

Cameroon: Second Review Under the Poverty Reduction and Growth Facility Arrangement and Requests for a Waiver of Performance Criterion and for Additional Fund HIPC Interim Assistance—Staff Report; News Brief on the Executive Board Discussion; and Statement by the Executive Director for Cameroon.

In the context of the Second Review Under the Poverty Reduction and Growth Facility Arrangement and Requests for a Waiver of Performance Criterion and for Additional Fund HIPC Interim Assistance, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Poverty Reduction and Growth Facility Arrangement and Requests for a Waiver of Performance Criterion and for Additional Fund HIPC Interim Assistance, prepared by a staff team of the IMF, following discussions that ended on **November 7, 2001**, with the officials of Cameroon on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on December 28 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a News Brief summarizing the views of the Executive Board as discussed during its January 30, 2002 discussion of the staff report that completed the review.
- a statement by the Executive Director for Cameroon.

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CAMEROON

**Staff Report for the Second Review Under the Poverty Reduction and Growth
Facility Arrangement and Requests for a Waiver of Performance Criterion and for
Additional Fund HIPC Interim Assistance**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs,
Policy Development and Review, and Treasurer's Departments)

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December 28, 2001

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EXECUTIVE SUMMARY

Recent economic developments and program implementation

- **Cameroon's good record of macroeconomic performance continued** during the first annual program (October 2000-September 2001) under the new three-year PRGF arrangement, **and the structural reform process progressed further**—albeit at a slow pace. All the quantitative performance criteria for end-March and end-September 2001 were met, with the exception of the end-March 2001 performance criterion on net bank credit to the central government and the benchmark for the floor on the reduction of domestic arrears. Progress in implementing structural reforms slowed during the second half of the first annual program. The performance criterion on the development of a computer interface for maintaining the government payroll file updated and most of the benchmarks were not observed. However, as a result of intensified efforts, many of these measures are now in place.
- **The pace of economic activity was broadly in line with the envisaged real GDP growth of 5.3 percent.** However, the 12-month national consumer price (CPI) inflation rate accelerated to about 3 percent on an average basis, driven by higher foodstuff prices. Despite a small slippage during the final quarter, budgetary performance during the first annual program as a whole was somewhat better than programmed, with the primary surplus slightly larger than envisaged. Monetary developments showed a strengthening of the country's external position and a net repayment to the banking system by the central government.
- **Progress in implementing institutional reforms and policies to strengthen revenue mobilization has continued.** However, progress in improving public expenditure management and governance has remained slow, and there have been delays in the implementation of the privatization program.

Elements of the second annual program (October 2001–September 2002)

- The second annual program aims at consolidating the gains obtained so far, with a view to (i) improving public expenditure management and governance; (ii) intensifying efficiency-enhancing structural reforms, so as to create an environment conducive to private investment and growth; and (iii) ensuring an efficient use of resources made available under the enhanced HIPC Initiative.
- Taking into account the less favorable external environment in the wake of the September 11, 2001 events and the decline in oil production, the **key macroeconomic objectives of the second annual program** are to (i) limit the annual average CPI inflation rate to less than 3 percent; and (ii) contain the external current account deficit to about 4½-5 percent of projected GDP in fiscal-years 2001/02 and 2002/03. Real GDP growth is now projected at 4.6 percent and 4.9 percent in these two years, respectively.

- **The finalization of a broad-based participatory and good-quality PRSP is now expected for May-June 2002.** In the meantime, a PRSP Preparation Status Report has been prepared and submitted to the Executive Boards of the World Bank and the IMF, together with the JSA.

Issues highlighted in the staff appraisal

- Despite the achievements so far, Cameroon's medium-term outlook remains fragile, especially in the context of a less favorable external environment and the steeper than initially envisaged decline in oil output. Thus, **for sustained economic growth and lasting poverty reduction to materialize, it is crucial for Cameroon to consolidate the gains in fiscal performance and the progress in structural reform**, particularly in non-oil revenue mobilization and the financial system; strengthen public expenditure management; intensify efforts to improve governance, notably in the judiciary system; and implement with no further delay the programmed core structural reforms.
- Enhancing non-oil revenue mobilization, notably by limiting tax exemptions and reforming the income tax system, and improving public expenditure management are critical for achieving fiscal sustainability and preserving macroeconomic stability over the medium term. To this end, **it is crucial to ensure effective implementation of the action plan that has been recently adopted to introduce an integrated computerized fiscal and accounting information system** to manage government revenue and expenditure by September 2003.
- **It is also essential to effectively tackle the weaknesses in governance, notably in the judiciary system**, so as to help foster investor confidence. The reform of the procurement system needs to be pursued and strengthened. Close adherence to the rule of law and its effective implementation are prerequisites to strengthening further the credibility of Cameroon and the prospects for sustained private sector investment.
- In the event oil prices were to fall below the program assumptions, an additional financing gap could emerge. In light of the good record of macroeconomic performance in recent years, and the policy stance of the second annual program, the staff will discuss with the authorities at the time of the next review the possibility of an augmentation in access of PRGF resources to cover part of the additional financing gap.
- **The staff recommends that the Executive Board grant a waiver for the nonobservance of the end-September 2001 performance criterion on the completion of the development of the computer interface for the government payroll, complete the second review, approve the second annual program under the PRGF arrangement, and extend the Fund HIPC interim assistance through end-December 2002.**

I. INTRODUCTION

1. Discussions on the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement and the second annual program (October 1, 2001–September 30, 2002) were carried out in Yaoundé during October 24–November 7, 2001.¹ In a supplementary letter of intent to the Managing Director, dated December 28, 2001 (Appendix I), the Cameroonian authorities indicate that the good record of macroeconomic performance during the previous ESAF/PRGF three-year arrangement continued, and the structural reform process progressed further, during the first annual program (October 1, 2000–September 30, 2001). They also outline the objectives and policies for the second annual program and request a waiver for the nonobservance of the end-September 2001 structural performance criterion on the completion of the development of the computer interface for the government payroll system, as well as an extension of the Fund interim assistance period under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) Initiative beyond end-December 2001. A status report on the preparation of the full poverty reduction strategy paper (PRSP) has been prepared for consideration by the Executive Boards of the Bank and the Fund in January 2002.

¹ The Cameroonian representatives were the Minister of Economy and Finance; the two ministers delegated for the Stabilization Plan and Economic Reforms and for the Budget, respectively, in the Ministry of Economy and Finance; and several other senior government officials. The mission met with the Prime Minister and the Minister of State-Secretary General at the presidency. It also participated, as an observer, in the meeting of the national consultative committee for the follow-up on the implementation of the HIPC Initiative held on October 26, 2001. The staff team consisted of Mr. Maciejewski (Head), Mr. Kpodar, Mr. Ndiaye, and Ms. Zamora (all AFR), Messrs. Singh and Le Borgne (FAD), Mr. Loko (PDR), and Mr. Keller (Fund Resident Representative in Cameroon). The mission was assisted by Mr. Nguenang, Assistant Economist, and Mrs. Essia Ngang, Administrative Assistant, from the Resident Representative's office in Cameroon. Mr. Donovan, Deputy Director (AFR), met with the Minister of Economy and Finance on November 5. The mission worked closely with a parallel technical assistance mission on taxation from the Fund's Fiscal Affairs Department (FAD), headed by Mr. Benon, and a World Bank team, headed by Mr. Horton. Mr. Barro Chambrier, Executive Director for Cameroon, and Mr. Kudiwu, Assistant to Mr. Barro Chambrier, participated in several of the policy meetings.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE DURING THE FIRST ANNUAL PROGRAM (OCTOBER 1, 2000–SEPTEMBER 30, 2001)²

2. **The good record of macroeconomic performance continued, and the structural reform process progressed further—albeit at a slow pace—during the first annual program.** Preliminary estimates suggest that the pace of economic activity was broadly in line with the envisaged real GDP growth of 5.3 percent. However, the 12-month national consumer price (CPI) inflation rate accelerated to about 3 percent on an average basis (versus a programmed rate of 2 percent), driven by higher foodstuff prices following a drought in the northern provinces and increased demand from neighboring countries (Figure 2). **Budgetary performance was somewhat better than programmed**, with the primary surplus for the first annual program slightly larger than targeted. Overruns in noninterest current expenditure³ were more than offset by a better-than-targeted revenue performance and a lower-than-programmed domestically financed public investment expenditure (Figure 3). **Monetary developments during the first annual program showed a significant expansion of bank credit to the private sector, in line with the level of economic activity, and a net repayment to the banking system by the central government of 1.3 percent of GDP** (see paras. 2 and 4 of Appendix I and Figure 4). Cameroon's contribution to the improvement of the net foreign assets position of the regional central bank (BEAC) further strengthened. Broad money increased by 17.3 percent by end-September 2001, reflecting mainly an increase in bank deposits.

3. **Progress in implementing institutional reforms and policies to strengthen revenue mobilization continued.** In particular, the authorities pursued their efforts to reform the customs administration, improve domestic tax administration and collection, and strengthen the value-added tax (VAT). Use of the taxpayer identification number (TIN) at customs was generalized; a special unit was created at headquarters to monitor and control exemptions; and the security system of the customs computer network was made operational. In domestic taxation, the taxpayer master file was expanded further by intensifying the process of assigning a TIN to all economic agents. The regulatory agency for the modified procurement system became operational; and the electricity company (SONEL) was privatized. The review of the

² The Executive Board approved a new three-year PRGF arrangement (October 1, 2000–September 30, 2003) for Cameroon on December 21, 2000 in an amount equivalent to SDR111.42 million (60 percent of quota) (EBS/00/255; 12/6/00). A first disbursement equivalent to SDR15.92 million was made on Board approval, and a second disbursement of the same amount was made following the completion of the first review in July 2001 (Tables 1 and 19). Cameroon's outstanding use of Fund resources amounted to the equivalent of SDR 193.96 million (104.4 percent of quota) on November 30, 2001. Summaries of Cameroon's relations with the Fund and the World Bank Group are contained in Appendices II and III, respectively.

³ This small slippage (0.2 percent of GDP) occurred mainly in the final quarter of the first annual program (July–September 2001), owing primarily to overspending on transfers and subsidies and the wage bill.

automatic retail price mechanism for petroleum products was completed, and some progress was made in the implementation of the rehabilitation plan for the Postal Savings Bank (see para. 3 of Appendix I). However, progress in other areas of structural reform lagged, notably in public expenditure management and governance. Also, despite intensified efforts by the government, the privatization of the national water company (SNEC), the fixed telecommunications company (CAMTEL), and the agro-industrial company (CDC) could not be completed as scheduled.

4. **All the quantitative performance criteria for end-March and end-September 2001 were met with the exception of the end-March 2001 criterion on net bank credit to the central government**, which was missed because of unexpected delays in the privatization of CAMTEL. In the same vein, **all the quantitative benchmarks for the first annual program were met, except for the floor on the reduction of domestic arrears**, which was missed because the government encountered difficulties in convincing small creditors to accept securities in exchange for their claims (Tables 2 and 3).

5. **Progress in implementing structural reforms slowed during the second half of the first annual program.** One of the two structural performance criteria for end-September 2001 (completion of the development of the computer interface for the government payroll system) was not observed. This nonobservance was due to the unexpected technical difficulties (linking of different existing softwares) encountered in rendering operational the four pilot sectoral sites (Ministries of Economy and Finance, Education, Health, and Civil Service). Furthermore, most of the structural benchmarks envisaged for the second half of the program year were not completed (Table 4), owing to the complexities of some measures, which required more time than envisaged for their implementation and to somewhat difficult coordination among different public services. However, as a result of intensified efforts, many of these measures are now in place.

III. KEY ELEMENTS OF THE SECOND ANNUAL PROGRAM (OCTOBER 1, 2001–SEPTEMBER 30, 2002)

6. **The authorities reiterated their commitment to economic reform, the timely and full implementation of the PRGF-supported program, and the finalization of a fully participatory and good-quality PRSP.** They shared the view that actual implementation of the second annual program would require continued fiscal discipline, a capacity to resist increasing social pressures in the run up to the municipal and legislative elections expected in 2002, and a renewed determination to focus on improving public expenditure management and governance. The authorities also stated that, in order to ensure higher and sustainable economic growth in the medium to long term, and, thereby, help to reduce poverty significantly, they would intensify efforts to implement efficiency-enhancing structural reforms, so as to create an environment conducive to private capital and investment. They concurred with the staff that, although significant gains had been achieved to date, these were still fragile and easily reversible, and that a solid foundation for raising the investment-GDP ratio (including through foreign direct investment) had yet to be established. Finally, the authorities indicated their resolve to ensure that the resources made available in the context of the enhanced HIPC Initiative would be used

efficiently to rebuild basic infrastructure and address the urgent challenges in education, health, and rural and urban development.

A. Macroeconomic Prospects and Financial Policies Under the Second Annual Program

Macroeconomic prospects

7. **The second annual program has been designed in the context of an updated medium-term framework (2000/01–2004/05),⁴ building on progress made in recent years and taking into consideration the less favorable external environment in the wake of the September 11, 2001 events, the projected long-term decline in oil production,⁵ and the October 15, 2001 *World Economic Outlook (WEO)* projections.⁶** Real GDP growth rates have been revised downward to 4.6 percent and 4.9 percent for fiscal-years 2001/02 and 2002/03, respectively. The projected decline in oil prices will result in a deterioration of Cameroon's terms of trade, which, combined with the long-term decline in oil output, is expected to have a negative impact on both government oil revenue and national income. Real non-oil GDP growth rates have also been revised downward to 5.0 percent and 5.5 percent in 2001/02 and 2002/03, respectively, (from 6.1 percent and 6.2 percent, initially), reflecting a weakening of external demand and the delays in structural reform (Tables 5 and 6).

⁴ The key macroeconomic objectives of the government's medium-term framework, as described in the interim poverty reduction strategy paper (I-PRSP) (EBD/00/76; 9/19/00) and the HIPC Initiative decision point document (EBS/00/194; 9/19/00), are to (i) increase the real GDP growth rate to 6 percent by 2002/03; (ii) limit the CPI inflation rate to about 2 percent; and (iii) contain the external current account deficit (excluding grants) at about 3–3½ percent of GDP.

⁵ Oil output is projected at 39.3 million barrels in 2001/02 and 35.5 million barrels in 2002/03 (versus initial projections of 38.1 million and 37.7 million, respectively) and to decline further by about 10 percent a year beginning in 2003/04. This decline reflects the long-term decrease in production, as the major known oil fields are expected by both the oil industry and the authorities to be depleted by 2010/11 and no major oil field discovery is in sight.

