorated. These results, however, have to be interpreted with caution. First, they are sensitive to a wide range of assumptions made in the construction of the baseline scenario for Cameroon. Second, structural differences between Cameroon and many countries in the panel make the panel regressions less meaningful. Third, the estimates are highly sensitive to the assumed elasticities of exports, imports, and CA with respect to the real exchange rate.

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



C. Alternative Indicators of External Competitiveness

11. 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 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.

12. 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* the domestic prices of exportables and importables, respectively, measured in domestic currency terms. *IRERx* could be considered as 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.

13. Figure 3 compares the evolution of the four categories of relative prices in 1994–2011. 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 (*IRERn*).[7] Four observations can be drawn from Figure 3:

- *IRERx* and *IRERm* have been more volatile than the external real exchange rate (*REER*). This higher volatility increases uncertainty that is not captured by the external real effective exchange rate discussed in Section I and is detrimental to externally oriented sectors in the economy.

- *IRERx* has been on a declining trend since 1998,[8] suggesting that the exportable

[7] 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: World Bank).

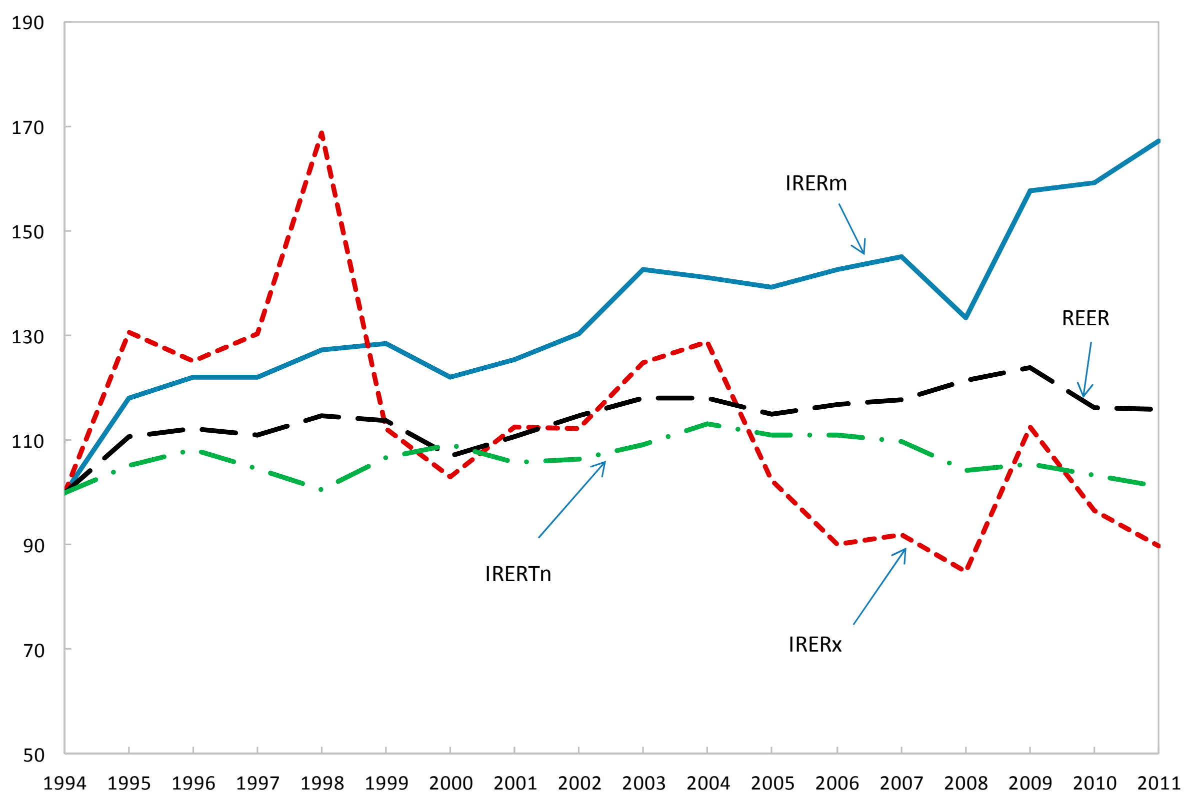
[8] The cumulative depreciation of *IRERx* from 1998 to 2011 is 47 percent.

sector has been gaining competitiveness against domestically oriented sectors. This evolution reflects the rise in oil and non-oil commodities' international prices in the period considered, the overall containment of prices of domestic goods through fiscal and monetary policies, and actions to raise the supply of agricultural commodities.

- By contrast, *IRERm* has been on a rising trend,[9] which is an indication of a general gradual loss in competitiveness for production oriented toward import substitution and an overall gain in competitiveness for imports in domestic consumption.

- *IRERn*, which is calculated using the authorities' price series of tradable and nontradable commodities, tracks quite well the evolution of the external REER, suggesting that analysis based on it would also not adequately capture price incentives affecting production and consumption and ultimately external balance assessment of competitiveness not based on real exchange rate measures.

Figure 3. Cameroon: Internal and External Real Exchange Rates, 1994 - 2011
(1994 = 100)



Sources: Cameroon authorities; and IMF Staff estimates.

[9] The cumulative appreciation of *IRERm* from 1994 to 2011 is 67 percent.

D. Assessment of Competitiveness not Based on Real Exchange Rates

14. Many factors beyond prices have a bearing on national competitiveness. The 2011–12 World Economic Forum's report on global competitiveness defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. This section presents available survey data that compare Cameroon with its external competitors on the structural determinants of competitiveness.

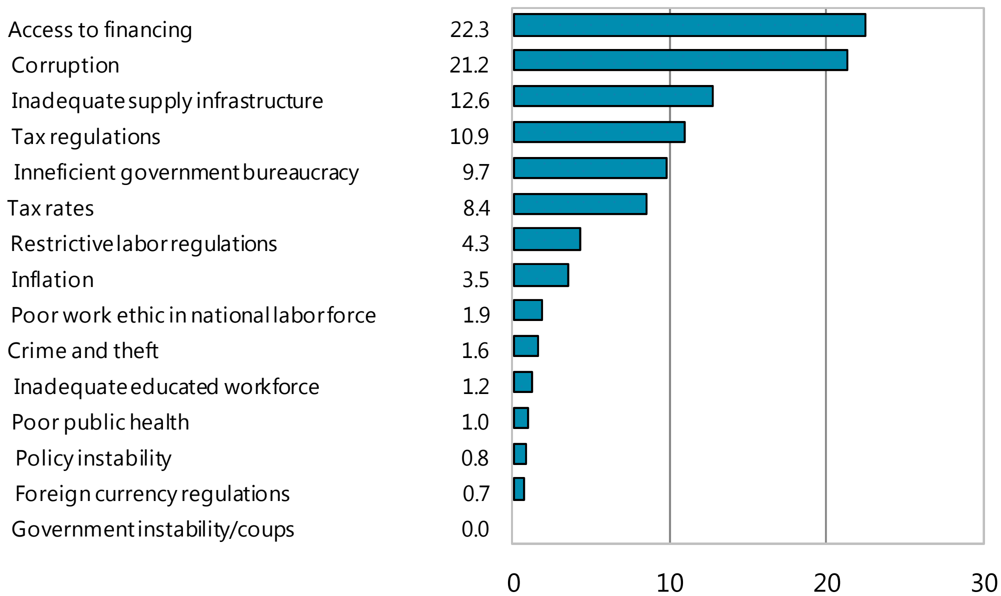
15. The 2012 Global Competitiveness Index (GCI) ranks Cameroon 116 out of 142 surveyed countries, with a score of 3.7 out of 7 (Table 1). Cameroon ranks lower than the sub-Saharan African (SSA) average on institutional environment and infrastructure, but higher on macroeconomic environment, health, and primary education. Its overall rank on efficiency enhancers (including higher education and training, goods and labor market efficiency, financial sector development, technology readiness, and market size) is 120 out of 142, which compares to the SSA average of 111.

16. Cameroon slightly improved its ranking in the 2011 World Bank Doing Business Indicators. It climbed 7 places to 161 (from 168 in 2011) by getting a higher rating on dealing with construction permits, getting credit, and staring a business (Table 2). This improvement was possible because of reforms implemented by the government under a public-private dialogue launched in 2009. However, Cameroon still ranks below the SSA average of 137. According to the 2012 World Economic Forum's report on global competitiveness, firms identify access to financing, corruption, inadequate infrastructure, tax regulations, and government bureaucracy as the five major constraints to doing business in Cameroon (Figure 4).

17. On trade, the 2012 Enabling Trade Index (ETI) published by the World Economic Forum ranks Cameroon 118 out of 132 with an overall score of 3.3 out of 7 (Table 3). Among the pillars of the ETI, Cameroon scores the lowest on availability and use of information and communication technologies (ICTs; 2.3); transparency of border administration (2.6); transport and communications infrastructure (2.7); availability and quality of transport services (2.8); availability and quality of transport infrastructure (3); and efficiency of import-export procedures (3).[10] Factors that have the highest negative impact on the ease of exporting and importing include burdensome procedures, corruption at the border, access to trade finance, and tariff and nontariff barriers (Figures 5 and 6).