⁶ Based on the latest WEO oil price projections (November 26, 2001), oil prices would be US\$3 per barrel less than projected in the October 15, 2001 WEO. (See para. 29 for the impact on the program and the resulting financing gap).

Cameroon: Selected Economic and Financial Indicators, 1999/2000–2004/05⁷

	1999/2000	2000/01		2001/02		2002/03	2003/04	2004/05
	Actual	Prog.	Prel.	Prog.	Rev.	Projections		
					prog.			
(Annual percentage changes)								
GDP at constant prices	4.2	5.4	5.3	5.5	4.6	4.9	5.2	5.4
Consumer prices (average)	0.8	2.0	2.0	2.0	2.9	2.5	2.2	2.0
Broad money (end of period)	18.8	10.3	13.0	8.8	9.7	6.5	6.1	8.3
(In percent of GDP)								
Overall fiscal balance								
Excluding grants	1.4	2.1	2.0	-0.6	0.0	-0.7	-0.1	-0.4
Including grants	1.4	2.5	2.4	-0.1	0.5	-0.2	0.6	0.1
Primary fiscal balance	7.2	7.6	7.4	4.2	4.8	3.9	4.3	3.6
External current account (including grants)	-1.7	-2.5	-2.7	-3.2	-4.4	-4.9	-4.5	-4.4

Within the updated medium-term framework, the main macroeconomic objectives of the second annual program (October 1, 2001–September 30, 2002) are to (i) limit the annual average CPI inflation rate to less than 3 percent; and (ii) contain the external current account deficit at about 4½–5 percent of projected GDP in 2001/02 and 2002/03 (see table above).

Fiscal policy stance

8. **The authorities have reiterated their determination to adhere to a cautious fiscal stance during the second annual program.** The key budgetary targets for fiscal-year 2001/02 are to attain a primary surplus of 4.8 percent of GDP, and to maintain an overall fiscal balance (on a commitment basis and excluding grants) (Figure 7). To this end, **total expenditure for 2001/02 is projected to increase to 19.3 percent of GDP, from the 18.6 percent of GDP estimated for 2000/01.** The increase is driven by HIPC Initiative-related expenditure (1.4 percent of GDP) and by a higher wage bill; together, these would allow for selective new recruitments in the context of the medium-term sectoral strategies in health and education and for the gradual implementation of new statutes for the various professions within the civil service. Transfers and subsidies will be limited to 1.8 percent of GDP, reflecting the reduction/phasing out of the price subsidy for retail petroleum products (see para. 20).⁸ Public

⁷ Fiscal year begins in July.

⁸ With a view to maintaining social peace, the automatic petroleum retail price adjustment mechanism, which was introduced in July 2000, has been capped at the equivalent of a crude oil price of US\$25 a barrel to limit the pass-through effect of higher world oil prices. As envisaged,

(continued)

investment is targeted at 4.0 percent of GDP. **Excluding expenditure financed through the projected savings resulting from the enhanced HIPC Initiative, total expenditure would be limited to 17.9 percent of GDP in 2001/02, compared with 18.6 percent of GDP in 2000/01. On the revenue side, with the average oil prices for Cameroon projected at US\$19.9 per barrel in 2001/02 and at US\$19.0 per barrel in 2002/03,⁹ oil revenue would amount to 4.9 percent of GDP in 2001/02 and to 3.3 percent of GDP in 2002/03 (Tables 8, 9, 10 and text table below). Non-oil revenue is projected at 16.0 percent of non-oil GDP (see above text table) in 2001/02 and 2002/03, based on the projected non-oil GDP, a further strengthening of the tax and customs administrations, and no further delays in implementing the programmed governance and other key structural reform measures.**

Cameroon: Fiscal indicators, 2000/01 - 2002/03

(In percent of GDP)

	2000/01		2001/02		2002/03	
	Rev. prog. EBS/01/105	Est.	Prog. EBS/01/105	Rev. prog.	Proj. EBS/01/105	Rev. prog.
Total revenue	20.4	20.6	18.8	19.2	17.9	18.0
Oil sector revenue	6.8	6.9	4.7	4.9	3.4	3.3
Non-oil sector revenue	13.6	13.6	14.1	14.3	14.5	14.6
Total expenditure	18.4	18.6	19.5	19.3	18.7	18.7
Primary expenditure	13.0	13.0	14.6	14.4	14.3	14.1
Current expenditure	11.3	11.4	12.0	11.9	11.8	11.7
Domestic contribution to investment	1.7	1.6	2.7	2.5	2.5	2.4
Primary balance	7.4	7.5	4.1	4.8	3.6	3.9
Primary balance, excluding HIPC	7.4	7.5	5.5	6.2	4.9	5.2
Primary balance, excluding oil revenue	0.6	0.6	-0.6	-0.1	0.1	0.6
Overall deficit (commitment basis)						
Excluding grants	2.0	2.0	-0.7	0.0	-0.8	-0.7
Including grants	2.4	2.4	-0.2	0.5	-0.3	-0.2
Memorandum items:						
Nominal GDP (In percent)	9.4	8.5	5.3	4.7	5.6	7.9
Nominal non-oil GDP (In percent)	8.5	6.6	10.2	10.6	8.5	10.1
Cameroon oil prices (US\$ per barrel)	28.3	25.5	21.5	19.9	19.8	19.0

9. Improving public expenditure management will be at the core of the second annual program. To this end, the deficiencies of the existing information system that monitors budget execution are being addressed on an urgent basis, in line with the action plan developed with

the retail prices of premium gasoline and of gas oil were each raised by CFAF 10 per liter on July 1, 2001. As projected world prices are below the threshold of US\$25 per barrel, the need for further subsidies should disappear during the second annual program.

⁹ The program contains a built-in contingency mechanism to adjust for oil price fluctuations (see technical memorandum of understanding (Appendix I, Annex I)). An oil price change of US\$1 per barrel is estimated, ceteris paribus, to result in a 0.2-0.3 percentage point of GDP change in the external current account and in a 0.2 percentage point of GDP change in oil revenue.

FAD technical assistance (see para. 7 of Appendix I). Key steps scheduled for implementation during the first half of the second annual program (October 2001–March 2002) include linking the existing information system at the treasury with that at the budget department in the Ministry of Economy and Finance (a performance criterion for end-March 2002). On this basis, the action plan sets a path to migrate from the existing system to a fully integrated computerized information system to manage government revenue and expenditure from the commitment to the payment stage (*chaîne des recettes et dépenses publiques*) by end-September 2003.

10. **In addition, actions are being taken by the government to strengthen internal and external control of public finances.** Specifically, the internal control process will be reinforced, along the lines of the recommendations of the September 2001 FAD mission on the treasury, and an action plan will be developed by end-March 2002 to ensure proper external control of central government finances (through, notably, the introduction of an external audit body (Chambre des Comptes) (see paras. 7 and 8 of Appendix I). Steps are also being taken to (i) further enhance budgetary procedures and the quality of public expenditure; (ii) reduce the supplementary period for closing the accounts of the preceding fiscal year; and (iii) improve the coordination between the debt agency (Caisse Autonome d'Amortissement) and the relevant departments in the Ministry of Economy and Finance (including, notably, the treasury and the budget department) (Box 1).

11. **The government will also continue to strengthen its capacity to mobilize non-oil revenue through measures to enhance the tax and customs administrations.** In line with the recommendations of the October–November 2001 FAD mission on taxation, it will (i) soon adopt a code of tax procedures (which was submitted to the National Assembly in November 2001); (ii) establish a large-taxpayer unit to monitor and control tax liability for the 300–400 largest taxpayers; (iii) reorganize the central administration along functional lines; and (iv) improve the administration of the VAT and forestry taxation. In the customs area, the implementation of the reform program will be pursued, in particular to strengthen the single-processing window (*guichet unique*) for external trade and to ensure that the computer links between the tax and the customs information systems are operational, so as to facilitate the exchange of data between the two information systems. In addition, the physical and documentary controls for the release of goods (*prise en charge des marchandises*) will be improved, and the control system for exemptions and special-status traffic (transit, bonded warehouses (*entrepôts*), and temporary admissions) strengthened (see paras. 9 and 10 of Appendix I).

12. **Furthermore, to help achieve its non-oil revenue targets, the government is committed not to introduce any new tax and customs exemptions.** In order to limit the magnitude of the negative budgetary effects of the recently introduced measures, VAT exemptions on computer material will be limited exclusively to computers and to the program period. With regard to the exemptions to support the development of the press, a special unit, comprising representatives from the Ministry of Communications and of the customs and tax administrations, has been established to issue exemption certificates to eligible companies on a case-by-case basis and in a transparent manner (see para. 11 of Appendix I). In addition,

Box 1. Public Expenditure Management and Control

The original problems

Until recently, public expenditure management (PEM) exhibited important weaknesses. The main ones were the following: (i) weak budget preparation and public accounting systems; (ii) excessive centralization at the level of the Ministry of Economy and Finance, with spending ministries insufficiently involved in the preparation of the budget; (iii) numerous duplications of controls and tasks, leading to a very complex, nontransparent and inefficient execution of expenditure; (iv) no guarantee that resources were allocated according to their intended goal (especially since the accounting and the budget nomenclatures were incompatible); (v) important payments arrears and the inherent possibility that new payments arrears could emerge without timely detection; and (vi) the fact that, overall, the computing systems were obsolete and often not connected to one another.

Achievements to date and current status

The focus of the structural reforms in the PEM domain has been on budget preparation, and execution and reporting; notwithstanding recent improvements, reporting remains impaired due to deficiencies and inefficiencies in the information systems pertaining to budgeting and accounting, as well as in the related computer systems.

The most important actions have focused on the following:

- budget preparation and execution: (i) reorganizing the budget department to improve budget preparation; (ii) revising the budget execution process and starting to streamline budget execution steps; (iii) revising the role of financial comptrollers; and (iv) computerizing tasks and the budget execution information systems;
- budget reporting: (i) preparing budget execution reports by sectoral ministries; and (ii) preparing external financial audits of key Ministries (especially of Education and Health);
- treasury information system: production of more complete and timely treasury data (the quality of treasury balances keeps improving);
- reduction of domestic arrears (but not yet completed); and
- streamlining and simplification of procedures and controls at the central government level.

Overall, **PEM still needs substantial improvement** in the following areas: (i) data concerning the general government operations are not comprehensive (local government information and administrative public agencies are not consolidated); (ii) the functional budget classification is not yet implemented, and data on external resources are incomplete; (iii) the current budget classification is limited, and the implementation of the new classification is still pending; (iv) poverty reduction expenditures are not clearly identified, as the PRSP is not yet completed; (v) a medium-term expenditure planning framework has yet to be implemented; (vi) the internal control process is not effective, and internal reporting from line ministries shows substantial delays; and (vii) there is no effective external control in place.

Short- and medium-term measures

The following measures will be implemented in the short to medium term:

- implementation of a new budget classification;
- faster closure of budgetary accounts (through a reduction of the budget's supplementary period);
- implementation of a fully functioning integrated financial management system linking budget, financial control, and the treasury, starting with the computer linking of the information system at the treasury with that of the budget department in the Ministry of Economy of Finance;
- implementation in the medium term of multiyear expenditure projections in budget formulation; and
- Improvement of internal control (especially regarding treasury inspection), as well as of external control (implementation of an independent external control body).

exemptions to support the HIV/AIDS program will be restricted to those products that are specifically required to ensure the detection of HIV/AIDS virus and treatment.

13. **Domestic arrears will continue to be cleared in line with the multiyear settlement plan in place.** Taking into account the difficulties encountered in the securitization process and following the completion of the additional verification of claims, the government is revising its strategy, with the intention of paying most of the remaining claims in cash. The staff has urged the authorities to complete, by April 2002, the census and validation of the government's obligations that may arise as a result of staff promotions/advancement and, where applicable, associated fringe benefits. In the same vein, the staff has encouraged the authorities to improve the exhaustivity of the domestic public debt, in particular those of the public enterprises and local communities (*collectivités locales*).

Monetary prospects

14. **The revised projections for 2001/02, which take into account recent developments, including the impact of the September 11, 2001 events, on the terms of trade and the balance of payments,** aim at containing the reduction of Cameroon's contribution to the net foreign assets position of the regional central bank (BEAC). Consistent with the fiscal targets, net bank credit to the central government is programmed to increase by CFAF 26 billion (0.4 percent of GDP) during 2001/02. Credit to the private sector is projected to increase by about 12 percent, in line with the expected level of economic activity, while broad money is projected to expand by about 10 percent (Tables 11 and 12).

B. Creating an Environment Conducive to Increased Private Sector Investment

15. **In addition to the prudent macroeconomic policies and the expenditure management measures envisaged above, emphasis will continue to be placed on a number of policy actions aimed at stimulating private sector activity, enhancing the competitiveness and efficiency of the economy, and boosting production (Box 2).** In line with the interim PRSP, these include, in particular, (i) measures to improve governance; (ii) steps to further strengthen the domestic financial system; (iii) an acceleration in the implementation of the privatization program (including in agribusiness) and of the reforms in the petroleum sector; and (iv) the consolidation and deepening of structural reforms in the key sectors of forestry and transport, in order to enhance job creation. The World Bank staff took the lead in discussing issues relating to the petroleum, forestry, transport, and agro-industrial sectors, social policies, and poverty reduction programs, and it consulted closely with Fund staff in the areas of governance and financial sector reform.

Box 2. Structural Conditionality

Coverage of structural conditionality in the current PRGF-supported program

As indicated in Table 4 of the staff report and Table 2 of the attached supplementary letter of intent (Appendix I), conditionality in the current program focuses on the following areas:

- **public expenditure management**, including, notably, the setting up of a fully integrated information and accounting system to manage government revenue and expenditure from the commitment to the payment stage—*chaîne des dépenses*, and the validation of the new budget classification;
- **civil service reform**: including the development of a computer interface for the government salary file, to ensure that the file remains current;
- **financial sector reform**: including the rehabilitation plan for the Postal Savings Bank and completion of the bank liquidation process; and
- **governance**: technical audit of the judiciary system, review of the pending *saisies-attribution* cases, and implementation of an external audit body (Chambre des Comptes).

In addition, **there were three prior actions for the completion of the second review** in the areas of public expenditure management and governance (see paragraph 24 of Appendix I).

Structural conditionality in the above areas are critical for (i) the consolidation of macroeconomic stability, the improvement of budgetary performance, and the credibility of the government fiscal policy; and (ii) the creation of an environment conducive to increased private investment, enhanced growth prospects, and significant poverty reduction.

Status of structural conditionality in the previous PRGF-supported program

All the measures that were programmed in the previous arrangement have been implemented (Box 1 of EBS/00/255 (12/6/00) and Table 3 of EBS/00/90 (5/23/00)).