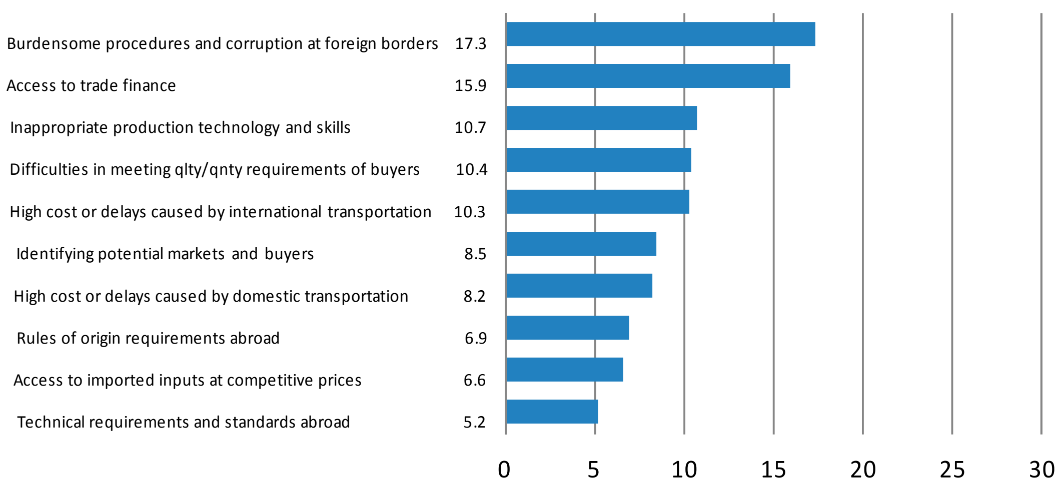
[10] On border administration, the World Bank Enterprise Survey (2009) shows that in Cameroon the average time for import clearance is 24 days, almost the double of the time needed in the rest of SSA (12.7 days).

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



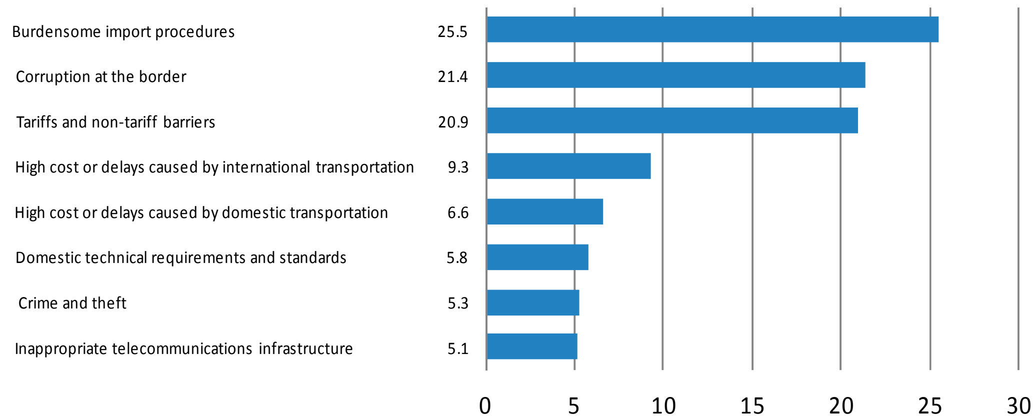
Source: World Economic Forum, 2012.

Figure 5. Cameroon: Most Problematic Factors for Exporting
(Percent of responses)



Source: World Economic Forum: The Global Enabling Trade Report 2012.

Figure 6. Cameroon: Most Problematic Factors for Importing
(Percent of responses)



Source: World Economic Forum: The Global Enabling Trade Report 2012.

Table 1. Cameroon and SSA: Global Competitiveness Index 2011-12

	Cameroon		**Sub-Saharan Africa** (averages)	
	Rank (Out of 142)	Score (1-7)	Rank (Out of 142)	Score (1-7)
GCI 2011–12	**116**	**3.6**	**113**	**3.6**
GCI 2010–11 (out of 139)	111	3.6		
GCI 2009–10 (out of 133)	111	3.5		
Basic requirements (60.0%)	**114**	**3.8**	**115**	**3.7**
Institutions	104	3.4	85	3.7
Infrastructure	129	2.5	113	2.8
Macroeconomic environment	77	4.7	102	4.3
Health and primary education	116	4.5	122	4.2
Efficiency enhnacers (35%)	**120**	**3.4**	**111**	**3.4**
Higher education and training	115	3.2	117	3.0
Goods market efficiency	97	4.0	96	3.9
Labor market efficiency	93	4.1	79	4.3
Financial sector development	130	3.2	91	3.7
Technology readness	123	2.7	114	2.9
Market size	90	3.1	104	2.8
Innovation and sophistication factors (5%)	**101**	**3.2**	**100**	**3.1**
Business sophistication	113	3.4	105	3.4
Innovation	81	3.0	92	2.9

Source: World Economic Forum, The Global Competitiveness Report, 2011–12.

Table 2. Cameroon: Doing Business Indicators 2011–12

(Ranking out of 183)

	Cameroon		CEMAC	WAEMU	SSA
	2011	2012		2012	
Ease of doing business	*168*	161	170	163	137
Starting a business	*131*	128	163	142	123
Dealing with construction permits	*118*	92	102	122	112
Registering property	*149*	154	133	136	120
Getting credit	*138*	98	98	126	111
Protecting investors	*120*	122	145	151	112
Paying taxes	*169*	171	170	157	116
Trading across borders	*155*	156	161	133	135
Enforcing contracts	*173*	174	149	140	117
Closing a business	*141*	147	162	112	128

Source: World Bank, World Development Indicators, 2011–12.

Table 3. Cameroon: Enabling Trade Index

	Rank (out of 132)	Score (1–7)
2012 Index	**118**	**3.3**
2010 Index	115	3.3
Sub-index A: Market access	117	3.4
1st pillar: Domestic and foreign market access	117	3.4
Sub-index B: Border administration	110	3.0
2nd pillar: Efficiency of customs administration	92	3.5
3rd pillar: Efficiency of import-export procedures	111	3.0
4th pillar: Transparency of border administration	109	2.6
Sub-index C: Transport & communications infrastructure	124	2.7
5th pillar: Availability and quality of transport infrastructure	122	3.0
6th pillar: Availability and quality of transport services	121	2.8
7th pillar: Availability and use of ICTs	117	2.3
Sub-index D: Business environment	85	4.0
8th pillar: Regulatory environment	103	3.3
9th pillar: Physical security	79	4.6

Source: World Economic Forum: The Global Enabling Trade Report, 2012.

CAMEROON

June 27, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura (IMF) and Jeffrey D. Lewis and Marcelo Giugale (World Bank)

Prepared by the IMF African Department and the International Development Association

This joint IMF-World Bank low-income country debt sustainability analysis (LIC-DSA) for Cameroon follows up on the LIC-DSA prepared in 2011. It concludes that Cameroon continues to face a low risk of debt distress insofar as all external debt ratios remain well below the policy-dependent indicative thresholds under the baseline scenario, as well as under all stress tests. However, total public debt indicators are markedly higher than in the 2011 DSA, largely because of the impact of the projected accumulation of payment arrears on domestic debt, and higher issuance of government securities to cover part of the fiscal deficit. The projected large increase in domestic debt calls for the reform of the fuel subsidy mechanism and a strengthening of commitment controls to limit the accumulation of domestic arrears. Moreover, there has been acceleration in nonconcessional borrowing commitments since the 2011 DSA, which warrants a cautious approach to borrowing. Enhancing non-oil revenue mobilization and widening the export base in light of the anticipated long-run decline of oil revenues would help mitigate the projected increase in debt service.

BACKGROUND

1. **This report follows up on the debt sustainability analysis (DSA) prepared in 2011 (IMF Country Report No. 11/116).[1]** The macroeconomic framework supporting the present analysis reflects the outcome of the 2012 IMF Article IV discussions with the authorities and is based on end-2011 data. The debt data cover central government external debt and guaranteed debt of public entities, as well as an estimate of domestic debt. Despite efforts to improve debt statistics, the coverage of liabilities of public enterprises and municipalities, contingent liabilities of financial institutions, and government obligations to parastatal entities remains uneven.

2. **The impact of the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) resulted in a marked improvement in Cameroon's debt position.** Following HIPC and MDRI, the public debt-to-GDP ratio declined from 52 percent in 2005 to 10 percent in 2008. Since 2008, however, domestic and external borrowing has been rising (Text Table 1).

Text Table 1. Cameroon: Stock of Public Debt, 2005–11

	2005	2006	2007	2008	2009	2010	2011
			(Billions of CFA francs)				
Total public debt	4,534	1,489	1,171	1,015	1,114	1,349	1,633
External	3,294	603	562	578	574	725	899
Multilateral long-term	---	206	230	289	377	460	564
Bilateral	---	316	289	288	196	222	292
Commercial	---	81	43	1	1	43	43
Domestic	1,241	887	608	437	540	623	734
			(Percent of total)				
Total public debt	100	100.0	100.0	100.0	100.0	100.0	100.0
External	72.6	40.5	48.0	56.9	51.5	53.8	55.0
Multilateral long-term	---	13.8	19.7	28.5	33.8	34.1	34.5
Bilateral	---	21.2	24.7	28.4	17.6	16.5	17.9
Commercial	---	5.4	3.7	0.1	0.1	3.2	2.6
Domestic	27.4	59.5	52.0	43.1	48.5	46.2	45.0
			(Percent of GDP)				
Total public debt	51.8	15.9	12.0	9.5	10.6	12.1	13.7
External	37.6	6.4	5.7	5.4	5.5	6.5	7.5
Multilateral long-term	---	2.2	2.4	2.7	3.6	4.1	4.7
Bilateral	---	3.4	2.9	2.7	1.9	2.0	2.5
Commercial	---	0.9	0.4	0.0	0.0	0.4	0.4
Domestic	14.2	9.4	6.2	4.1	5.2	5.6	6.2

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

[1] Prepared by IMF and World Bank staffs, in collaboration with the Cameroonian authorities. The draft DSA was discussed with the authorities in the course of the 2012 Article IV consultation. This DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, dated January 22, 2010 (available at http://www.imf.org/external/pp/longres.aspx?id=4419 and http://go.worldbank.org/JBKAT4BH40). The analysis updates the 2011 DSA (IMF Country Report for Cameroon 11/266, available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=25207.0).