Structural areas covered by World Bank lending and conditionality

At present, IDA structural conditionalities pertain only to the third structural adjustment credit (SAC III), which has four floating tranches (sector specific):

- **Privatization tranche 1**. This tranche was released in June 2000 following the issuance of invitations to negotiate to the successful bidders for the first group of companies to be privatized: BICEC (commercial bank), CAMSUCO (sugar company), SOCAPALM (oil palm company), SOCAR (insurance company), SNEC (water company), and a second mobile telephone license. All transactions have been concluded, except for SNEC.
- **Privatization tranche 2**. This tranche will be released following the issuance of invitations to negotiate to the successful bidders for the remaining companies to be privatized: CNR (national reinsurance company), SONEL (electricity company), CAMTEL (telecommunications company), and CDC (agro-industrial company). All invitations have been issued, except that for CDC (tea estate only), which may be issued in early January 2002.
- **Forestry tranche**. This tranche is expected to be released over the period March–June 2002, once the related conditionalities have been satisfied, these include, in particular, the revision of the statutes of the National Forestry Development Office (ONADEF), resource taxation, the implementation of forestry management plans, and community forests.
- **Transport tranche**. This tranche will be released, following the completion of the reforms pertaining to (i) institutional and regulatory reforms; (ii) privatization of all commercial, industrial, and selected port services; and (iii) reduction in clearance delays at the port of Douala. Tranche release is unlikely before July 2002.

Structural areas covered by the HIPC Initiative completion point conditionality

- **Macroeconomic reforms**: satisfactory implementation of the new PRGF-supported program and SAC III.
- **Governance**: effective use of the enhanced HIPC Initiative resources; judicial reform (implementation of the Chambre des Comptes and of the Conseil Constitutionnel); public procurement system reform; publication of budget tracking exercises; and beneficiary assessments in education and health and implementation of their recommendations.
- **Privatization, forestry, and transport** (See World Bank conditionality under SAC III above).

Other structural conditions

European Union: grant assistance conditionality covering some tax administration reforms and internal and external audits of existing public expenditure controls.

No other relevant structural conditions are included in the current program.

Measures to improve governance

16. **The government is determined to speed up the implementation of the measures programmed to improve governance.**¹⁰ The technical audit of the judiciary system will be launched in early January 2002 (as a prior action), in line with the terms of reference agreed with the IMF and the World Bank. The authorities have also started to investigate the existing cases of *saisies-attribution*,¹¹ and corrective actions, including sanctions as appropriate, will be taken. They will also formulate proposals to amend existing legislations and other legal provisions, with a view to preventing the emergence of new cases of *saisies-attribution* (see para. 13 of Appendix I). Moreover, efforts will be intensified to, notably, (i) render the General Inspection Office of the judiciary system operational, so as to enhance control over the judges' actions; and (ii) promulgate the Cameroonian laws in line with the Uniform Acts of the Organization for the Harmonization of the Business Law in Africa (OHADA), as detailed in para. 13 of Appendix I.

17. **Additional steps will also be taken to improve transparency and accountability in public sector management and to combat corruption.** These include, in particular, (i) the completion of the audit by an internationally reputed independent firm of the government procurement contracts in fiscal-year 2000/01, by end-March 2002; (ii) the posting on the government's website of the priority action plan of August 2000 for improving governance and combating corruption; and (iii) the adoption of an action plan, before end-March 2002, for the implementation of an audit body for the external control of the states finances.

¹⁰ The mission worked closely with a World Bank team on governance in reviewing progress in implementing measures included in the government's governance strategy. The two teams concluded that progress had been slow and urged the authorities to accelerate the pace of implementation of the measures envisaged for improving governance and reducing corruption. These are crucial to creating an environment conducive to high private investment, sustained high economic growth, and poverty reduction. A comprehensive report on governance is being completed by the World Bank, which will serve as a basis for a box on governance to be included in the next staff report.

¹¹ The banking sector complained about some judicial court decisions (including, in particular, the *saisies-attribution*, that is, the execution of a judiciary order under which a person's money in possession or under control of another entity (e.g., a bank) is applied to the payment of debt owed to a third party), the imposition of excessive penalties (*astreintes*), and the limited recourse to appeal, which affect the sector's activity and profitability. These issues were discussed at the November 21, 2001 meeting of the Conseil National de la Magistrature (the highest organ of the judiciary branch chaired by the President of the Republic) and a number of actions to address these problems have been announced or taken (including reassignment of magistrates to different localities).

Measures to strengthen the financial sector

18. **Completing the implementation of already committed measures in the financial sector, in line with the recommendations of the Financial Sector Assessment Program (FSAP) of May 2000, is another important element of the second annual program.** Actions to be completed include, in particular, (i) implementing the plan for the financially troubled state-owned Postal Savings Bank; (ii) closing the processing of the registration requests (*dossier d'agrément*) of the savings and loan cooperatives (COOPECs); (iii) supporting the ongoing work on the preparation of a regulatory framework for microfinance; (iv) completing the bank liquidation process run by the Société de Recouvrement des Créances (SRC); and (v) pursuing the ongoing work on reforming the payments system undertaken with the assistance of the World Bank and the IMF. These actions are in addition to those implemented to resolve the difficulties that some of the commercial banks are facing as a result of certain judicial court decisions taken against them (see para. 16 above). Finally, the authorities will continue to support the implementation of the single commercial bank licensing system and of the new foreign exchange regulations within the Central African Economic and Monetary Community (CEMAC) (see para. 23 of Appendix I).

Privatization program

19. **The government reiterates its commitment to complete, within a reasonable time frame, the privatization of the two remaining public utility companies (CAMTEL and SNEC),** so as to ensure the provision of better services and to support increased investment, growth, and poverty reduction. A final agreement on the SNEC is expected to be reached with the successful bidder by end-December 2001. With regard to CAMTEL, as it failed to reach an agreement with the interim adjudicator, the government turned to the second bidder, which has until January 2002 to submit a final offer.

Other structural reforms

20. In the **petroleum sector**, the authorities will ensure that the provisioning by the national oil company (SNH) to cover the rehabilitation costs of depleted oil wells (*remise en état des sites*) is made on a regular basis. In addition, the bidding process for the sale of the shares held by the petroleum storage facility (SCDP) on behalf of the government is to be launched before end-May 2002, so as to transfer these shares to the private sector, which will thereafter manage the SCDP. The authorities indicated that the recommendations contained in the action plan to redefine the role of the SNH would be implemented. Specific measures are currently being formulated, in particular, to (i) revive investment in hydrocarbon exploration and production through the provisions of a new petroleum code and a new gas code (the latter is currently being reviewed by the World Bank); (ii) liberalize the import and distribution of refined petroleum products; and (iii) redefine the roles of the private and public sectors in the oil industry. Should oil prices increase over the threshold of US\$25 per barrel, the authorities confirmed that they would adjust upward the prices of premium gasoline and gas oil, as appropriate, and consistent with the automatic petroleum retail price mechanism, to prevent the reemergence of petroleum subsidies (see para. 8 above).

21. **A number of specific reform measures have been formulated in the transport, forestry, and agro-industrial sectors, in close consultation with the World Bank, with a view to improving competitiveness and creating job opportunities.** In the **air transport sector**, a comprehensive evaluation of the national airline company (CAMAIR) will be conducted by May 2002 and an advisor recruited by end-September 2002 to launch the privatization process. Reforms in the **port sector** will be pursued, based on the action plan that has been put in place, in line with the ongoing customs reform. These include, notably, (i) adequate financing of the autonomous Port of Douala; (ii) liquidation of the former Office National des Ports du Cameroun (ONPC); and (iii) implementation of measures for the reduction of clearance time of containerized merchandise to seven days for imports and two days for exports, in the port of Douala. In the **forestry sector**, in addition to the measures to mobilize forestry receipts (see para. 11 above), a number of other reforms (including the restructuring of the National Forestry Development Office (ONADEF)) will continue to be implemented. In the **agro-industrial sector**, the authorities have reiterated their determination to move forward with the privatization of the remaining agro-industrial enterprises, including the cotton company (SODECOTON) and the CDC (para. 19 of Appendix I). The World Bank has urged the authorities to adhere strictly to the agreed measures and to avoid any further delays in implementing them.

C. Balance of Payments Outlook and External Sector Policies

22. **The authorities are determined to continue implementing the prudent policies and efficiency-enhancing reforms, as discussed above, while benefiting from debt relief, to enhance external competitiveness and growth prospects.** Revised projections, based on the October 15, 2001 *WEO*, a less favorable external environment, and the projected decline in oil production and exports, point to a gradual deterioration of Cameroon's external position. The volume of non-oil exports is expected to increase at an average annual rate of some 3½ percent over the medium term (see Tables 13 and 14 and Figure 5). A stronger export performance would necessitate a further diversification of the export base and enhanced regional integration within the CEMAC. The growth of real imports would slow to 3 percent on average over the medium-term period, as a result of the reduction in investment related to the construction of the Chad-Cameroon pipeline; this decline would be only partially offset by some increase in private consumption and the utilization of budgetary savings resulting from the enhanced HIPC Initiative. The capital account is projected to turn positive during the program period. This projection is based on (i) larger inflows of private capital in the context of the privatization program and increased foreign direct investment—assuming a satisfactory resolution of the *saisies*-attribution problem (see para. 16 above); and (ii) increased mobilization of official project loans. Taking into account both traditional and HIPC Initiative debt relief, the remaining financing gap in 2001/02 (8.8 percent of GDP) is expected to be covered through the envisaged London Club operation. For 2003/04 and 2004/05, the financing gaps are to be covered through debt relief under the enhanced HIPC Initiative following the completion point, which the authorities expect to reach before end-December 2003.

23. **With regard to external debt restructuring, negotiations are ongoing with Paris Club creditors** following the agreement of January 24, 2001 (Tables 15 and 16 and Figure 6). The government has requested that the deadline for signing the bilateral agreements with the Paris Club creditors be extended through end-March 2002.¹² With regard to **commercial debt**, the official launching of the London Club operation took place in Paris on May 23, 2001, when the authorities presented a settlement offer to buy back all external commercial bank debt and uninsured supplier and trade credits. While the commercial banks' counteroffer of July 2001 is significantly different from the government proposal, negotiations are expected to be completed in March 2002. The authorities are preparing a new offer to be submitted to the commercial creditors by early 2002. The government indicated that it would ensure that the terms under all the agreements with non-Paris Club creditors were at least as favorable as those obtained recently from the Paris Club under the enhanced HIPC Initiative. On October 11, 2000, the Fund approved interim assistance under the enhanced HIPC Initiative of SDR 2.9 million up to December 31, 2001, covering 37.3 percent of each repayment obligation falling due until December 31, 2001. The government requests further interim assistance of SDR 0.29 million to cover the period January 1, 2002 to December 31, 2002. This amount would cover 16 percent of each repayment obligation falling due during the period.

24. **Cameroon has had a generally good record of servicing its debt to the Fund in recent years.** As suggested by the projected low levels of debt-service payments to the Fund relative to exports and government revenues, Cameroon is expected to continue to meet its future financial obligations to the Fund in a timely manner (Tables 18 and 19).

D. Poverty Reduction and Social Policies

25. **The main focus of the government's social policies is to ensure that strengthened economic performance translates into tangible results in terms of job creation, poverty reduction, and a genuine improvement in the economic welfare of the population as a whole.** To this end, the authorities have started to strengthen the technical and administrative capacities of several sectoral ministries in the priority sectors of health, education, and urban and rural development, with assistance from the World Bank and other donors. A first series of programs and projects to be financed through budgetary savings resulting from the enhanced HIPC Initiative was adopted on October 26 and on December 6, 2001, for a total amount of CFAF 35 billion (0.5 percent of GDP). At the same time, the government is pursuing the preparation of a quality PRSP, by following an enhanced participatory approach and drawing extensively on the results of the available sectoral strategies (health and education), the ongoing household consumption survey, and other pertinent analytical and empirical studies (Box 3). **The fully participatory PRSP is now expected to be finalized by June 2002.** In the meantime, a PRSP Preparation Status Report has been prepared and submitted to the Executive Boards of the World Bank and the IMF, together with the Joint Staff Assessment (JSA).

¹² Bilateral agreements were signed with Japan, Austria, and Canada; negotiations are ongoing with the other creditors. Regarding non-Paris Club bilateral creditors, agreements were reached with China and Kuwait.

Box 3. Poverty and Social Impact of Programmed Measures

The 1996 survey on household living conditions show that about half of Cameroon's population is below the poverty line. According to this survey, there are big disparities between poor households and those that are better off. Some 93 percent of the working poor hold jobs in the informal sector, while the figure is 62 percent for non-poor people who work. While among poor households, only one-fourth have access to safe water, and less than one percent have electric light, these figures are 70 percent and 24 percent, respectively, for richer households.

The **social impact of policy measures** is based on their effects on employment, prices, disposable income, credit, and accessibility to social services. In this regard, fiscal measures affect mainly disposable income, prices, and accessibility to social services. The measures aimed at creating an environment conducive to private investment affect mainly employment, prices, and credit.

In the **fiscal policy area**, three sets of measures are contributing to the fight against poverty. First is the **contribution fiscal policy can make to a stable macroeconomic environment** over time by limiting the overall budget deficit. Second, in the light of the structural decline in oil production in Cameroon, the focus on **strengthening non-oil revenue**, governance, and structural reforms leading to efficiency gains, **reinforces the medium- to long-term sustainability of public finances** and, thereby, the overall stability of the macroeconomic environment—a necessary condition to structurally reduce poverty. Among the key structural reforms that contribute to increase the sustainability of public finances and that have a direct bearing on the welfare of the poor, reforms of **public expenditure management and control** (see Box 1) are playing a critical role. Indeed, these reforms have a focus on priority sectors, such as education and health; they improve the budget process by increasing transparency and accountability of public expenditure (which should contribute to reducing fraud and corruption); and they help increase the allocative efficiency of expenditure targeted at the poor. The establishment of a road fund, aimed at rehabilitating and consolidating the road network, also contributes to increasing the welfare of the poor. In the **tax policy area**, the government is working on two reforms (personal income tax and property tax) that will increase the progressivity of the tax system and, therefore, benefit low-income individuals. Third, **in the short term, specific fiscal measures targeted at the poor have been introduced**. These include subsidies on kerosene, which is predominantly consumed by low-income households, and the exemption or low taxation of basic items that are consumed by the poor, such as food and medicine. Finally, the establishment of a settlement plan by the government to repay its domestic arrears, most notably, salary arrears, enhances the welfare of low-earning individuals.