The rise in external debt has been generated by an increase in external borrowing by the central government and public enterprises. External public debt represented more than half of total public debt at end-2011. Its composition is skewed toward multilateral debt, but the share of non-Paris Club bilateral debt is expected to increase over the forecast period as a result of growing nonconcessional borrowing.[2] Domestic debt has increased significantly since 2008 as a result of the completion of audits of government arrears, and the issuance of government bonds and treasury bills on the regional market in 2010 and 2011,[3] respectively, and the securitization of arrears to the national oil refinery (Société Nationale de Raffinage; SONARA) in 2011 (Text Table 2).

Text Table 2. Cameroon: Domestic Debt Components, 2010–11
(Billions of CFA francs; unless otherwise indicated)

	2010	2011	2011 Shares in percent
Total domestic debt	623	724	100
Structured debt	445	561	77
Debt to banking sector	95	123	17
Debt to non-banking sector	350	439	61
Non structured debt (audited arrears)	178	163	23

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

BASELINE SCENARIO

Relative to the 2011 DSA, the baseline scenario incorporates somewhat higher oil prices, higher new domestic borrowing through issuance of government securities, and faster accumulation of domestic arrears (Text Table 3 and Box 1). Projections for real GDP growth, government revenue, and exports remain broadly close to those underlining the 2011 DSA. Oil prices for 2012-17 are based on the latest World Economic Outlook (WEO) assumptions and are assumed to remain constant beyond 2017. [1011] The government's intentions to issue securities in 2012 and to remain active on the regional bond market afterwards result in a forecast of higher

[10] Agreements were also finalized with most London Club commercial creditors, whereby the stock of debt was reduced to US$1.24 million (0.005 percent of GDP)

(continued)

in 2009. The authorities are making every effort to settle the outstanding debt, but are experiencing difficulties in engaging with some creditors either because of a lack of response from them or because they no longer exist as ongoing commercial entities.

[11] Bond purchases taking place externally are treated as external debt by the authorities even if the debt is denominated in local currency. Of the CFAF 200 billion issued in 2010, CFAF 42 billion was sold externally. Staff has accepted the authorities' convention for the purposes of the 2012 DSA but will treat it as domestic debt going forward. Staff considers it to have the same level of risk as domestic debt.

issuance of treasury bills and bonds than in the 2011 DSA (CFAF 750 billion over the projection period versus CFAF 250 billion in the previous DSA). The scenario further assumes no change in fuel pricing policy (i.e., a price freeze) and projects annual fiscal financing gaps. In order to capture the full debt vulnerabilities associated with the projected financing gaps, the DSA assumes that these gaps will be covered by issuance of interest-bearing government securities, resulting in higher domestic interest payments.

Text Table 3. Cameroon: Key Macroeconomic Assumptions, 2011–32
2012 DSA versus 2011 DSA[1]

	2011-12	2013-16	2017–32
Real GDP growth (percent)			
DSA 2012	4.5	5.2	4.6
DSA 2011	4.2	4.6	4.6
Total revenue (percent of GDP)[2]			
DSA 2012	18.4	17.7	16.8
DSA 2011	17.8	18.7	16.2
Exports of goods and services (percent of GDP)			
DSA 2012	31.4	30.8	24.3
DSA 2011	26.3	29.8	23.8
Oil price (U.S. dollars per barrel) [3]			
DSA 2012	107.1	91.8	82.0
DSA 2011	97.8	86.6	78.9

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

[1] The 2011 DSA covers the period 2011-31.

[2] Total revenue, excluding grants.

[3] Figures beyond 2011 incorporate a discount of US$ 6 from the WEO projected international prices for uncertainty (prudence factor) and US$3 for the poorer quality of Cameroon's oil.

3. **Public investment projects are the centerpiece of the government's growth strategy.** Closing the infrastructure gap, particularly in transportation and power generation, is considered to be critical to achieving the faster economic growth rates needed to reduce poverty. Financing for the additional public spending is expected to come from budget resources and a combination of domestic and external borrowing. Although the authorities will continue to seek concessional borrowing, nonconcessional financing is likely to be required to meet financing needs.

4. **Overall outstanding debt is projected to be markedly higher than in the previous DSA throughout the projection period.** The higher level of debt reflects mostly the increase in domestic debt arising from the higher issuance of government securities to cover budgetary commitments and financing gaps.

5. **Projections of new external borrowing take into account outstanding commitments at end-2011 and new external commitments already signed and expected to be signed in 2012.** [4] Based on information received from the authorities, staffs project new external commitments to reach CFAF 994 billion in 2012 (7.8 percent of GDP) and CFAF 623 billion (4.5 percent of GDP) in 2013 (Text Table 4).

Text Table 4. Cameroon: Projected External Commitments, 2011–17

(Billions of CFA francs, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017
	Estimates	Projections					
Outstanding commitments at year-end	1454.0	2245.4	2620.2	2907.4	3120.8	3254.0	3295.7
New external commitments[1]	852	994	623	595	552	505	450
In percent of GDP	7.2	7.8	4.5	4.0	3.5	3.0	2.4
Concessional (as percent of total)[2]	20.4	25.0	30.0	30.0	30.0	30.0	30.0
Concessional (as percent of GDP)	1.5	2.0	1.4	1.2	1.0	0.9	0.7
Non-concessional (as percent of total)	79.6	75.0	70.0	70.0	70.0	70.0	70.0
Non-concessional (as percent of GDP)	5.7	5.9	3.2	2.8	2.4	2.1	1.7
External disbursements (central government and parastals)[3]	184.1	202.8	248.6	307.7	338.5	371.8	408.3
Disbursement rate on previous year's commitments	24.3	13.9	11.1	11.7	11.6	11.9	12.5

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

[1] Assumptions based on information provided by the authorities.

[2] Staffs' assumptions.

[3] Official long-term borrowing data from the balance of payments.

[4] During January 2011–April 2012, the authorities contracted 30 borrowing agreements, equivalent to almost 6 percent of 2011 GDP. At least 15 of these loans were nonconcessional, with an average grant element of 21.3 percent. Future nonconcessional borrowings are assumed to have an average grant element of 20 percent.

[5] Nonconcessional new borrowing commitments are projected at CFAF 746 billion in 2012. This DSA will provide input to World Bank staff in establishing ceilings for nonconcessional borrowing in 2012, under the International Development Association's nonconcessional borrowing policies.

These commitments aim at alleviating infrastructure bottlenecks in energy, roads, ports, communications, and water supply. Information provided by the authorities indicates that 75 and 70 percent of the new commitments in 2012 and 2013, respectively, would be nonconcessional.[5] Staffs assume that new borrowing commitments after 2013 will decline gradually to 2.4 percent of GDP by 2017. A rate of disbursement from outstanding commitments of about 14 percent has been assumed for 2012, mostly based on the external project loan disbursements foreseen in the budget. For 2013–17, disbursements are projected to increase gradually from CFAF 250 billion to around CFAF 400 billion in light of the country's implementation of major infrastructure projects (Text Table 5) and to remain at that level for the rest of the projection period.

Text Table 5. Cameroon: New External Borrowing Baseline, 2012–32

(Billions of CFA francs)

	2012	2016	2020	2025	2030	2032	Average 2012-17	Average 2018-32
New borrowing, 2012 DSA	203	372	383	415	440	439	313	415
Concessional	141	109	103	99	91	84	120	79
Percent of total	69.3	29.4	26.9	23.8	20.7	19.1	38.3	18.9
Nonconcessional	62	263	280	317	349	355	174	336
Percent of total	30.7	70.6	73.1	76.2	79.3	80.9	61.7	81.1
New borrowing, 2011 DSA	172	344	383	416	440		288	411
Concessional	103	101	103	99	91		89	28
Percent of total	60	29.40	26.9	23.8	20.7		31.0	6.8
Nonconcessional	69	243	280	317	349		199	383
Percent of total	40	70.6	73.1	76.2	79.3		69.0	93.2

Sources: IMF-World Bank staff projections.

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

Medium Term, 2013-17

The forecast of an average 5 percent GDP growth rate for the medium term is underpinned by assumptions of continued recovery in non-oil exports following the global crisis, a rebound in oil output, and increased capital spending. Data on the volume of oil production were obtained from the national hydrocarbon company, (Société Nationale des Hydrocarbures; SNH). They indicate that production will gradually expand from 69 thousand barrels a day in 2012 to 103 thousand barrels in 2017. Average annual consumer price inflation is expected to stabilize at 2.5 percent over the medium-term, in line with historical trends and the Central African Economic and Monetary Union (Communauté Economique et Monétaire de l'Afrique Centrale; CEMAC) convergence criteria.

Non-oil revenue is forecast to average 14.5 percent of non-oil GDP in 2012-17, as the authorities consolidate the reforms in tax and customs administrations. Oil revenue is estimated to decline gradually from 5.5 percent of GDP in 2012 to 4.1 percent of GDP in 2017, mostly owing to the projected fall in international oil prices (Text Table 3). The non-oil fiscal primary deficit is projected to remain close to 9 percent of non-oil GDP during 2013–17 on the basis of continued acceleration in the implementation of major public investment projects and continuation of the existing fuel price policy, giving rise to continued accumulation of domestic arrears.

The external current account deficit is projected to decline from 4.7 percent of GDP in 2012 to 3.3 percent of GDP in 2017. The volume growth of non-oil exports is forecast to increase from 7 percent in 2012 to above 8 percent in 2017. The growth in import volume is projected to reflect the acceleration of real GDP growth during 2013-17, and takes into account the increase in imports of 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, 2018-32

Growth is expected to average 4.6 percent in 2018–32 and will be driven by the expansion in the non-oil sectors. Growth of non-oil exports volumes is projected to remain around 8 percent over the long term.

Oil revenue is projected to decline from 4.0 percent of GDP in 2017 to 0.3 percent of GDP by 2032, following the depletion of oil reserves. Non-oil revenue is projected to rise from 14.6 percent of non-oil GDP in 2017 to 16.0 percent by 2032, reflecting sustained implementation of measures to strengthen tax and customs administration. The non-oil primary deficit is projected to decline gradually, reaching about 3 percent of non-oil GDP towards the end of the forecast period. This path is consistent with assumptions of greater control of current spending, increasing allocations for public infrastructure, and improved expenditure execution in priority areas.

[1]The baseline scenario uses the latest IMF World Economic Outlook assumptions (March 2012).

EXTERNAL DEBT SUSTAINABILITY ASSESSMENT

G. Baseline Scenario[6]

6. **The LIC debt sustainability framework is guided by country-specific 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. Cameroon ranks as a 'weak performer' under the joint IMF/World Bank debt sustainability framework (Text Table 6). Although it is at the sub-Saharan African (SSA) average and above the CEMAC average, Cameroon ranks as a weak performer based on its three-year moving average CPIA score. The indicative external debt burden thresholds for countries in this category are a present value (PV) of the debt-to-exports ratio of 100 percent; a PV of the debt-to-revenue ratio of 200 percent; a PV of the debt-to-GDP ratio of 30 percent; and debt service-to-exports and revenue ratios of 15 percent and 18 percent, respectively.

Text Table 6. Cameroon: Country Policy and Institutional Assessment Ratings, 2006-10[1]

	2006	2007	2008	2009	2010
Cameroon	3.22	3.23	3.21	3.21	3.17
CEMAC[2]	2.78	2.74	2.74	2.79	2.80
SSA[2]	3.15	3.17	3.15	3.17	3.21

Source: World Bank -World Development Indicators.

[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. **The DSA calculations indicate that Cameroon's external debt is sustainable.** All debt indicators remain below their thresholds over the projection horizon (Text Table 7 and Figure 1).[7] There is nevertheless a significant rise in external debt ratios up to the end of the projection period up to 2025 before they level off. The increase in external debt is a result of the acceleration in borrowing required for the government's infrastructure program. The terms on which such borrowing takes place will have a major bearing on the long-term profile of the external debt. Increased new external commitments on nonconcessional terms could represent a threat to debt sustainability in the longer term.

[6] The assessment in this section is conducted using the baseline scenario presented in the companion country report.

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

Text Table 7. Cameroon: Baseline Debt Ratios, 2012–32

	Threshold	2012	Medium term 2013–17	Long term 2018–32
		DSA 2012		
External debt				
PV of debt-to GDP	30	7.3	9.5	12.7
PV of debt-to-exports	100	22.8	31.1	53.7
PV of debt-to-revenue	200	39.7	53.8	75.7
Debt service-to-exports	15	1.6	1.7	3.2
Debt service-to-revenue	18	2.8	2.9	4.5
Public debt				
PV of debt-to-GDP		15.7	23.7	40.1
PV of debt-to-revenue		82.6	131.6	239.0
Debt service-to-revenue		8.8	11.3	11.4
		DSA 2011		
		2012	2013–17	2018–31
External debt				
PV of debt-to GDP	30	5.8	8.7	12.7
PV of debt-to-exports	100	22.1	28.9	54.2
PV of debt-to-revenue	200	32.1	46.9	78.8
Debt service-to-exports	15	1.0	1.2	3.2
Debt service-to-revenue	25	1.4	2.0	4.6
Public debt				
PV of debt-to-GDP		13.1	12.9	14.1
PV of debt-to-revenue		69.9	69.7	101.7
Debt service-to-revenue		7.2	8.6	10.0

Source: IMF-World Bank staff estimates.

H. Alternative Scenarios and Stress Tests

8. Alternative scenarios and bound tests show that debt indicators remain below their thresholds over the projection horizon. The historical scenario, which is associated with past external current account surpluses, is unlikely to occur, as oil production is expected to begin to taper off within the next 10 years. This scenario shows a more optimistic debt ratio trajectory relative to the baseline. Thus, in terms of the risk assessment, the historical scenario is not relevant and the related graphs are not presented in Figures 1 and 2.

9. An export shock would be a source of increased debt vulnerability. The export stress test (exports growth in US dollar terms in 2013–14 at one standard deviation below the ten-year historical average) could be associated with a large drop in oil prices or in external demand for non-oil exports coming from a deepening of the global crisis. The stress test assumes a drop of 5.2 percent in the value of exports in both 2013 and 2014 and a return to the growth rates assumed in the baseline scenario thereafter. The magnitude of the shock is somewhat lower than in the 2011 DSA because of the stronger historical average growth of exports over 2002-11 than in the 2001-10 period. Hence, in contrast to the 2011 DSA, the amount of new borrowing required to compensate for the effects of the shock does not give rise to a breach in the threshold.

10. A bound test capturing debt vulnerabilities that may be generated by already identified contingent liabilities is also conducted. The test takes into account the potential contingent claims from restructuring a number of distressed banks (estimated at CFAF 60 billion for one major bank) and negative equity (CFAF 28 billion) in the balance sheet of a recently-audited state-owned enterprise. The amounts involved are however not significant in terms of having an impact on long-run debt sustainability.

PUBLIC SECTOR DEBT SUSTAINABILITY ASSESSMENT

11. The DSA baseline shows that there is a marked upward trend in public sector debt ratios which could threaten long-term debt sustainability (Figure 2). The PV of debt-to-GDP ratio is projected to increase from 16 percent of GDP in 2012 to 48 percent of GDP in 2032, while it was expected to remain in the range of 12-15 percent of GDP in the previous DSA (Table 1). A substantial increase is also recorded for the PV of debt-to-revenue ratio. Much of the increase in debt levels results from the assumption that new domestic debt will be generated by the issuance of government securities, securitization of arrears to SONARA and the accumulation of further domestic debt related to the financing of projected fiscal financing gaps. By contrast, the 2011 DSA was calibrated on a policy reform scenario.[8]

12. Alternative scenarios and bound tests indicate that debt vulnerabilities re-emerge under certain scenarios (Table 2 and Figure 2). An alternative downside scenario assuming a growth rate of 0.2 percentage point below the baseline is considered for all the projection period (Scenario A3 in Table 2). This scenario could reflect a situation in which the additional infrastructure investment financed in part through an increase in nonconcessional borrowing, does not produce a substantial impact on growth. It results in a PV of debt-to-GDP ratio of 54 percent by 2032, which is higher than the baseline scenario (48 percent). This highlights the need for rigorous project selection to maximize potential returns on

[8]A policy reform scenario prepared for the Cameroon 2012 Article IV consultation assuming no financing gaps or further accumulation of domestic arrears from 2012 and increased public investment shows that the overall debt-to-GDP ratio is slightly lower than in the baseline scenario. The reform scenario was not retained for the 2012 DSA because the postponement of legislative elections to 2013 is likely to result in reduced momentum for reform in the near future.

(continued)

investment. Under the scenario of an unchanged primary deficit from 2012, all key debt ratios remain below the baseline reflecting the increasing projected primary deficit in the baseline scenario that would result from increased public investment and the cost of fuel subsidies.

13. Cameroon continues to strengthen its debt management framework, though more efforts are required going forward in view of emerging vulnerabilities. The authorities are implementing a new debt management strategy aligned with the CEMAC guidelines. Since 2009, a quarterly report has been published on the country's debt situation. The authorities produce an annual DSA and update the medium-term debt management strategy for central government debt, which are annexed to the annual budget law. The National Debt Committee, instituted in 2008, is now in place, and the audit of domestic arrears is ongoing. These efforts will need to be reinforced if long-term debt sustainability is to be preserved.