The policies aimed at stimulating private sector investment, enhancing the competitiveness and efficiency of the economy, and boosting non-oil activities have a direct effect on job creation, the reduction of prices, facilitation of credit, and improvement of the accessibility to social services. In this regard, the improvement in governance, and in particular the fight against corruption and fraud, is expected to stimulate the confidence of private investors. The strengthening of the financial system promotes credit to the private sector, which, in turn, fosters overall growth and employment. The development of microfinance and the rehabilitation of the Postal Savings Bank are two other important steps in the fight against poverty. The privatization program undertaken by the government is expected to have an important and direct impact on the welfare of the poor. Privatization aims at both increasing the production and expanding the scope of basic services vital to the poor and helps enhance efficiency. Such services include the provision of clean water (the ongoing privatization of the water company, SNEC) and electricity (the privatization of the electricity company, SONEL); as regards SONEL (which has already been privatized), efforts are being made to limit labor shedding and compensation packages are being negotiated. Also, the privatization of the agribusiness sector is expected to be instrumental in enhancing the participation of the private sector in the management and production of agricultural products. Finally, the consolidation and deepening of structural reforms in the forestry and transport sectors will enhance job creation and improve the accessibility to social services.

26. Budgetary savings from the debt relief under the enhanced HIPC Initiative have been deposited into a special account opened at the BEAC, in the context of the ring-fencing mechanism that has been worked out for the use of these savings.¹³ The government reiterates its determination to ensure that the use of available resources is closely monitored and remains consistent with the ongoing efforts to improve public expenditure management and the orientations specified in the October 2000 decision point document. To this end, the national consultative committee for the follow-up of the implementation of the HIPC Initiative, which became fully operational on October 26, 2001, will hold meetings on a regular basis.

E. Request for a Waiver, Program Monitoring, and Review

27. **The government has requested a waiver for the nonobservance of the end-September 2001 structural performance criterion on the completion of the development of the computer interface for the government payroll.** This performance criterion was missed owing to unexpected technical difficulties encountered in rendering operational the four pilot sectoral sites (Ministries of Economy and Finance, Education, Health and Civil Service). After the authorities intensified their efforts, the connections between these sites were completed, and the interface became operational on December 10, 2001 (a prior action).

28. **To monitor policy implementation under the program, a number of quantitative benchmarks for end-December 2001 and quantitative performance criteria and benchmarks for end-March 2002 have been specified in Appendix I, Table 1.** Indicative targets are also set for end-June and end-September 2002.¹⁴ The program will continue to contain a built-in contingency mechanism for the adjustment of the quantitative benchmarks and performance criteria to take into account deviations from the program's assumptions relating to oil prices, external program assistance, and debt relief (see technical memorandum of understanding (Appendix I, Annex I)). In the same vein, given the uncertainties surrounding the implementation of the privatization program, the related receipts are excluded from the definition of the ceiling on net bank credit to the government. If the privatization receipts were

¹³ To ensure an efficient use of budgetary savings under the enhanced HIPC Initiative and their adequate monitoring, the mechanism put in place has maintained the main features that were described in Box 2 and Appendix I of EBS/00/255; 12/6/00. The balance of the special account amounted to CFAF 54 billion on December 26, 2001, including CFAF 18 billion from bilateral creditors debt relief.

¹⁴ In the second year of the PRGF arrangement, the following three disbursements are expected to take place: the third disbursement under the PRGF arrangement in an amount equivalent to SDR 15.92 million, will be available upon completion of the second review under the arrangement (based on end-September 2001 performance criteria); the fourth disbursement (SDR 15.92 million) will be available upon completion of the third review (based on end-March 2002 performance criteria); and the fifth disbursement (SDR 15.91 million) will be available upon completion of the fourth review (based on end-September 2002 performance criteria).

to materialize, the government will agree with Fund and Bank staff on the specific use of these resources. **In addition, a number of reform measures will serve as structural performance criteria and benchmarks for the first half of the second annual program, as detailed in Appendix I, Table 2.** The third review under the PRGF-supported arrangement will focus on public expenditure management, budgetary non-oil revenue performance, customs and tax administration reform, detailed strategies in the poverty reduction-related priority sectors, further advancement in the preparation of the full PRSP, and progress in governance.

F. Risks to the Program

29. **Two main factors—a further deterioration in the external environment and the potential pressures related to the upcoming municipal and legislative elections in 2002—constitute significant risks for the objectives and the implementation of the second annual program. With regard to the external environment,** the weakening of external demand in the wake of the September 11 events and the deterioration in the terms of trade have been taken into account in designing the second annual program. Thus, real GDP growth has been revised downward by about 1 percentage point and the current external account has been projected to worsen by about around 1¾ percentage points of GDP, compared with the initial projections (EBS/01/05; July 2, 2001).¹⁵ As a result, an additional financing gap of 1¾ percent of GDP is projected for 2001/02. The gap is programmed to be financed up to ½ of 1 percentage point of GDP by an additional fiscal adjustment (through a stricter control of non-essential and non-poverty-related expenditure and improved mobilization of non-oil revenue), and the remainder by a reduction in Cameroon's contribution to the foreign assets of the BEAC (which has reached a comfortable position). However, there would be no room for further fiscal adjustment and/or a larger drawdown of the regional central bank reserves if oil prices were to fall below the program assumptions (October 15, 2001 *WEO*) and/or in the event of a further weakening of external demand. In this context, an alternative scenario was designed (see table below) based on the latest *WEO* oil price projections (November 26, 2001) which assume a decline of US\$3 per barrel compared with the program assumptions. This would result in a widening of the gap by an estimated CFAF 63 billion (1 percent GDP) for the second annual program, which would require additional external financing. In these circumstances, and taking into consideration the strength of the program, the staff would discuss with the authorities at the time of the next review (May 2002) the possibility of an augmentation of access to PRGF resources¹⁶ to cover part of the additional financing gap that would emerge if the lower oil prices were to materialize.

¹⁵ These projections already took into account the anticipated increase in oil production for 2001/02 (39.3 million barrels versus 38.1 million barrels, initially), which helped to partially offset the impact of the decline in oil prices on the external current account and government oil revenue.

¹⁶ At the time of the original program design, access under the new PRGF arrangement was limited to 60 percent of Cameroon's quota, as a favorable international environment was perceived to have reduced the country's financing needs.

Cameroon: Sensitivity Analysis, 2001/02-2003/04
(Baseline and alternative scenarios)

	2001/02		2002/03		2003/04	
	Baseline scenario	Alt. scenario	Baseline scenario	Alt. scenario	Baseline scenario	Alt. scenario
	(Annual percentage changes)					
GDP at constant prices	4.6	4.6	4.9	4.9	5.2	5.2
Consumer prices (average)	2.9	2.9	2.5	2.5	2.2	2.2
	(In percent of GDP, unless otherwise indicated)					
Exports	20.3	19.1	18.8	18.3	17.9	17.9
Oil exports	8.7	7.4	6.9	6.4	5.5	5.5
Imports	18.5	18.5	18.0	18.0	17.6	17.6
Current account balance						
Including grants	-4.4	-5.4	-4.9	-5.5	-4.5	-4.6
Total revenue	19.2	18.4	18.3	17.2	17.9	17.5
Oil sector revenue	4.9	4.1	3.3	2.8	2.7	2.6
Total expenditure	17.8	17.8	17.4	17.4	16.9	16.9
Primary expenditure	14.4	14.4	14.1	14.1	13.6	13.6
Primary balance, excluding HIPC	6.2	5.4	5.2	4.5	5.4	5.0
Primary balance, excluding oil	-0.1	-0.1	0.6	0.4	1.5	1.3
Overall deficit, commitment basis						
Excluding grants	0.0	-0.9	-0.7	-1.5	-0.1	-0.5
Including grants	0.5	-0.3	-0.2	-0.9	0.6	0.2
Financing gap (billions of CFA)	580	636	0	50	155	184
Memorandum items:						
WEO oil prices (US\$ per barrel)	22.9	20.0	20.5	19.3	19.5	19.5
Cameroon oil prices (US\$ per barrel)	19.9	17.0	19.0	17.8	18.0	18.0

Sources: Cameroonian authorities; and staff estimates and projections.

30. **Some slippages in budgetary expenditure could occur with an increase in social and political pressures in connection with the upcoming elections.** The staff urged the authorities not to be complacent in this area and to renew their vigilance and exert continuous fiscal discipline in the execution of the 2001/02 budget. In such circumstances completion of the third review would require that the adjustment be tighter-than-currently envisaged to meet the HIPC Initiative completion point requirements.

IV. STAFF APPRAISAL

31. **Macroeconomic developments during the first annual program under the three-year PRGF arrangement remained good.** This performance reflected continued adherence to a generally prudent fiscal stance, improved policy credibility, and the boosting effects of the Chad-Cameroon pipeline construction, and was also helped by a favorable external environment. Despite the pressures resulting from a drought in the northern provinces, inflation was maintained at a low level. Cameroon's contribution to the net foreign assets position of the regional central bank (BEAC) strengthened substantially. Fiscal performance was in line with the first annual program targets, notwithstanding some slippages during July–September (the final quarter of the year) caused in part by pressures on transfers and subsidies and the wage bill. Overall, however, **progress in governance and structural reforms during the second half of the first annual program was mixed**, as evidenced by the nonobservance of the structural performance criterion on the completion of the development of a computer interface for maintaining the government's payroll file updated and of most of the structural benchmarks.

32. **The achievements on the macroeconomic front and the renewed efforts to implement governance and other structural reform measures since September 2001 deserve credit.** However, the country's overall program performance remains vulnerable to external shocks, as evidenced by the recent weakening of the terms of trade and foreign demand in the wake of the September 11 events. The medium-term outlook also remains fragile, with a steeper than initially envisaged decline in oil output in prospect. Thus, for sustained economic growth and lasting poverty reduction to materialize, it is crucial for Cameroon to consolidate the gains in fiscal performance and the progress in structural reforms achieved so far, particularly in the areas of oil and non-oil revenue and the financial system; strengthen public expenditure management; intensify efforts to improve governance, notably in the judiciary system; and implement with no further delays its programmed core structural reform measures.

33. **The authorities have reaffirmed their endorsement of these priority policy and reform goals, including at the highest level, and have stated that these continue to guide the actions of the government.** They are fully aware that policy implementation will need to be sustained with increased vigilance, especially in the difficult run-up to the next round of municipal and national elections in 2002, and in view of the uncertainties surrounding the endorsement of these policies by the civil society at large. They are hoping, however, that the ongoing broad-based participatory process, which is underpinning the preparation of the full PRSP, may help dissipate some of these uncertainties.

34. **In the fiscal area, the authorities have reiterated their determination to adhere to the cautious stance that, overall, they have been able to follow so far.** They are fully aware, however, that, in order to achieve the program budgetary targets they have set for the second annual program, two policy priorities need to be implemented on a timely basis and with strict adherence to both their spirit and substance. These are, **first, enhanced non-oil revenue mobilization, including, notably, limiting strictly tax exemptions, and, second, effective public expenditure management.** The authorities' reiterated intention to reduce the scope of the tax and customs exemptions and make them time bound is reassuring. Also, the initial steps taken in reforming the income tax system and property taxes are promising. The recent adoption of a clear action plan to introduce an integrated computerized fiscal and accounting information system to manage government revenue and expenditure by September 2003 is welcome. The staff hopes that the initial steps of this plan, including, notably, budget classification and linking the information system at the treasury with that in the budget department in the Ministry of Economy and Finance, will be implemented as scheduled and consistently with the recommendations of the Fund's Fiscal Affairs Department and donors. While recognizing the inherent technical difficulties there are in putting in place new public expenditure management procedures, the staff urges the authorities to accord the necessary political support, which has not always been the case until recently despite the urgency of the need and the extensive technical assistance provided. The recent renewed efforts are encouraging, but this is an area where substantial and sustained progress in enhancing efficiency is still called for.

35. **Fiscal expenditure is budgeted to rise in 2001/02, as projects financed by savings resulting from enhanced HIPC Initiative assistance start to be implemented.** Proper account should be taken of the absorptive and project design capacity constraints. The experience gained to date in this area is encouraging and should be pursued. The staff supports the authorities' decision to launch only those projects that have been endorsed by the national consultative committee for the follow-up of the implementation of the enhanced HIPC Initiative that became fully operational in October 2001.

36. **The Cameroonian authorities are now tackling effectively the weaknesses in governance.** They have started to investigate the existing cases of *saisies-attribution*, and will launch in early January 2002 the technical audit of the judiciary system. The purpose is to formulate recommendations for corrective actions, including sanctions where necessary, and to propose legal, regulatory, and administrative provisions to prevent the emergence of new cases. The staff welcomes these actions, which, although highly sensitive, are essential to prevent a possible deterioration of the financial health of the banking system and help foster investor confidence. The reform of the public procurement system, which is being pursued with a new vigor, is another important action to improve governance. Close adherence to the rule of law and its effective implementation are clearly prerequisites for strengthening further the credibility of Cameroon and the prospects for sustained private sector investment.