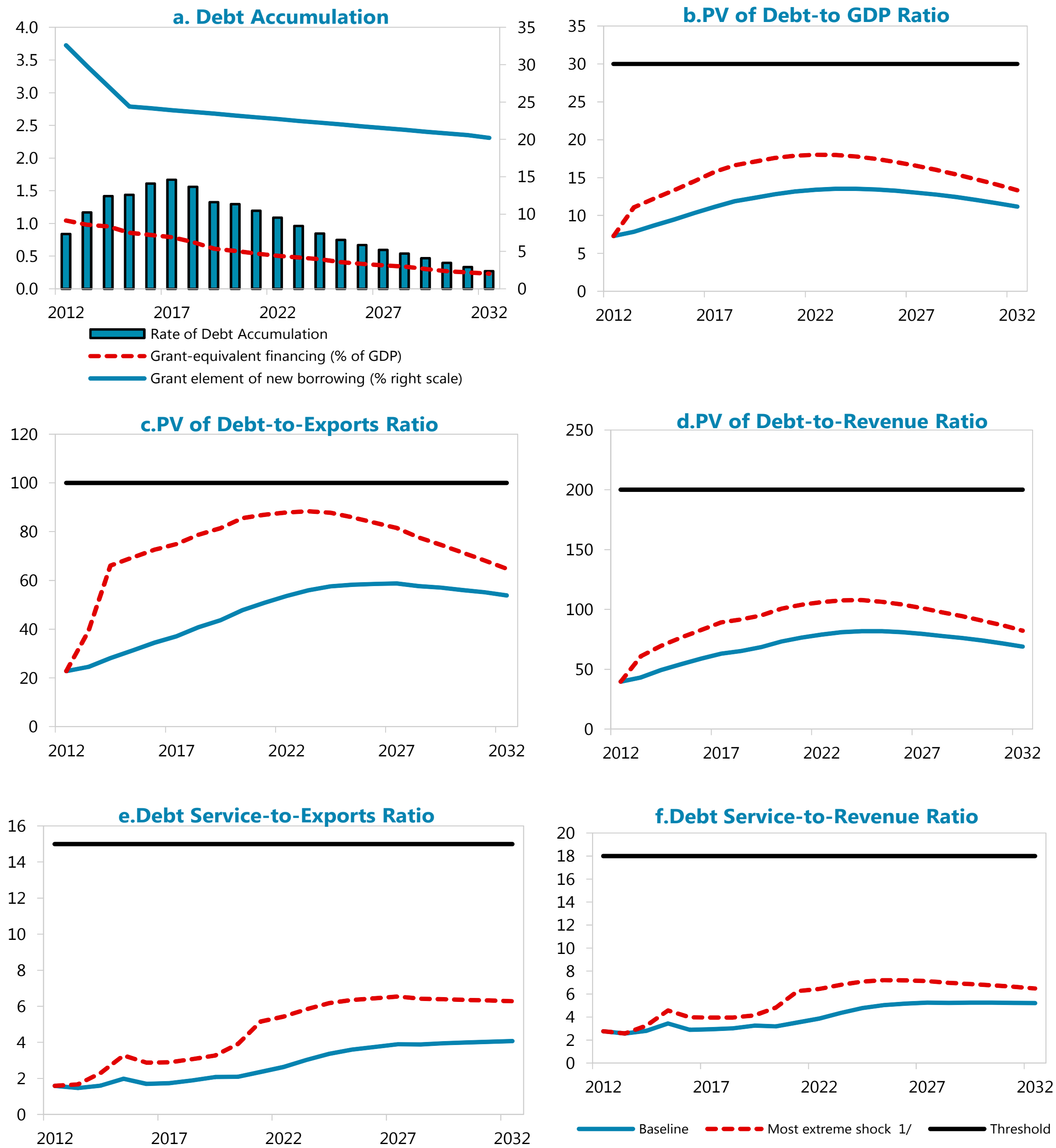
CONCLUSION

14. Cameroon's risk of debt distress remains low, but there are signs of vulnerability emerging from increasing domestic debt. All external debt ratios remain well below their respective policy-dependent thresholds. However, ongoing and projected new domestic borrowing and accumulation of domestic arrears will push debt indicators to levels significantly higher than in the 2011 DSA throughout the projection period, underscoring the need for the adoption of prudent fiscal policies. Moreover, while some uncertainty exists regarding the amounts and the terms, the quite rapid pace of accumulation of nonconcessional borrowing commitments in 2011-12 is a source of concern. Stress tests assuming export and growth shocks indicate that all debt indicators remain below their thresholds through 2032, but there are signs of emerging vulnerability. For this reason, borrowing should be contracted on concessional terms to the extent possible and be contingent on thorough project evaluation. Staffs remain of the view that continued efforts to improve non-oil revenue mobilization and to widen the export base would help mitigate emerging debt vulnerabilities.

15. The authorities broadly shared the risk assessment, while pointing to the scarcity of concessional financing for the key infrastructure projects underpinning the growth strategy. The authorities see the current debt vulnerability level as providing some space for a reasonable increase in debt-financed investment. However, they are cognizant of the need to finance infrastructure projects with concessional financing to the extent possible. They consider that a more appropriate assessment of debt vulnerabilities would be based on a reform scenario assuming lower accumulation of domestic arrears in line with the authorities' intention to maintain medium- and long-term fiscal sustainability.

16. Persistent weakness in public financial management and insufficient data coverage underline the need for caution in assessing Cameroon's debt sustainability. Vulnerabilities include quasi-fiscal liabilities of state-owned enterprises and distressed banks, and further build up of domestic arrears. The authorities' efforts to improve debt management could be reinforced to ensure better coverage of public sector liabilities and by a new and more comprehensive audit of all government payment obligations.

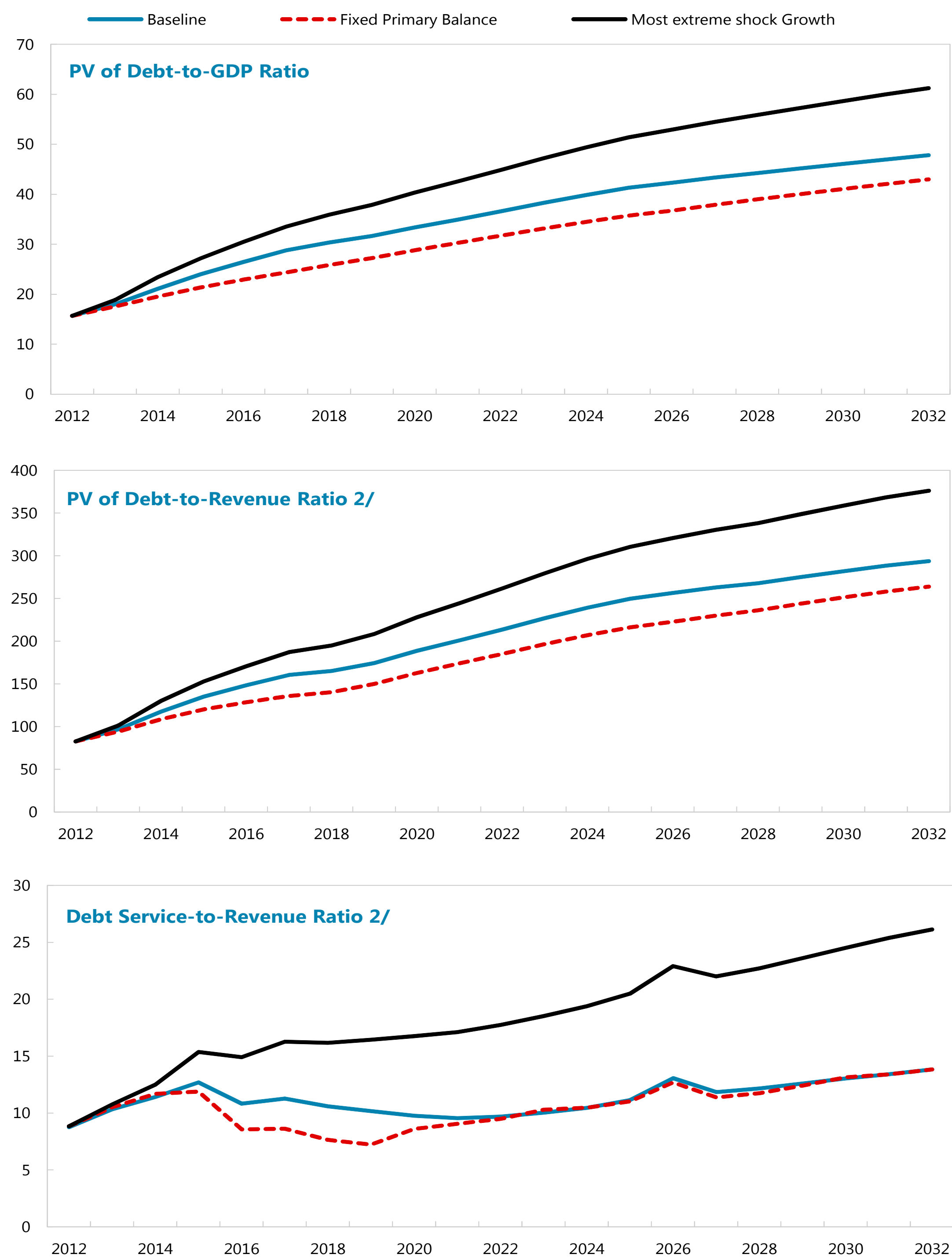
Figure 1. Cameroon: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-32 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a one-time depreciation of the exchange rate shock; in c. to an exports shock; in d. to a one-time depreciation of the exchange rate shock; in e. to an exports shock, and in figure f. to an exports shock.

Figure 2. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2012-32 1/



Sources: Cameroonian authorities; and IMF-World Bank staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenue includes grants.

Table 1.Cameroon: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-32
(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2009	2010	2011	Average 5/	Standard Deviation 5/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	10.6	12.1	13.7			17.2	20.0	23.4	26.5	29.3	31.8		39.9	50.4	
o/w foreign-currency denominated	5.5	6.5	7.5			8.9	9.8	11.0	12.0	13.1	14.2		16.7	13.8	
Change in public sector debt	1.1	1.5	1.6			3.5	2.7	3.4	3.2	2.7	2.5		1.6	0.7	
Identified debt-creating flows	-0.2	0.9	1.6			3.3	2.6	3.2	3.1	2.7	2.5		1.7	0.9	
Primary deficit	-0.3	1.0	2.6	-2.4	2.8	2.8	3.3	4.0	4.1	3.9	4.0	3.7	3.2	2.9	3.0
Revenue and grants	18.4	17.5	18.9			19.0	18.6	18.0	17.8	17.8	17.9		17.1	16.3	
of which: grants	0.8	0.6	0.5			0.5	0.4	0.4	0.3	0.3	0.3		0.2	0.1	
Primary (noninterest) expenditure	18.1	18.5	21.5			21.7	21.9	22.0	21.9	21.8	21.9		20.3	19.2	
Automatic debt dynamics	0.1	-0.2	-1.0			0.0	-0.9	-0.8	-1.0	-1.2	-1.4		-1.5	-2.0	
Contribution from interest rate/growth differential	0.0	-0.4	-0.5			-0.5	-0.7	-0.8	-1.0	-1.2	-1.3		-1.5	-1.9	
of which: contribution from average real interest rate	0.2	-0.1	0.0			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.2	
of which: contribution from real GDP growth	-0.2	-0.3	-0.5			-0.6	-0.8	-1.0	-1.2	-1.4	-1.5		-1.7	-2.1	
Contribution from real exchange rate depreciation	0.1	0.2	-0.5			0.5	-0.2	-0.1	0.0	0.0	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.5	0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.5	0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.3	0.6	0.0			0.3	0.1	0.2	0.1	0.0	0.0		0.0	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	12.6			15.7	18.0	21.1	24.0	26.5	28.8		36.6	47.8	
o/w foreign-currency denominated	...	...	6.4			7.3	7.9	8.7	9.5	10.3	11.1		13.4	11.2	
o/w external	...	...	6.4			7.3	7.9	8.7	9.5	10.3	11.1		13.4	11.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.7	1.7	3.9			4.4	5.2	6.1	6.3	5.9	6.0		4.9	5.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	66.6			82.6	96.8	117.4	135.0	148.4	160.5		213.7	293.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	68.4			85.0	99.1	120.0	137.6	151.0	162.9		215.6	294.6	
o/w external 3/	...	...	34.9			39.7	43.2	49.3	54.3	58.9	63.1		79.0	68.9	
Debt service-to-revenue and grants ratio (in percent) 4/	5.3	3.7	7.0			8.8	10.3	11.4	12.7	10.8	11.3		9.7	13.8	
Debt service-to-revenue ratio (in percent) 4/	5.6	3.8	7.2			9.0	10.6	11.7	12.9	11.0	11.4		9.8	13.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.3	-0.5	1.0			-0.8	0.6	0.6	0.9	1.2	1.4		1.6	2.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.0	2.9	4.2	3.2	0.8	4.7	5.0	5.2	5.3	5.5	5.5	5.2	4.6	4.5	4.6
Average nominal interest rate on forex debt (in percent)	1.6	1.2	2.8	2.2	1.3	2.6	2.3	2.2	2.2	2.3	2.3	2.3	2.1	2.2	2.1
Average real interest rate on domestic debt (in percent)	4.3	-1.8	-0.8	-0.5	2.6	0.2	-0.2	1.1	1.1	0.6	0.6	0.6	0.6	0.3	0.5
Real exchange rate depreciation (in percent, + indicates depreciation	1.3	4.4	-7.6	-4.3	5.8	6.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-3.3	3.0	2.9	2.1	2.5	2.0	2.9	2.0	2.0	2.1	2.2	2.2	1.9	2.2	2.1
Growth of real primary spending (deflated by GDP deflator, in percer	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.6	29.8	27.1	24.4	24.2	23.9	27.0	22.7	20.2	...

Sources: Cameroonian authorities; and IMF-World Bank staff estimates and projections.
1/ Indicate general government gross debt
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenue 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.

Table 2.Cameroon: Sensitivity Analysis for Key Indicators of Public Debt, 2012-32

		Projections						
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	16	18	21	24	26	29	37	48
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	13	11	9	7	5	0	0
A2. Primary balance is unchanged from 2012	16	18	20	21	23	24	32	43
A3. Permanently lower GDP growth 1/	16	18	21	24	27	29	38	54
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	16	19	23	27	30	34	45	61
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	16	16	16	19	21	24	33	45
B3. Combination of B1-B2 using one half standard deviation shocks	16	15	14	18	22	25	37	55
B4. One-time 30 percent real depreciation in 2013	16	21	24	26	28	31	38	50
B5. 10 percent of GDP increase in other debt-creating flows in 2013	16	27	30	32	34	36	43	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	83	97	117	135	148	161	214	294
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	83	72	62	0	0	0	0	0
A2. Primary balance is unchanged from 2012	83	94	109	120	128	136	185	264
A3. Permanently lower GDP growth 1/	83	97	118	136	151	163	224	329
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	83	101	130	153	171	187	262	376
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	83	83	87	105	120	134	190	278
B3. Combination of B1-B2 using one half standard deviation shocks	83	78	76	100	0	139	215	336
B4. One-time 30 percent real depreciation in 2013	83	112	131	148	160	170	221	307
B5. 10 percent of GDP increase in other debt-creating flows in 2013	83	143	165	179	191	200	249	320
Debt Service-to-Revenue Ratio 2/								
Baseline	9	10	11	13	11	11	10	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	11	11	0	0	0	0	0
A2. Primary balance is unchanged from 2012	9	11	12	12	9	9	9	14
A3. Permanently lower GDP growth 1/	9	11	12	14	12	13	13	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	9	11	13	15	15	16	18	26
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	9	11	11	6	3	9	11	15
B3. Combination of B1-B2 using one half standard deviation shocks	9	11	11	3	0	10	14	20
B4. One-time 30 percent real depreciation in 2013	9	11	13	15	14	15	16	25
B5. 10 percent of GDP increase in other debt-creating flows in 2013	9	11	14	37	14	23	14	22

Sources: Cameroonian authorities; and IMF-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/ Revenue includes grants.

Table 3a. Cameroon: External Debt Sustainability Framework, Baseline Scenario, 2009-32 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2012-2017			2018-203
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
External debt (nominal) 1/	**5.5**	**6.5**	**7.5**			**8.9**	**9.8**	**11.0**	**12.0**	**13.1**	**14.2**		**16.7**	**13.8**	
o/w public and publicly guaranteed (PPG)	5.5	6.5	7.5			8.9	9.8	11.0	12.0	13.1	14.2		16.7	13.8	
Change in external debt	0.0	1.1	1.0			1.4	0.9	1.2	1.1	1.1	1.0		0.2	-0.6	
Identified net debt-creating flows	0.2	1.7	0.2			1.0	1.2	1.4	1.4	1.4	1.4		0.5	-0.3	
Non-interest current account deficit	**0.6**	**2.9**	**3.9**	**0.8**	**1.5**	**4.5**	**4.0**	**4.2**	**3.7**	**3.4**	**3.0**		**2.8**	**0.3**	1.8
Deficit in balance of goods and services	4.8	3.4	4.3			5.2	4.6	4.8	4.3	4.0	3.5		3.6	0.9	
Exports	23.5	25.6	30.7			32.0	32.1	30.8	30.3	30.0	30.1		25.0	20.8	
Imports	28.3	28.9	35.0			37.3	36.6	35.6	34.6	34.0	33.6		28.6	21.7	
Net current transfers (negative = inflow)	-1.7	-1.5	-1.3	-1.7	0.5	-1.4	-1.4	-1.3	-1.2	-1.2	-1.1		-0.9	-0.5	-0.8
o/w official	-0.6	-1.0	-1.1			-1.0	-1.0	-1.0	-0.9	-0.8	-0.8		-0.6	-0.4	
Other current account flows (negative = net inflow)	-2.6	1.1	1.0			0.7	0.8	0.8	0.7	0.7	0.6		0.1	0.0	
Net FDI (negative = inflow)	**-0.8**	**-1.3**	**-3.1**	**-2.8**	**3.6**	**-3.3**	**-2.6**	**-2.6**	**-2.1**	**-1.7**	**-1.2**		**-1.9**	**-0.3**	-1.2
Endogenous debt dynamics 2/	**0.5**	**0.0**	**-0.6**			**-0.2**	**-0.2**	**-0.3**	**-0.3**	**-0.4**	**-0.4**		**-0.4**	**-0.3**	
Contribution from nominal interest rate	0.1	0.1	0.2			0.2	0.2	0.2	0.2	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-0.1	-0.2	-0.2			-0.4	-0.4	-0.5	-0.5	-0.6	-0.7		-0.7	-0.6	
Contribution from price and exchange rate changes	0.5	0.1	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.2**	**-0.6**	**0.8**			**0.3**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.4**		**-0.3**	**-0.3**	
o/w exceptional financing	1.4	1.0	-1.3			-0.5	-0.2	-0.1	0.2	0.4	0.3		0.0	0.0	
PV of external debt 4/	...	...	6.4			7.3	7.9	8.7	9.5	10.3	11.1		13.4	11.2	
In percent of exports	...	20.0	20.9			22.8	24.5	28.2	31.2	34.4	37.1		53.6	53.8	
PV of PPG external debt	**...**	**...**	**6.4**			**7.3**	**7.9**	**8.7**	**9.5**	**10.3**	**11.1**		**13.4**	**11.2**	
In percent of exports	**...**	**20.0**	**20.9**			**22.8**	**24.5**	**28.2**	**31.2**	**34.4**	**37.1**		**53.6**	**53.8**	
In percent of government revenues	**...**	**...**	**34.9**			**39.7**	**43.2**	**49.3**	**54.3**	**58.9**	**63.1**		**79.0**	**68.9**	
Debt service-to-exports ratio (in percent)	**1.3**	**0.9**	**1.0**			**1.6**	**1.5**	**1.6**	**2.0**	**1.7**	**1.7**		**2.6**	**4.1**	
PPG debt service-to-exports ratio (in percent)	**1.3**	**0.9**	**1.0**			**1.6**	**1.5**	**1.6**	**2.0**	**1.7**	**1.7**		**2.6**	**4.1**	
PPG debt service-to-revenue ratio (in percent)	**1.8**	**1.4**	**1.7**			**2.8**	**2.6**	**2.8**	**3.5**	**2.9**	**2.9**		**3.9**	**5.2**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.4	0.3			0.4	0.5	0.6	0.7	0.8	0.8		0.8	1.0	
Non-interest current account deficit that stabilizes debt ratio	0.5	1.9	2.9			3.2	3.1	3.1	2.7	2.3	2.0		2.6	0.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.0	2.9	4.2	3.2	0.8	4.7	5.0	5.2	5.3	5.5	5.5	5.2	4.6	4.5	4.6
GDP deflator in US dollar terms (change in percent)	-8.3	-1.6	9.6	7.1	8.1	-5.0	3.0	1.6	1.6	1.6	1.6	0.7	3.0	3.2	3.1
Effective interest rate (percent) 5/	1.6	1.2	2.8	2.1	1.3	2.6	2.3	2.2	2.2	2.3	2.3	2.3	2.1	2.2	2.1
Growth of exports of G&S (US dollar terms, in percent)	-29.2	10.0	37.0	12.8	18.0	3.9	8.2	2.8	5.2	6.1	7.4	5.6	4.1	6.2	5.2
Growth of imports of G&S (US dollar terms, in percent)	-20.0	3.5	37.9	17.8	18.4	6.0	6.3	3.9	4.0	5.2	5.8	5.2	4.2	5.5	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.6	29.8	27.1	24.4	24.2	23.9	27.0	22.7	20.2	22.0
Government revenues (excluding grants, in percent of GDP)	17.6	16.8	18.4			18.4	18.2	17.6	17.4	17.5	17.7		17.0	16.2	16.8
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.4			0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.3	
o/w Grants	0.2	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.0	0.2	0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	1.0	0.9	0.8	0.8		0.5	0.2	0.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			49.3	43.6	38.6	34.7	33.2	31.8		29.7	24.5	28.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	22.2	22.5	25.6			25.5	27.6	29.5	31.5	33.8	36.2		52.8	111.9	
Nominal dollar GDP growth	-6.5	1.2	14.2			-0.6	8.1	6.9	7.0	7.2	7.2	6.0	7.7	7.9	7.8
PV of PPG external debt (in Billions of US dollars)			1.7			1.9	2.2	2.6	3.0	3.5	4.0		6.8	10.8	
(PVt-PVt-1)/GDPt-1 (in percent)						0.8	1.2	1.4	1.4	1.6	1.7	1.4	1.1	0.3	0.8
Gross workers' remittances (Billions of US dollars)	0.3	0.3	0.2			0.2	0.2	0.2	0.3	0.3	0.3		0.3	0.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	6.4			7.3	7.8	8.6	9.4	10.3	11.1		13.3	11.1	
PV of PPG external debt (in percent of exports + remittances)	...	20.0	20.4			22.2	23.9	27.4	30.4	33.6	36.1		52.3	52.8	
Debt service of PPG external debt (in percent of exports + remitta	...	...	1.0			1.6	1.4	1.6	1.9	1.7	1.7		2.6	4.0	