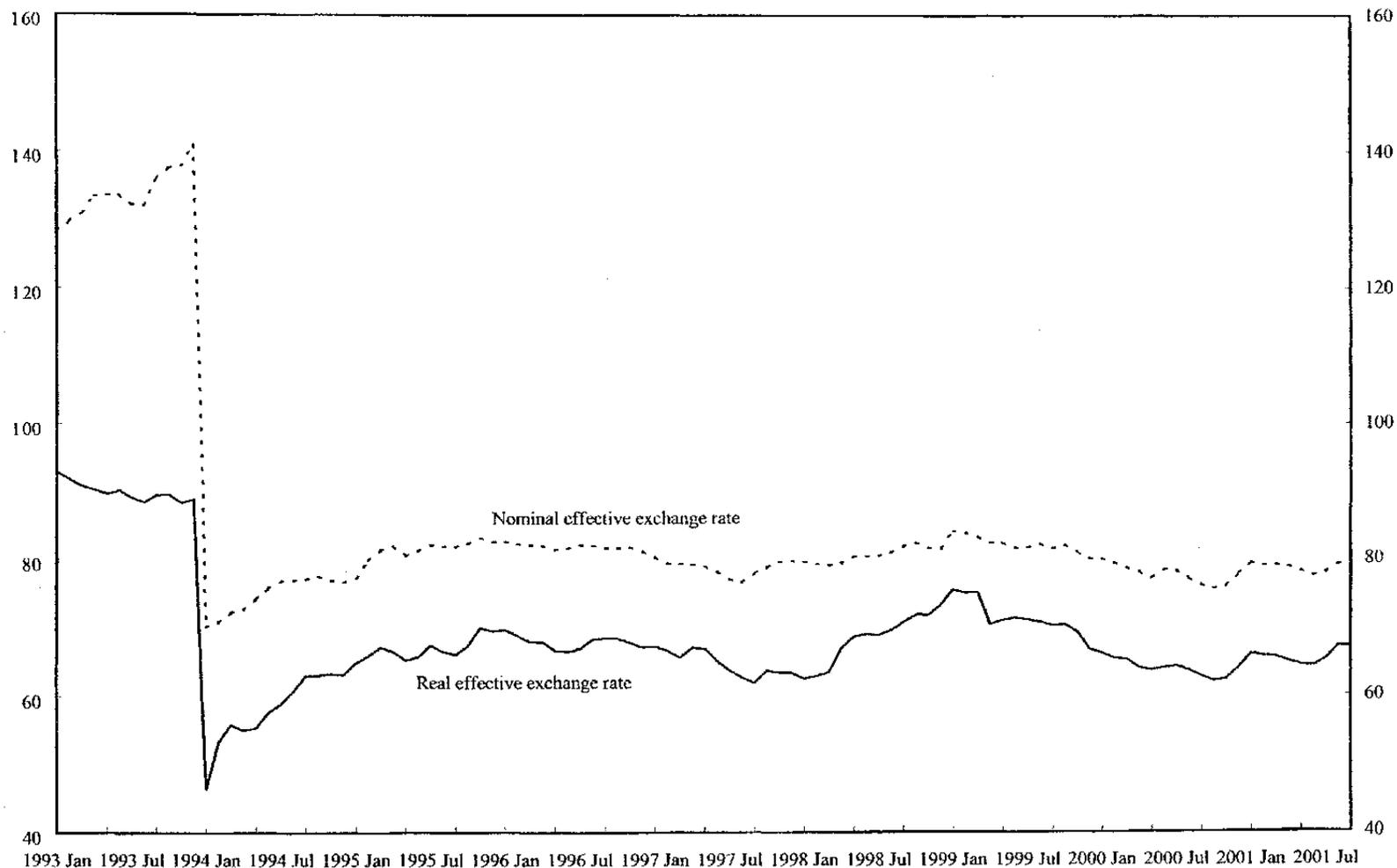
37. **The authorities are continuing to refocus their structural reform priorities** on (i) bringing the privatization of the two remaining large public utility companies to an early closure; (ii) consolidating further the domestic financial system and providing a basis for the sound development of microfinance to help small and medium-sized enterprises; and (iii) reforming the petroleum sector. The actions envisaged in these areas, if effectively implemented with no further delays, will also help to lay the foundations for increased private investment in the non-oil sector. The staff concurs with the Bank staff on the need to adhere strictly to the new timetable agreed for the implementation of the specific measures in the forestry, transport, and agro-industrial sectors that have been formulated in the context of the October-November 2001 joint Fund-Bank mission.

38. In the event oil prices were to fall below the program assumptions, an additional financing gap could emerge. In light of the good record of macroeconomic performance in recent years, and the policy stance of the second annual program, the staff will discuss with the authorities at the time of the next review the possibility of an augmentation in access of PRGF resources to cover part of the additional financing gap.

39. Cameroon's overall macroeconomic performance has been satisfactory since the inception of the ongoing PRGF-supported program; a renewed impetus has been given to the policy and reform stance adopted for the second annual program. The operational interface for the government payroll system has been put in place. There has been progress in bringing the privatization of the two remaining large public utility companies to closure in the near future.

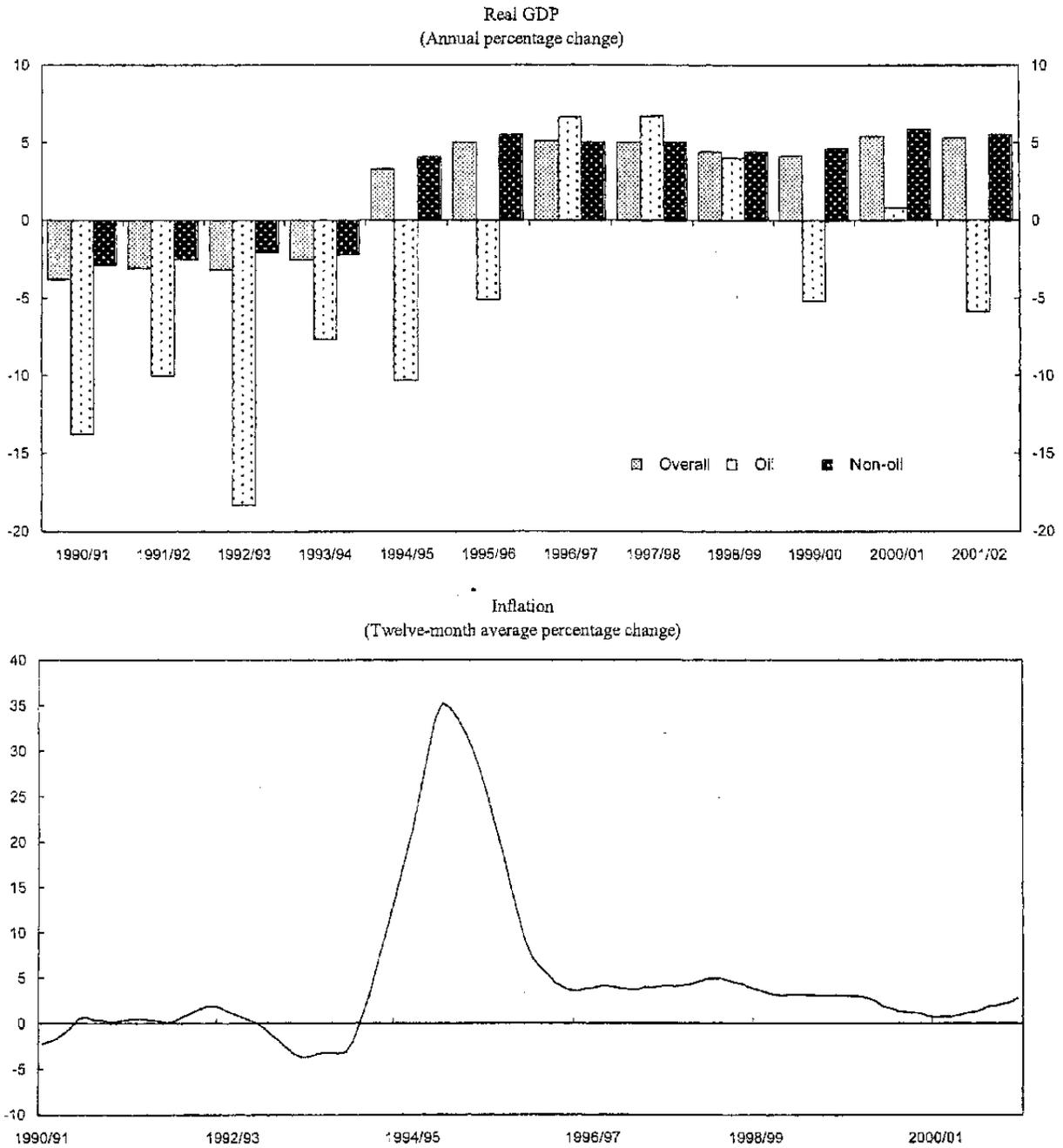
The authorities have effectively started to address the challenges arising from increasingly severe deficiencies in the functioning of the judiciary system. In view of these achievements and the authorities' renewed commitment to proceed with their PRGF-supported program, **the staff recommends that the Executive Board grant a waiver for the nonobservance of the end-September 2001 performance criterion on the completion of the development of the computer interface for the government payroll, complete the second review, approve the second annual program under the PRGF arrangement, and extend the HIPC Initiative interim assistance through end-December 2002.**

Figure 1. Cameroon: Real and Nominal Effective Exchange Rates, January 1993-September 2001
(Index, 1990=100)



Source: IMF, Information Notice System (INS).

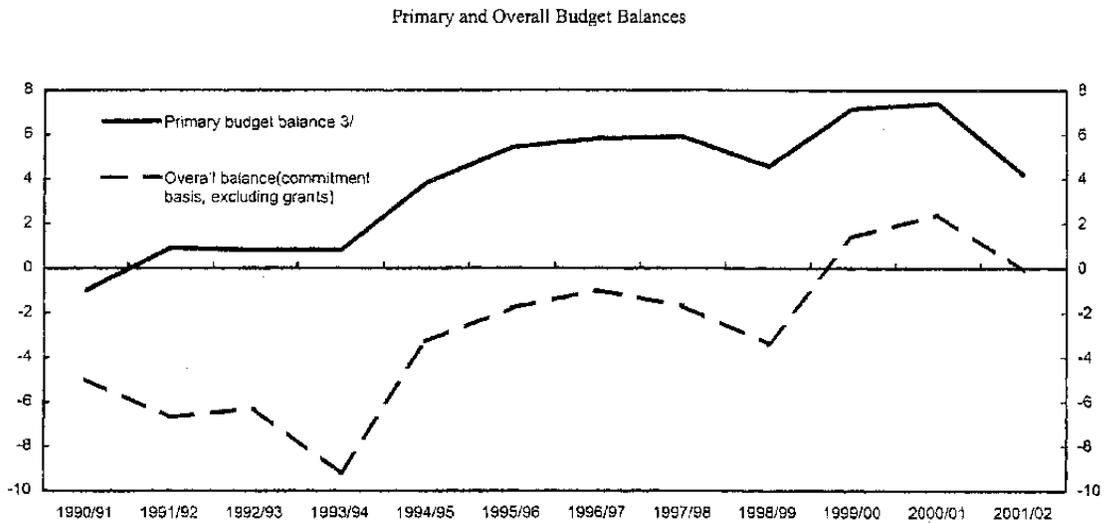
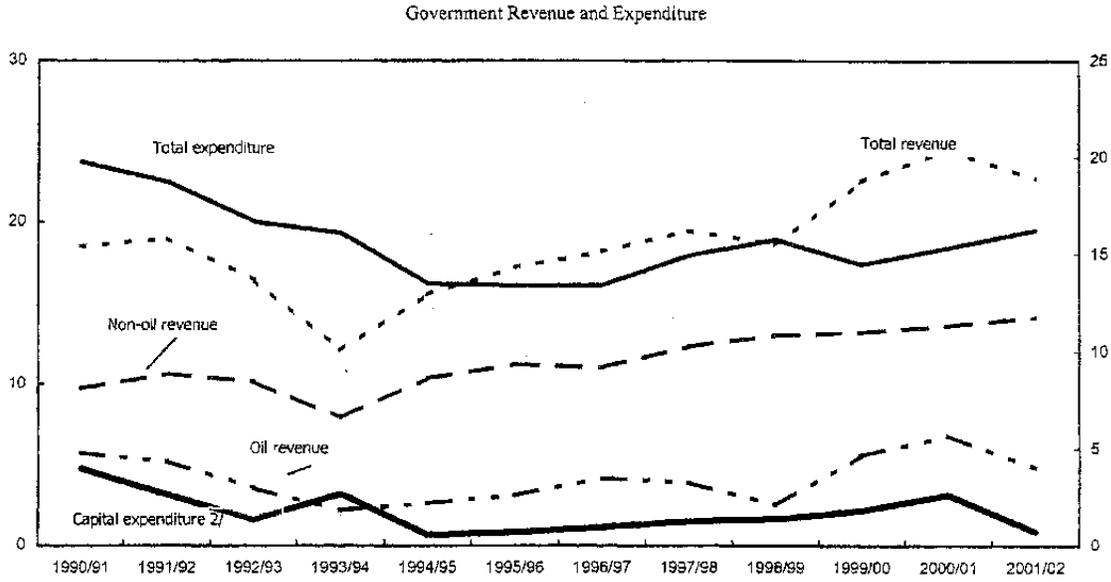
Figure 2. Cameroon: Developments in Output and Prices, 1990/91-2001/02 1/



Sources: Cameroonian authorities; and staff estimates.

1/ Fiscal year begins in July.

Figure 3. Cameroon: Fiscal Developments, 1990/91-2001/02 1/
(In percent of GDP)



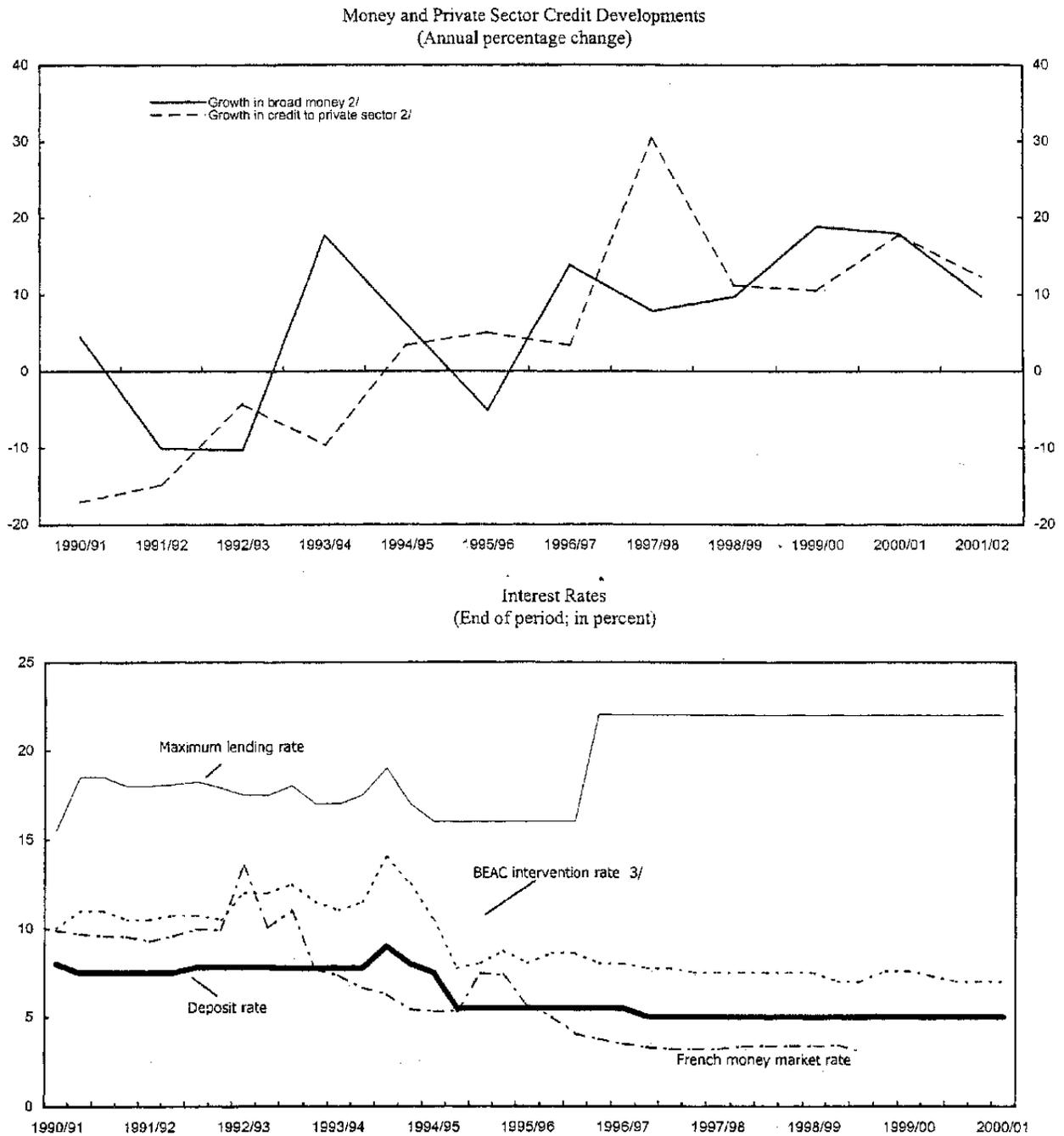
Sources: Cameroonian authorities; and staff estimates.