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

1/ Includes both public and publicly-guaranteed 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, 2012-32
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to GDP Ratio								
Baseline	7.3	7.9	8.7	9.5	10.3	11.1	13.4	11.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	7.3	5.0	2.8	0.7	0.0	0.0	0.0	0.0
A2. New public sector loans on less favorable terms in 2012-2032 2	7.3	8.3	9.6	10.8	12.2	13.6	16.9	15.1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	7.3	8.0	9.1	9.9	10.9	11.8	13.4	10.0
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	7.3	11.0	16.5	17.0	17.6	18.2	17.7	10.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	7.3	8.2	9.2	10.1	11.0	11.9	13.6	10.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	7.3	10.7	14.2	14.8	15.5	16.2	16.3	10.4
B5. Combination of B1-B4 using one-half standard deviation shocks	7.3	10.3	13.2	13.9	14.6	15.4	15.9	10.5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	7.3	11.1	12.2	13.3	14.6	15.8	18.0	13.3
PV of Debt-to-Exports Ratio								
Baseline	22.8	24.5	28.2	31.2	34.4	37.1	53.6	53.8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	22.8	15.4	9	2	0	0	0	0
A2. New public sector loans on less favorable terms in 2012-2032 2	22.8	25.8	31.1	35.7	40.7	45.2	67.5	72.5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	22.8	24.5	28.1	31.1	34.4	37.2	51.1	45.5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	22.8	39.2	66.1	69.4	72.6	75.0	87.9	64.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	22.8	24.5	28.1	31.1	34.4	37.2	51.1	45.5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	22.8	33.4	46.2	48.9	51.7	53.8	65.2	50.3
B5. Combination of B1-B4 using one-half standard deviation shocks	22.8	32.9	43.0	45.9	48.9	51.3	63.7	50.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	22.8	24.5	28.1	31.1	34.4	37.2	51.1	45.5
PV of Debt-to-Revenue Ratio								
Baseline	39.7	43.2	49.3	54.3	58.9	63.1	79.0	68.9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	39.7	27.2	15.8	4.2	0.0	0.0	0.0	0.0
A2. New public sector loans on less favorable terms in 2012-2032 2	39.7	45.5	54.4	62.1	69.7	77.0	99.5	92.8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	39.7	44.2	51.8	57.0	61.9	66.6	79.2	61.4
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	39.7	60.6	93.5	97.4	100.3	103.0	104.6	67.0
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	39.7	44.9	52.6	57.8	62.7	67.5	80.3	62.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	39.7	58.9	80.9	85.0	88.4	91.6	96.0	64.4
B5. Combination of B1-B4 using one-half standard deviation shocks	39.7	56.8	75.1	79.6	83.3	87.0	93.5	64.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	39.7	60.9	69.5	76.4	82.9	89.3	106.2	82.3

Table 3b.Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-32 (concluded)
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
Debt Service-to-Exports Ratio								
Baseline	1.6	1.5	1.6	2.0	1.7	1.7	2.6	4.1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	1.6	1.4	1.3	1.4	0.9	0.7	0.0	0.0
A2. New public sector loans on less favorable terms in 2012-2032 2	1.6	1.5	1.6	2.1	1.9	2.0	3.8	5.7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	1.6	1.5	1.6	2.0	1.7	1.7	2.6	4.0
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	1.6	1.7	2.3	3.3	2.9	2.9	5.4	6.3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	1.6	1.5	1.6	2.0	1.7	1.7	2.6	4.0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	1.6	1.5	1.8	2.5	2.1	2.2	3.9	4.8
B5. Combination of B1-B4 using one-half standard deviation shocks	1.6	1.5	1.9	2.4	2.1	2.1	3.7	4.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1.6	1.5	1.6	2.0	1.7	1.7	2.6	4.0
Debt Service-to-Revenue Ratio								
Baseline	2.8	2.6	2.8	3.5	2.9	2.9	3.9	5.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	2.8	2.5	2.3	2.4	1.5	1.1	0.0	0.0
A2. New public sector loans on less favorable terms in 2012-2032 2	2.8	2.6	2.7	3.6	3.2	3.5	5.6	7.4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	2.8	2.6	3.0	3.6	3.1	3.1	4.1	5.4
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	2.8	2.6	3.3	4.6	4.0	4.0	6.5	6.5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	2.8	2.7	3.0	3.7	3.1	3.1	4.1	5.5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	2.8	2.6	3.2	4.3	3.7	3.7	5.7	6.1
B5. Combination of B1-B4 using one-half standard deviation shocks	2.8	2.6	3.2	4.2	3.6	3.6	5.4	6.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	2.8	3.6	4.0	4.9	4.1	4.2	5.5	7.3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.3

Sources: Cameroonian authorities; and IMF-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 a an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

CAMEROON

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 27, 2012

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

As of May 31, 2012

I. Membership Status: Joined: July 10, 1963		Article VIII
II. General Resources Account:	**SDR Million**	**%Quota**
Quota	185.70	100.00
Fund holdings of currency (Exchange Rate)	184.80	99.52
Reserve Tranche Position	0.91	0.49
III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	177.27	100.00
Holdings	15.59	8.80
IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF RAC Loan	92.85	50.00
ECF Arrangements	17.25	9.29

V. Latest Financial Arrangements:

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

[1/] Formerly PRGF.

VI. Projected Payments to Fund:[1/]

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	1.06	2.39	3.45	22.28	21.49
Charges/Interest	0.11	0.44	0.47	0.43	0.38
Total	1.17	2.83	3.92	22.72	21.87

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

VII. 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 cannot be added.

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

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

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

III. Debt Relief by Facility (SDR Million)

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

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

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

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

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

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

X. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings of this assessment indicated that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control was limited, and that the changing risk profile of the BEAC foreign exchange holdings required further actions to strengthen safeguards at the BEAC. Subsequent to the revelation in the Paris office, a series of initial measures and longer-term reforms was agreed between the IMF and the BEAC in order to continue with country programs. The BEAC adopted an action plan for 2010 with the aim of reforming its own governance and strengthening key safeguards. Implementation delays and additional safeguards concerns raised in the first special audit triggered a suspension of IMF disbursements to CEMAC countries from June to early August 2010, after which they resumed. In addition, since 2010, the BEAC and the IMF agreed on additional periodic measures to address the weaknesses highlighted by the special audit and to strengthen governance bodies. A recent safeguards monitoring mission identified a new series of rolling benchmarks to address outstanding safeguards concerns going forward.

XI. 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 792.68=SDR 1, as of June 14, 2012. 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.

XII. Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on June 24, 2011.

XIII. 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.

XIV. Technical Assistance:

2012

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

XV. Resident Representative:

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

JOINT IMF–WORLD BANK WORK PROGRAM, 2012–13

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 economic stability, while expanding priority spending to accelerate growth and poverty reduction.		
Staff visit	September 2012	Aide-mémoire at the end of the mission
2013 Article IV consultation	March 2013	Board discussion in June 2013
TA to be offered by FAD/AFRITAC Central		
PFM mission on budget execution and internal audit	July 2012	Aide-mémoire at the end of the mission and final report
PFM mission on chart of accounts and transition to accrual accounting	June – July 2012	Aide-mémoire at the end of the mission and final report
Two missions on tax policy and two missions on customs administration	FY2013	Aide-mémoire at the end of the mission and final report
TA to be offered by STA		
Mission(s) on improving national accounts and BOP statistics	TBD	Aide-mémoire at the end of the mission
Mission on improving quarterly national accounts	July 2012	Aide-mémoire at the end of the mission
Mission on improving national accounts	August 2012	Aide-mémoire at the end of the mission
TA to be offered by MCM		
Mission(s) on debt management strategies and institutional coordination	TBD	Aide-mémoire at the end of the mission

World Bank 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); (ii) social protection to help develop an effective safety net system based on targeted programs; and (iii) local development, where the focus will be on increasing access to basic services through infrastructure upgrading and capacity building for improved local governance. The Bank's engagement in Cameroon will be examined and any adjustments reflected formally in a 2012 Country Assistance Strategy Progress Report, which is scheduled for Board presentation at the end of September 2012.