1/ Fiscal year begins in July.

2/ Excluding foreign-financed investment. In addition, primary expenditure excludes restructuring expenditure.

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

Figure 4. Cameroon: Monetary Developments, 1990/91-2001/02 1/



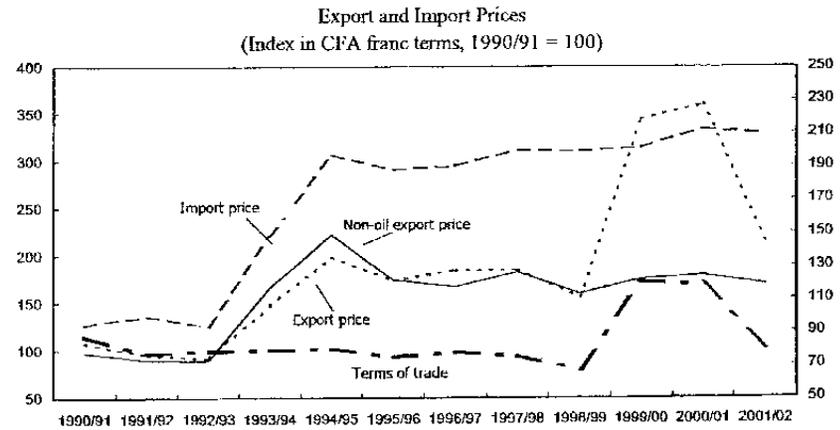
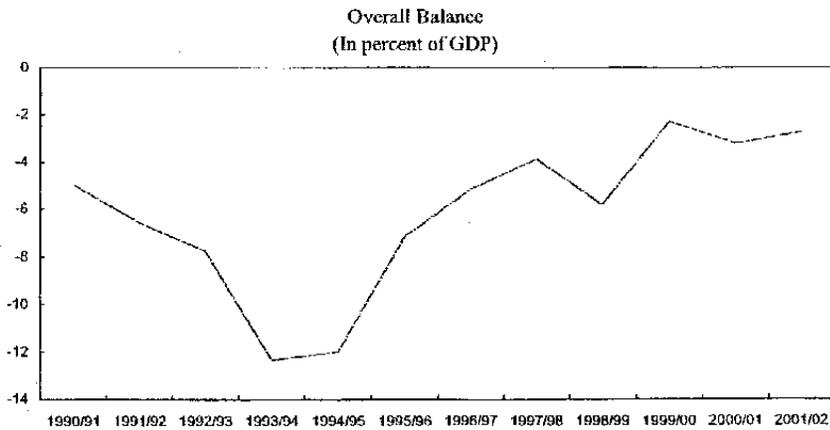
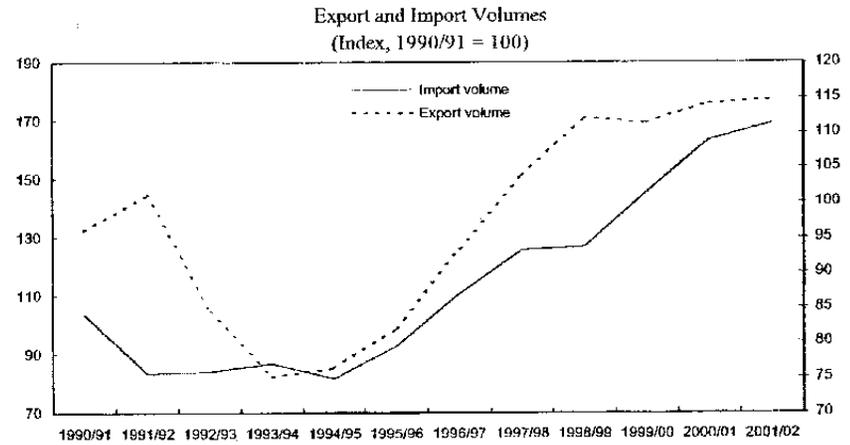
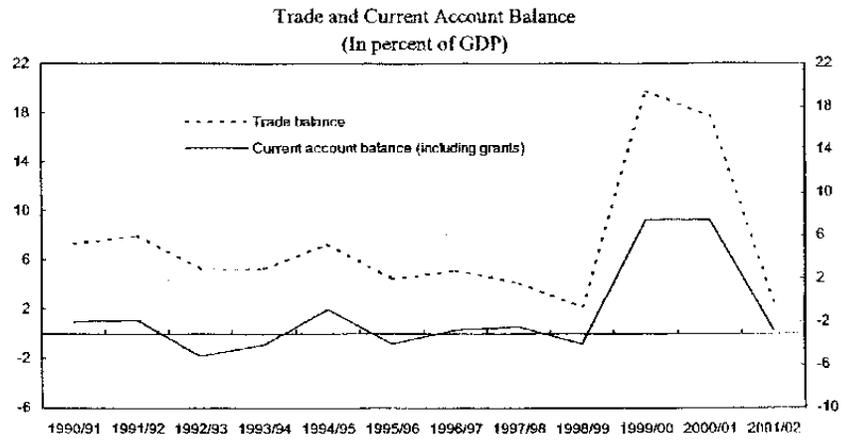
Sources: Cameroonian authorities; and staff estimates.

1/ Fiscal year begins in July.

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

3/ In February 1996, the Bank of Central African States (BEAC) intervention rate was replaced by the auction rate.

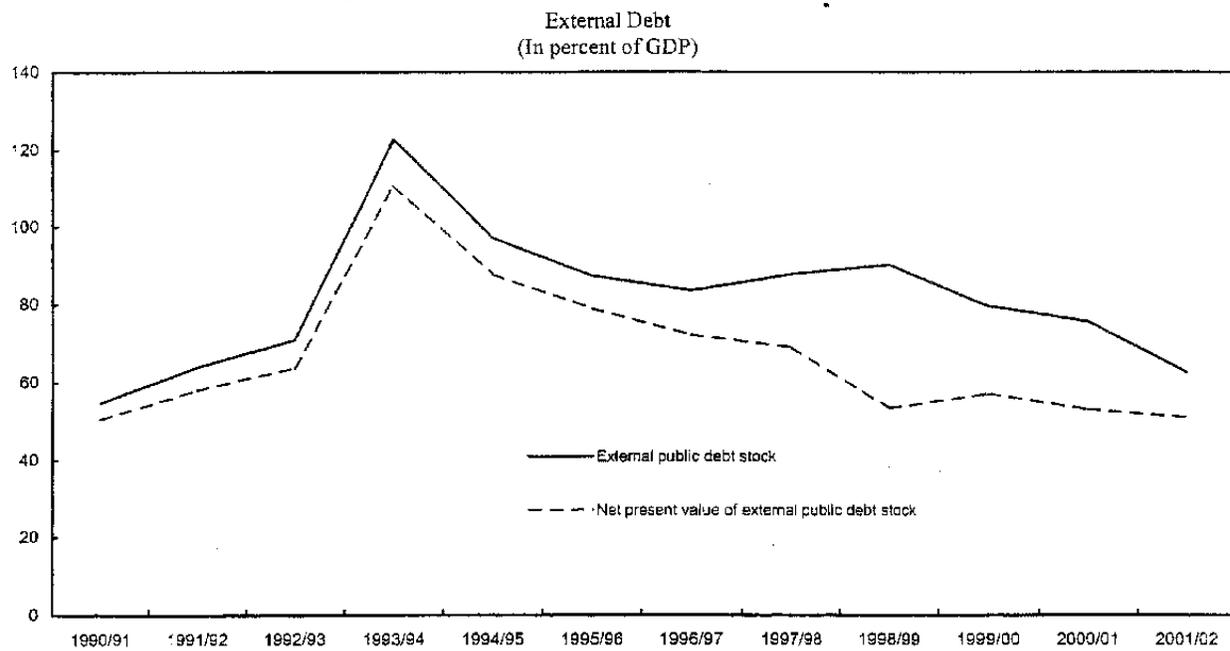
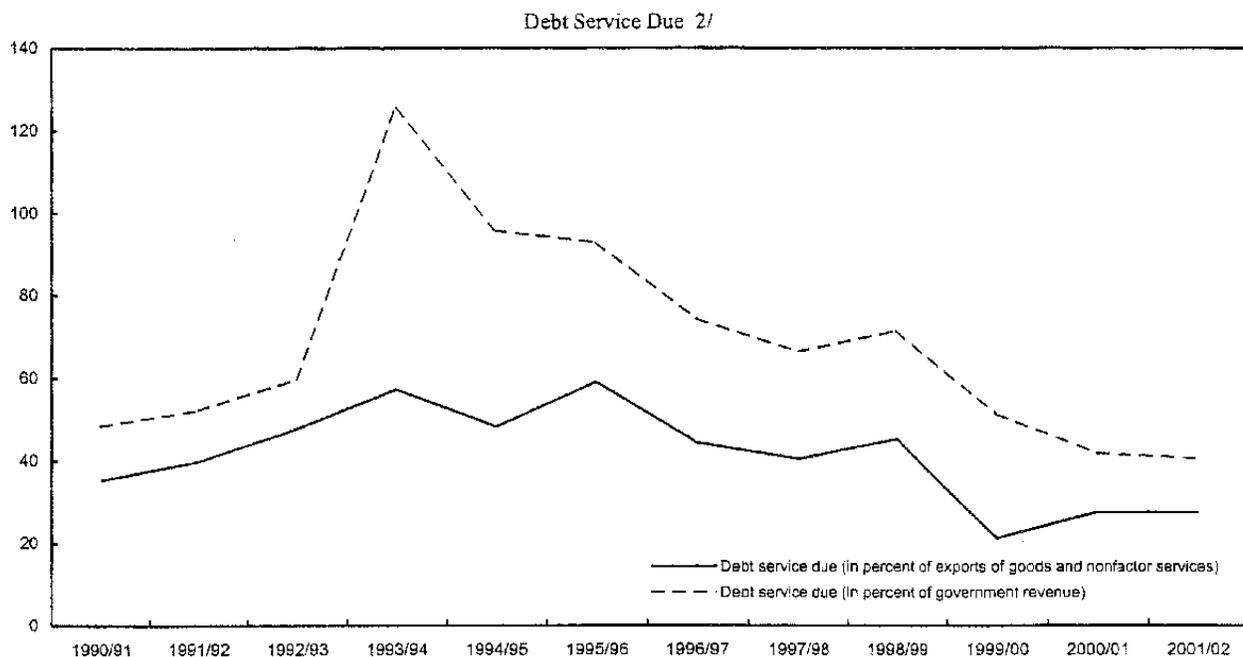
Figure 5. Cameroon: External Sector Developments, 1990/91-2001/02 1/



Sources: Cameroonian authorities; and staff estimates.

1/ Fiscal year begins in July.

Figure 6. Cameroon: External Public Debt and Debt Service, 1990/91-2001/02 1/

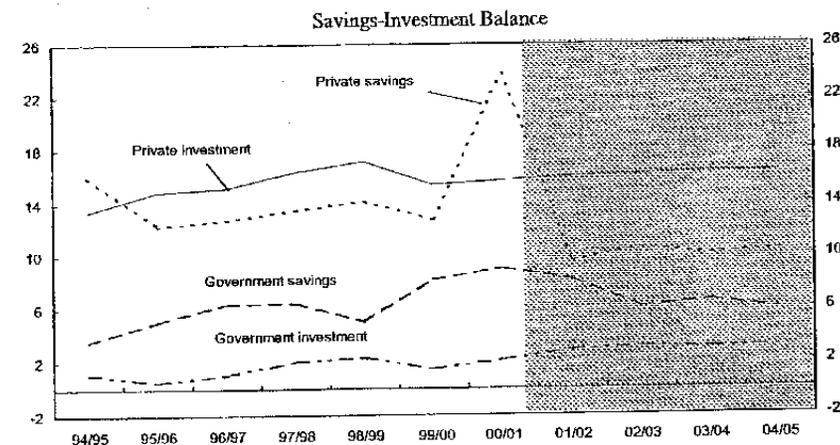
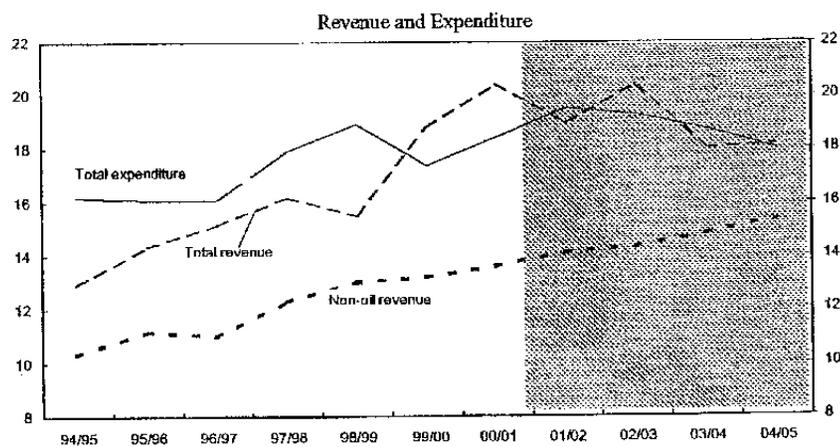
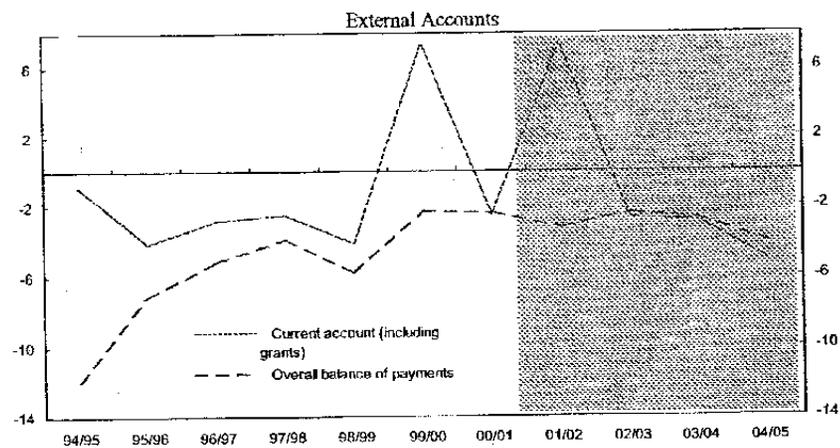
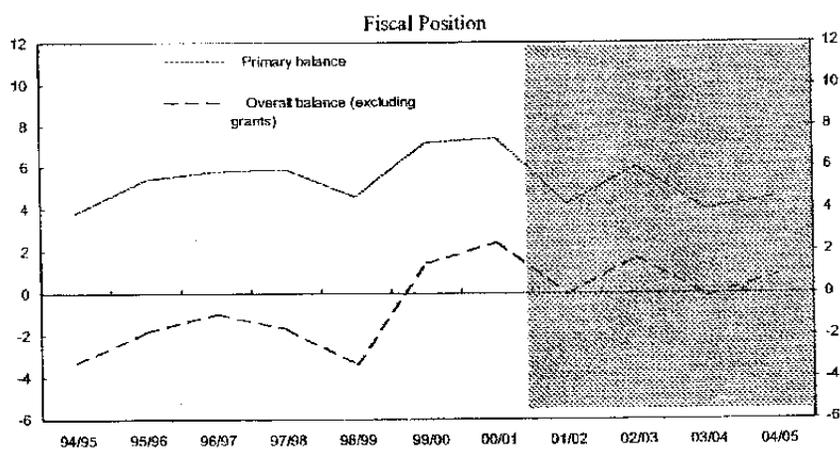


Sources: Cameroonian authorities; and staff estimates.

1/ Fiscal year begins in July.

2/ After debt rescheduling.

Figure 7. Cameroon: Adjustment Profile, 1994/95-2004/05 1/
(In percent of GDP)



Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July. Shaded area indicates projections.

Table 1. Cameroon: Fund Position, 2000/01-2004/05 1/

	Outstanding on September 30, 2001	2001/02			Year	2002/03	2003/04	2004/05
		Oct.-Dec.	Jan.-March	April-June		Projections		
(In millions of SDRs)								
Transactions during the period (net)		15.92	0.00	15.92	31.83	29.13	2.41	-23.42
Tranche policies and special facilities (net)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repurchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poverty Reduction and Growth Facility (net)		15.92	0.00	15.92	31.83	29.13	2.41	-23.42
Disbursements		15.92	0.00	15.92	31.83	31.83	15.92	0.0
Repayments		0.00	0.00	0.00	0.00	2.70	13.51	23.42
Total Fund credit outstanding (end of period)	193.95	209.87	209.87	225.78	225.78	254.91	257.32	233.90
Tranche policies and special facilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poverty Reduction and Growth Facility	193.95	209.87	209.87	225.78	225.78	254.91	257.32	233.90
(In percent of quota)								
Total Fund credit outstanding (end of period)	104.44	113.0	113.0	121.6	121.6	137.3	138.6	126.0
Tranche policies and special facilities	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Facility	104.44	113.0	113.0	121.6	121.6	137.3	138.6	126.0

Sources: International Monetary Fund, Treasurer's Department; and staff projections.

1/ Fiscal year begins in July.

Table 2. Cameroon: Quantitative Performance Criteria and Benchmarks During the First Annual Program Under the Poverty Reduction and Growth Facility Arrangement, October 1, 2000-September 30, 2001

(In billions of CFA francs; cumulative from July 1, 2000, unless otherwise indicated)

	Adjustments ¹		June 30, 2001		Excess or Shortfall Over: Adjusted Target	Met (M) or Not Met (N)	
	Program	Oil revenue	Program financing and external debt relief	Adjusted Program Target			Cumulative Estimated Outcome
Ceiling on the increase in net claims of the banking system on the central government ^{2,3,4,5,6}	20	5	33	-18	-23	-5	M
Floor on the primary budget balance ^{2,5,6,7}	469	5		474	476	2	M
Floor on the nonaccumulation of external payments arrears of the central government ⁸	0			0	-9	-9	M
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government ⁹	0			0	0	0	M
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year ^{2,9,10}	0			0	0	0	M
Floor on total revenue of the central government ^{11,12,13}	1,287	10		1,297	1,301	4	M
<i>Of which: non-oil revenue^{6,12}</i>	859			859	863	4	M
Floor on reduction of domestic arrears ¹²	-213			-213	-177	36	N
<i>Of which: cash payments¹²</i>	-78			-78	-77	1	N
Memorandum items:							
Assumed external debt relief	233			233	279 ¹³		
External program financing ¹⁴	81			81	75		
<i>Of which: IMF disbursements</i>	47			47	33		
Privatization proceeds	0			0	0		
Stock of net credit to the central government	468			468	453		

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

1 Cumulative since end-June 2000.

2 These targets are not performance criteria for end-June 2001.

3 This target is adjusted (i) upward for a shortfall in program financing and external debt relief up to an amount equivalent to 50 percent of the shortfall (for a total cumulative shortfall of CFAF 35 billion); (ii) downward by the full amount of any excess of the programmed levels in program financing and external debt relief; and (iii) downward by the full amount of any shortfall in the reduction of domestic arrears, on a net basis, in comparison with the program.

4 The flows have been constructed on the basis of estimated end-June 2000 data; they have been adjusted on the basis of the actual outcome.

5 The targets are adjusted upward/downward for 50 percent of the windfall/shortfall in oil revenue. For a windfall/shortfall beyond a threshold of

6 Excluding privatization proceeds.

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

8 CFAF 35 billion, the authorities consult with Fund staff to formulate policies to adjust performance criteria.

9 Excluding reschedulable external payments arrears. The targets were adjusted for deviations from projected program financing. Monitored on a continuous basis.

10 In millions of U.S. dollars. Nonconcessional debt (including leases) are defined as debt with a grant element of less than 35 percent, using discount rates based on the commercial interest reference rates (CIRRs). Exception is made during 2000/01 (July-June) for the contraction of a nonconcessional (BRD) loan in an amount of US\$ 53.4 million contracted by the government of Cameroon in the context of the Chad-Cameroon pipeline construction.

11 Excluding normal, import-related credit. Monitored on a continuous basis.

12 This target is adjusted for the full amount of higher/lower-than-programmed oil revenue.

13 These benchmarks did not constitute performance criteria.

14 Excluding government-owned provisions amounting to CFAF 60 billion to cover commercial debt operation (London Club) and exchange rate fluctuations.

15 Including IMF disbursements.

Table 3. Cameroon: Quantitative Performance Criteria and Benchmarks During the First Annual Program Under the Poverty Reduction and Growth Facility Arrangement, October 1, 2000-September 30, 2001

(In billions of CFA francs; cumulative from July 1, 2000, unless otherwise indicated)

	September 30, 2001						Met (M) or Not Met (N)
	Program	Oil revenue	Adjustments ¹ Program financing and external debt relief	Adjusted Program Target	Cumulative Estimated Outcome	Excess or Shortfall Over Adjusted Target	
Ceiling on the increase in net claims of the banking system on the central government ^{2,3,4,5,6}	46	5	57	-17	-31	-15	M
Floor on the primary budget balance ^{2,3,6,7}	529	5		534	540	6	M
Floor on the nonaccumulation of external payments arrears of the central government ^{2,8}	0			0	-6	-6	M
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government ^{2,9}	0			0	0	0	M
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year ^{2,9,10}	0			0	0	0	M
Floor on total revenue of the central government ^{11,12,13}	1,572	10		1,582	1,592	10	M
Of which: non-oil revenue ^{6,12}	1,075			1,075	1,085	10	M
Floor on reduction of domestic arrears ¹²	-213			-213	-188	25	N
Of which: cash payments ¹²	-78			-78	-88	-10	M
Memorandum items:							
Assumed external debt relief	305			305	356 ¹³		
External program financing ¹⁴	81			81	95		
Of which: IMF disbursements	47			47	47		
Privatization proceeds	50			50	23		
Stock of net credit to the central government	441			441	420		

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

1 Cumulative since end-June 2000.

2 These targets are performance criteria for end-September 2001.

3 This target is adjusted (i) upward for a shortfall in program financing and external debt relief up to an amount equivalent to 50 percent of the shortfall (for a total cumulative shortfall of CFAF 35 billion); (ii) downward by the full amount of any excess of the programmed levels in program financing and external debt relief; and (iii) downward by the full amount of any shortfall in the reduction of domestic arrears, on a net basis, in comparison with the program.

4 The flows have been constructed on the basis of estimated end-June 2000 data; they have been adjusted on the basis of the actual outcome.

5 The targets are adjusted upward/downward for 50 percent of the windfall/shortfall in oil revenue. For a windfall/shortfall beyond a threshold of

6 Excluding privatization proceeds

7 Defined as government revenue (excluding privatization proceeds) minus noninterest expenditure (excluding foreign-financed investment and restructuring expenditure). CFAF 35 billion, the authorities consult with Fund staff to formulate policies to adjust performance criteria.

8 Excluding reschedulable external payments arrears. The targets were adjusted for deviations from projected program financing. Monitored on a continuous basis.

9 In millions of U.S. dollars. Nonconcessional debt (including leases) are defined as debt with a grant element of less than 35 percent, using discount rates based on the commercial interest reference rates (CIRRs). Exception is made during 2000/01 (July-June) for the contraction of a nonconcessional IBRD loan in an amount of US\$ 65 million contracted by the government of Cameroon in the context of the Chad-Cameroon pipeline construction.

10 Excluding normal, import-related credit. Monitored on a continuous basis.

11 This target is adjusted for the full amount of higher/lower-than-programmed oil revenue.

12 These benchmarks did not constitute performance criteria.

13 Excluding government-owned provisions amounting to CFAF 60 billion to cover commercial debt operation (London Club) and exchange rate fluctuations.

14 Including IMF disbursements.

Table 4. Cameroon: Structural Performance Criteria and Benchmarks for the First Annual Program Under the Poverty Reduction and Growth Facility Arrangement, October 1, 2000–September 30, 2001

Measures	Target Date	Status
Performance criteria		
Recruit independent observers, on the basis of an international bidding process, in order to render operational the interim system for public procurement.	End-March 2001	Observed.
Render operational the security system for the computer network at customs (PAGODE) in order to restrict access to authorized personnel only.	End-March 2001	Observed.
Complete the development of the computer interface (Antilope-SIGIPES) for the government payroll system, to ensure that the salary file remains current.	End-September 2001	Not observed. Measure was put in place in December 2001 as a prior action.
Render operational the regulatory agency for the modified procurement system (put in place the Executive Board and organizational structure, and recruit staff).	End-September 2001	Observed.
Benchmarks		
Ensure completion of financial audit for the national oil company (SNH) for the year 1999/2000 (July-June) by an internationally reputed auditing firm.	End-February 2001	Observed.
Complete the second phase of the organizational and operational audit of the SNH, adopt the recommendations, and formulate a reform strategy.	End-March 2001	Observed.
Complete the physical and legal census of public servants, update the salary file, and implement a computer interface to ensure that this file remains current.	End-February 2001	Not observed: census observed and salary file updated, but computer interface still under way.
Recruit independent auditors for the procurement system and for the physical audit of the use of HIPC Initiative resources through an international bidding process.	End-March 2001	Observed.
Prepare exhaustive quarterly reports on the financial and physical execution of the budget for the social ministries, namely, Ministries of Education, Health, Public Works, and Agriculture, within 45 days of the end of each quarter.	From December 2000	Observed.

Table 4 Cameroon: Structural Performance Criteria and Benchmarks for the First Annual Program Under the Poverty Reduction and Growth Facility Arrangement, October 1, 2000-September 30, 2001 (concluded)

Measures	Target Date	Status
Benchmarks	End-March 2001	Observed.
Adopt a rehabilitation plan for the state-owned Postal Savings Bank.		
Resume discussions with the successful bidder for the water company (SNEC), based on the evaluation of the offer of that bidder conducted with World Bank assistance.	End-June 2001	Not observed. Evaluation observed on time but discussions were resumed only in September.
Formulate an action plan for the introduction of a fully integrated computerized fiscal and accounting information system to manage central government revenue and expenditure from commitment to payment (<i>chaîne de la dépense</i>).	End-September 2001	Not observed. Work was still in progress. Action plan was adopted as a prior action on December --, 2001.
Close effectively the budgetary operations and finalize the Treasury balances (after reconciliation and taking into account budgetary and accounting charges) for all operations relating to 1999/2000.	End-September 2001	Observed.
Launch the technical audit of the judiciary system on the basis of the defined terms of reference (TORs), as agreed with Bank and Fund staffs.	End-September 2001	Not observed. TORs agreed and expert selected in October 2001. Audit will start on January 7, 2001 as a prior action.
Start the implementation of the rehabilitation plan for the Postal Savings Bank, which has been prepared with World Bank assistance.	From August 2001	Not observed. General managers appointed in October.