Competitive value chains	Possibly one or two missions to disseminate: dates to be decided	Aide-mémoire at the end of the mission
Cross-border trade—analytical work	Possibly one or two missions to disseminate: dates to be decided	Draft report to be delivered in June; aide-memoires at the end of each mission
CEMAC regional financial institutions	Two missions (September 2012 and March 2013)	Aide-mémoire at the end of the mission
Fiscal decentralization	Possibly one or two missions to disseminate: dates to be decided	Final report delivered in June; aide-memoires at the end of each mission
Debt management capacity	Possibly one or two TA missions on medium-term debt strategies: dates to be decided	Finalized action plan to be delivered in June; aide-memoires at the end of each mission
Technical assistance to customs	Possibly three missions: dates to be decided	Aide-mémoire at the end of each 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 will be available in Oct.-Nov. 2012; Volume 2 will be available by March, 2013.
Governance diagnosis of local health delivery	Dissemination in Oct.-Nov. 2012.	Report available by December 2012.

B. Requests for work program inputs		
IMFrequest to Bank		
Periodic update on World Bank program in Cameroon		
Periodic economic update		
World Bank request to IMF		
Periodic update of the macroframework		
C. Agreement on joint products and missions		
DSA update	May 2012	Board discussion in July 2012
DSA update	April 2013	Board discussion in June 2013

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 improvement in quality, coverage, and timeliness in most macroeconomic datasets. In recent years, the authorities have taken the initiative to improve the macroeconomic database, particularly the national accounts and balance of payments statistics.
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 lack of 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, including the development of quarterly national accounts.
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 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, 2012)

	Date of latest observation	Date received	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates	May 2012	June 2012	M	M	M
International reserve assets and reserve liabilities of the monetary authorities[2]	Dec. 2011	April 2012	M	M	M
Reserve/Base money	April 2012	June 2012	M	M	M
Broad money	April 2012	June 2012	M	M	M
Central bank balance sheet	April 2012	June 2012	M	M	M
Consolidated balance sheet of the banking system	April 2012	June 2012	M	M	M
Interest rates[3]	May 2012	May 2012	M	M	M
Consumer price index (main cities)	February 2012	April 2012	M	M	M
Consumer price index (national)	Dec. 2011	March 2012	Q	Q	Q
Revenue, Expenditure, Balance and Composition of financing[4] – General government[5]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of financing[4]– Central government	February 2012	May 2012	M	M	Partial data published monthly
Stocks of central government and Central government-guaranteed debt[6]	Dec. 2011	March 2012	M	M	M
External current account balance	June 2010	June 2011	A	A	NA
Exports and imports of goods and services[7]	Dec. 2011	March 2012	M	M	NA
GDP/GNP	2009	2010	A	A	NA
Gross external debt	NA	NA	A	A	A
International investment position	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
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DEPARTMENT

Public Information Notice (PIN) No. 12/83
FOR IMMEDIATE RELEASE
July 19 2012

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

IMF Executive Board Concludes 2012 Article IV Consultation with Cameroon

On July 13, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cameroon on a lapse of time basis.[15]

Background

The economic rebound observed in 2010 strengthened in 2011, with growth reaching 4.2 percent (compared with 2.9 percent in 2010), despite a decline in oil output. This decline reflected aging equipment and postponement of some investments following the 2008–09 global financial crisis. Average inflation edged up to 2.9 percent in 2011 (from 1.3 percent the year before) mostly reflecting a rise in food prices. External balances in 2011 benefited from positive developments in commodity prices, but the current account deficit (including grants) widened from 3.0 percent to 4.1 percent of gross domestic product (GDP), following a 16 percent increase in the volume of imports.

The government's fiscal situation remained difficult in 2011. Non-oil revenue performance was characterized by lower-than-budgeted value-added tax (VAT) receipts, mostly caused by parastatals not being able to meet their VAT obligations. The shortfall in non-oil revenue was offset by an oil revenue windfall generated by the surge in international oil prices. On the expenditure side, budget execution was affected by the need to settle outstanding payment

[15] 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 consideration by the Executive Board. The Executive Board takes decisions under its lapse of time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

orders from previous years, pressure from fuel subsidies, and overruns on other current transfers. Consequently, the non-oil primary deficit, on a cash basis, deteriorated from 5.7

percent to 8.5 percent of non-oil GDP, and the overall fiscal deficit, on a cash basis, reached 3.4 percent of GDP versus 2.3 percent the year before.

Conditions in the banking system remained worrisome. This reflected financial distress in four (and possibly five) of the country's 13 commercial banks, excessive concentration in bank credit, inadequate resources for the regional supervisory agency, and weaknesses in the current framework for dealing with distressed banks. Financial sector soundness indicators deteriorated in 2011 and nonperforming loans increased by about 17 percent. At the same time, the number of banks in violation of the main prudential ratios continued to increase.

Over the longer term, Cameroon has maintained macroeconomic stability, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives considerably reduced the debt burden. However, there has been almost no growth in per capita income during the last five years, despite a relatively diversified productive base.

Economic growth is now expected to increase moderately under current policies which would imply positive per capita growth of over 2 percent in 2012. Staff projects real GDP to increase gradually from 4.2 percent in 2011 to 5½ percent in 2016. Non-oil growth is to be supported by ongoing efforts to boost agricultural productivity and competitiveness; major public investment projects; and measures to improve the business environment. The oil sector is expected to boost real GDP growth in 2012–17, reflecting the coming on-stream of ongoing investments, following successful exploration efforts. Inflation is expected to remain below the regional convergence criterion of 3 percent.

Executive Board Assessment

In concluding the 2012 Article IV consultation with Cameroon, Executive Directors endorsed staff's appraisal, as follows:

Economic growth continues at a moderate pace, and measured inflation remains within the regional convergence limit of 3 percent. There are, however, risks to the outlook arising from a potential downturn in the global economy, particularly in Europe; increasing financial sector vulnerabilities and the impact of the increase in fuel subsidies and the stock of domestic arrears on fiscal sustainability.

There is a need to address the substantial challenges facing the 2012 budget if a further deterioration of the fiscal situation is to be avoided. These result from underbudgeting fuel subsidies, further arrears accumulation in 2011, and contingent liabilities of public enterprises and distressed banks. Safeguarding fiscal sustainability over the medium-term will require corrective measures including improving non-oil revenue mobilization; containing expenditure on fuel subsidies and avoiding accumulation of domestic arrears; and rebuilding fiscal buffers.

There is continuing concern regarding public financial management performance. The ongoing audit of arrears should be finalized and a plan adopted for the settling of audited arrears. Public expenditure management should also be reinforced by strengthening control of the expenditure chain and better tracking of the flow of funds.

There are risks to financial sector stability arising from the increasing number of distressed banks and the delays in restructuring them, the concentration of bank credit to the national oil refinery, and the spillover from arrears accumulation. Lasting financial stability can only be achieved through an effective regional framework and better cooperation between national and regional bodies. As the largest economy in the CEMAC region, Cameroon should take a proactive stance in pressing toward the necessary regional reforms in the financial sector.

A key policy priority for Cameroon is achieving higher and more inclusive growth through addressing the significant infrastructure gaps and improving the business climate. Accelerating Cameroon's recent moderate economic growth performance will require the full implementation of a major program of public investment. Competitiveness in Cameroon remains challenged by structural factors. Improving the business climate will require that the authorities tackle governance issues, deepen dialogue with private sector interests, take measures to increase the level of financial intermediation, and improve access to credit.

Cameroon's risk of debt distress remains low. Nonetheless, reducing domestic arrears and maintaining a prudent borrowing policy are essential to preserving debt sustainability. Total public debt indicators have deteriorated since 2011 owing to the impact of domestic arrears on domestic debt and the need to cover fiscal financing gaps through increased securitization. There are further signs of vulnerabilities emerging from increasing quasi-fiscal liabilities of state-owned enterprises and distressed banks, and external borrowing at nonconcessional terms. Reform of the fuel subsidy mechanism, improved commitment control, and external borrowing at concessional terms to the extent possible would help to maintain overall debt sustainability.

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, 2010–13

	2010	2011	2012	2013
	Act.	Est.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)			
National income and prices				
GDP at constant prices	2.9	4.2	4.7	5.0
Oil	-12.1	-7.3	16.2	6.8
Non-oil	3.7	4.7	4.3	4.9
GDP deflator	3.0	2.9	2.0	2.9
Consumer prices (12-month average)	1.3	2.9	3.0	3.0
External trade				
Export volume	-0.5	6.3	9.8	6.8
Of which: non-oil sector	3.1	9.4	7.0	7.4
Import volume	4.9	15.6	7.9	7.8
Terms of trade ("-" = deterioration)	16.0	2.4	-6.8	2.2
Money and credit (end of period)				
Net domestic assets [1]	8.9	18.0	8.3	8.2
Net credit to the public sector [1]	-1.6	5.7	2.7	2.9
Credit to the private sector	8.2	28.3	10.0	9.2
Broad money (M2)	11.3	10.6	6.0	7.2
	(Percent of GDP, unless otherwise indicated)			
Central government operations				
Total revenue (excluding grants)	16.8	18.4	18.4	18.2
Non-oil revenue (percent of non-oil GDP)	13.3	14.2	14.3	14.4
Total expenditure	18.6	21.7	22.0	22.3
Overall fiscal balance (including payments of arrears)				
Excluding grants	-2.9	-3.9	-4.4	-4.3
Including grants	-2.3	-3.4	-3.9	-3.8
Non-oil primary balance (percent of non-oil GDP)	-5.7	-8.5	-9.0	-9.1
External sector				
Current account balance (including grants)	-3.0	-4.1	-4.7	-4.2
Imputed reserves (percent of broad money)	65.6	52.9	47.8	43.7
Public debt				
Total	12.1	13.7	17.2	20.0
External	6.5	7.6	8.9	9.8

Sources: Cameroonian authorities; and IMF staff estimates and projections.
[1]Percent of broad money at the beginning of the period.