Table 5. Cameroon: Selected Economic and Financial Indicators, 1999/2000-2004/05¹

	1999/00	2000/01		2001/02		2002/03	2003/04	2004/05	
	Actual	Prog. EBS/00/255	Rev. prog. EBS/01/105	Prel.	Rev. prog. EBS/01/105	Rev. prog.	Revised projections		
(Annual percentage changes, unless otherwise indicated)									
National income and prices									
GDP at constant prices	4.2	5.4	5.3	5.3	5.5	4.6	4.9	5.2	5.4
<i>Of which</i> : non-oil GDP	4.6	5.8	5.5	5.5	6.1	5.0	5.5	5.7	5.8
GDP deflator	3.5	3.0	3.0	3.0	-0.2	0.1	0.7	1.1	1.9
Consumer prices (12-month average)	0.8	2.0	2.0	2.8	2.0	2.9	2.5	2.2	2.0
Consumer prices (end of period)	-0.7	2.0	2.0	4.8	2.0	3.2	2.9	2.5	2.0
Nominal GDP (in billions of CFA francs)	5,827	6,326	6,320	6,320	6,652	6,615	6,987	7,431	7,978
Oil output (in thousands of barrels a day)	113	108	115	114	104	108	97	87	78
External trade									
Exports (in SDRs)	24.4	10.4	3.8	5.1	-3.8	-11.5	-1.9	1.5	1.6
<i>Of which</i> : crude oil	84.2	15.4	6.7	11.0	-19.4	-23.2	-15.8	-14.8	-17.7
Imports (in SDRs)	2.1	16.2	12.6	11.4	5.4	5.0	3.3	4.3	5.2
Export volume	-0.7	1.3	2.8	2.6	3.2	0.5	-0.5	0.1	0.9
<i>Of which</i> : non-oil sector	1.2	4.0	4.1	4.1	8.3	2.1	4.2	3.8	4.3
Import volume	14.8	14.5	13.6	12.3	5.0	3.6	3.6	2.9	4.4
Average oil export price (U.S. dollars per barrel)	23.9	28.3	24.6	25.5	21.5	19.9	19.0	18.0	16.5
Nominal effective exchange rate	-2.6	...	...	...	...	...	...	...	...
Real effective exchange rate	-4.2	...	...	...	...	...	...	...	...
Average exchange rate (CFA francs per SDR)	895	...	...	...	...	...	...	...	...
Terms of trade	41.3	7.4	1.8	3.3	-7.1	-13.1	-1.1	0.1	-0.1
Non-oil export price index (in CFA francs)	9.5	9.7	2.3	2.4	-1.7	-5.1	3.5	6.6	5.4
Money and credit (end of period)									
Net domestic assets ²	-3.3	-11.2	6.7	4.1	-1.5	8.9	5.8	5.0	7.0
Net credit to the public sector ²	-7.1	-16.8	2.1	-2.5	-8.5	2.4	-0.6	-2.0	0.6
Credit to the private sector	10.5	15.0	14.0	17.7	12.2	12.2	11.8	12.2	10.6
Broad money (M2)	18.8	10.3	13.0	17.9	8.8	9.7	6.5	6.1	8.3
Velocity (GDP/average M2)	6.8	6.7	6.2	6.2	6.4	6.0	6.0	6.0	5.9
Discount rate (end of period; in percent)	7.0	7.0	7.0	7.0	7.0	6.5	6.5	6.5	6.5
Central government operations									
Total revenue	30.5	20.4	17.7	19.0	-2.9	-2.2	-1.4	6.0	5.8
<i>Of which</i> : non-oil revenue	9.0	12.0	11.9	12.3	9.1	9.8	8.0	10.3	11.0
Total expenditure	-1.0	16.8	14.8	16.0	11.7	8.5	2.5	2.3	7.8
Current expenditure	2.8	11.5	13.1	12.3	4.5	3.9	2.1	2.0	8.2
Capital expenditure (domestically financed) ³	42.4	39.4	11.9	12.6	48.2	38.6	-5.1	2.3	7.4
(In percent of GDP, unless otherwise indicated)									
Gross national savings	14.7	14.6	15.0	15.4	15.9	14.4	14.2	14.8	14.9
Gross domestic investment	16.4	17.1	17.7	17.8	19.6	18.8	19.2	19.3	19.3
Central government operations									
Total revenue	18.8	20.8	20.4	20.6	18.9	19.2	18.0	17.9	17.6
<i>Of which</i> : non-oil	13.2	13.6	13.6	13.6	14.1	14.3	14.6	15.2	15.7
Total expenditure	17.4	18.7	18.4	18.6	19.5	19.3	18.7	18.0	18.1
Overall fiscal balance (excl. grants)	1.4	2.1	2.0	2.0	-0.6	0.0	-0.7	-0.1	-0.4
Overall fiscal balance (incl. grants)	1.4	2.5	2.4	2.4	-0.1	0.5	-0.2	0.6	0.1
Primary balance ⁴	7.2	7.6	7.4	7.5	4.2	4.8	3.9	4.3	3.6
<i>Of which</i> : non-oil sector	1.6	0.4	0.6	0.6	-0.6	-0.1	0.6	1.5	1.7
Noninterest expenditure ⁴	11.6	13.4	13.0	13.0	14.7	14.5	14.1	13.7	14.0
Domestic public debt	18.7	11.3	14.6	15.6	11.1	13.3	10.6	7.9	6.3
External sector									
Current account balance (including grants)	-1.7	-2.5	-2.7	-2.4	-3.2	-4.4	-4.9	-4.5	-4.4
External public debt	79.5	71.8	75.6	76.6	62.6	65.6	63.1	57.8	48.6
(In percent of exports of goods and services, unless otherwise indicated)									
Net present value (NPV) of external public debt	192.2	179.0	179.0	179.0	197.7	197.7	192.9	191.0	187.9
External debt service									
Scheduled	31.2	25.1	27.6	27.0	27.5	28.9	28.3	28.6	26.4
Scheduled (in percent of government revenue)	51.0	41.2	41.7	41.3	40.5	39.8	39.0	38.2	34.3
Actual	14.0	...	...	...	...	...	...	...	...
Actual (in percent of government revenue)	23.0	...	...	...	...	...	...	...	...
(In millions of SDRs)									
Current account balance (including grants)	-112	-165	-181	-159	-231	-314	-374	-362	-384
Overall balance of payments	-149	-110	-277	-214	-175	-278	-310	-309	-274
Net international reserves (end of period)	-101	115	-51	37	65	32	41	56	75

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

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

3/ Including restructuring expenditure. HIPC Initiative-related expenditure envisaged for 2000/01 has been postponed to 2001/02.

4/ Excluding restructuring expenditure.

Table 6. Cameroon: Savings-Investment Balances, 1998/99-2004/05 1/

(In percent of GDP at market prices)

	1998/99	1999/00	2000/01		2001/02	2002/03	2003/04	2004/05
		Est.	Prog.	Prel.					Revised projections
Total economy (current account balance)	-4.1	-1.7	-2.5	-2.4	-4.4	-4.9	-4.5	-4.4
Gross national savings 2/	14.6	14.7	14.6	15.4	14.4	14.2	14.8	14.9
<i>Of which</i> : domestic savings 3/	18.4	20.3	19.8	20.2	17.0	16.6	16.6	16.3
Gross domestic investment	18.7	16.4	17.1	17.8	18.8	19.2	19.3	19.3
Private sector	-2.2	-4.5	-6.7	-5.8	-5.9	-5.3	-5.5	-5.0
Gross national savings	14.2	10.5	8.7	9.8	10.0	10.8	10.8	11.3
<i>Of which</i> : domestic savings	13.5	12.2	10.5	11.2	10.0	10.6	10.4	10.5
Gross domestic investment	16.4	15.1	15.4	15.7	16.0	16.1	16.3	16.3
Central government	-1.9	2.8	4.2	3.4	1.5	0.4	1.0	0.6
Gross national savings 4/	0.4	4.2	5.9	5.5	4.3	3.5	4.0	3.7
<i>Of which</i> : domestic savings 5/	5.0	8.2	9.4	9.0	7.0	6.0	6.3	5.8
Gross domestic investment	2.3	1.4	1.7	2.1	2.8	3.1	3.0	3.1
Memorandum items:								
Gross disposable national income	96.2	94.4	94.7	95.1	97.4	97.6	98.2	98.6
Total consumption	81.6	79.7	80.2	79.8	83.0	83.4	83.4	83.7
Private	71.6	69.5	69.1	68.6	71.0	71.7	72.0	72.1
Central government 6/	10.0	10.2	11.1	11.2	12.0	11.7	11.4	11.6
Current account balance (including grants)	-4.1	-1.7	-2.5	-2.4	-4.4	-4.9	-4.5	-4.4

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

2/ Gross disposable national income minus total consumption.

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

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

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

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

Table 7. Cameroon: Central Government Operations, 1998/99-2004/05 1/

(In billions of CFA francs, unless otherwise indicated)

	1998/99	1999/00	2000/01		2001/02				2002/03	2003/04	2004/05		
			Est.	Rev. prog.	July-Sep.		July-Dec.	July-March				July-June	
					Prog.	Proj.						Prog.	Rev. prog.	Revised projections
Total revenue and grants	848	1,093	1,313	1,325	285	297	634	965	1,287	1,309	1,291	1,380	1,451
Total revenue	838	1,093	1,287	1,301	285	291	618	941	1,250	1,272	1,255	1,330	1,407
Oil sector revenue	133	325	428	438	69	69	159	239	313	325	232	201	154
Non-oil sector revenue	705	768	859	863	216	222	460	702	937	947	1,023	1,128	1,252
Direct taxes	174	182	223	220	57	58	119	179	248	248	271	300	335
Special tax on petroleum products	65	58	55	63	14	16	32	50	61	66	76	83	94
Taxes on international trade	138	141	151	148	37	44	84	128	171	167	178	194	215
Other taxes on goods and services	275	326	365	373	97	95	192	296	389	397	431	479	529
Of which: value-added tax (VAT)	226	269	308	312	74	79	161	249	326	332	361	401	443
Nontax revenue	53	61	65	59	16	10	33	49	68	69	67	72	80
Total grants (current)	10	0	26	26	0	6	16	24	37	37	36	50	44
Of which: HIPC Initiative	...	...	20	19	0	5	...	...	31	31	30	44	44
Total expenditure	1,023	1,013	1,163	1,175	296	293	612	937	1,298	1,274	1,307	1,337	1,441
Current expenditure	824	847	958	951	230	241	491	731	1,002	989	1,010	1,029	1,114
Wages and salaries	275	293	340	338	87	89	185	280	387	387	424	441	487
Other goods and services	167	151	238	236	65	64	135	210	297	288	287	293	324
Subsidies and transfers	100	109	128	133	30	39	69	93	118	118	107	111	115
Scholarships and subsidies	55	58	71	80	13	27	40	49	53	53	42	37	40
Pensions	43	50	55	53	15	12	27	42	60	60	63	69	76
Separation grants (POEs)	2	0	2	0	1	0	1	3	5	5	2	2	2
Interest due	282	254	252	245	48	49	103	147	200	196	191	184	158
External	254	231	229	221	43	42	94	133	186	182	176	165	166
Domestic	28	23	23	24	5	7	10	14	14	14	15	19	22
Capital expenditure	194	156	195	208	66	52	120	206	297	286	297	307	327
Foreign-financed investment	121	51	62	75	15	12	33	78	100	100	121	127	134
Domestically financed investment	47	73	105	103	44	35	77	114	177	166	166	170	193
Restructuring	27	32	28	31	7	5	10	14	20	20	10	10	0
Unclassified expenditure	4	10	10	15	0	0	0	0	0	0	0	0	0
Overall balance, commitment basis	*												
Excluding grants	-185	81	124	126	-11	-2	6	4	-48	-2	-52	-7	-35
Including grants	-175	81	150	132	-11	4	22	27	-11	35	-16	43	10
Net change in arrears	-46	-99	-184	-186	0	-8	-17	-28	-357	-291	-26	-18	-10
External (interest)	40	-1	29	-9	0	3	3	0	-357	-357	0	0	0
Domestic	-86	-98	-213	-177	0	-11	-19	-28	0	-34	-26	-18	-10
Overall balance, cash basis													
Excluding grants	-231	-18	-60	-59	-11	-10	-10	-24	-405	-393	-78	-25	-44
Including grants	-221	-18	-34	-34	-11	-4	6	0	-368	-356	-42	25	0
Financing	222	18	34	34	11	4	-6	0	-212	-224	42	-180	-178
External financing (net)	181	76	24	118	-56	17	19	83	-132	-129	155	-10	-17
Amortization	-332	-319	-312	-312	-71	-71	-58	-233	-320	-322	-310	-329	-293
Drawings	514	404	303	430	87	88	177	316	412	417	465	319	276
Project financing	121	51	62	75	15	12	33	78	100	100	121	127	134
Program financing (loans)	115	51	8	16	0	0	0	27	54	54	50	50	50
Debt rescheduling	278	302	233	359	72	76	144	211	258	263	294	142	92
Of which: HIPC Initiative debt relief	...	...	17	17	...	...	...	...	56	56	54	38	14
Reduction in arrears (principal)	0	-8	33	0	0	0	0	0	-223	-223	0	0	0
Domestic financing (net)	41	-58	10	-84	-5	-13	-24	-83	-80	-95	-113	-170	-161
Banking system 4/	15	-75	20	-23	-25	-5	14	-11	-85	26	-7	-25	8
Amortization	0	0	-62	-63	-18	-7	-21	-39	-72	-72	-78	-104	-108
Nonbank financing	-7	-10	-22	-23	0	-2	-5	-8	0	-12	0	0	0
Privatization proceeds	11	75	0	0	50	23	23	23	123	23	25	15	0
Reserves	0	0	-3	0	-2	0	-3	-7	-10	-10	-10	-10	-10
Financial sector	-4	0	0	0	0	0	0	0	0	0	0	0	0
Securitization	27	0	135	100	0	0	0	0	0	0	0	0	0
VAT refund	0	-33	-35	-27	-11	-10	-19	-29	-38	-38	-42	-46	-51
Other	0	-15	-23	-48	0	-12	-12	-12	0	-12	0	0	0
Remaining financing needs	0	0	0	0	0	0	0	0	580	580	0	155	178
Of which: possible debt relief 2/	0	0	0	0	0	0	0	0	580	580	0	155	178
Memorandum items:													
Primary budget balance 3/	247	417	468	476	60	64	154	0	276	318	272	316	290
Noninterest expenditure	591	676	821	824	226	227	466	698	979	959	985	1,015	1,119
Total HIPC Initiative assistance	...	...	37	37	...	...	...	...	87	87	90	82	59
Primary budget balance (in percent of GDP)	4.6	7.2	7.4	7.5	...	...	...	...	4.2	4.8	3.9	4.3	3.6
Overall balance (excl. grants, in percent of GDP)	-3.4	1.4	2.0	2.0	...	...	...	...	-0.7	0.0	-0.7	-0.1	-0.4
Non-oil revenue (in percent of non-oil GDP)	13.9	15.3	15.9	16.1	...	...	...	...	15.8	16.0	16.0	16.2	16.5
Noninterest expenditure (in percent of GDP)	11.0	11.6	13.0	13.0	...	...	...	...	14.7	14.5	14.1	13.7	14.0
Wages and salaries (in percent of GDP)	5.1	5.0	5.4	5.3	...	...	...	...	5.8	5.9	6.1	5.9	6.1

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

2/ For 2001/02, possible debt relief only includes the London Club operation, estimated at CFAF 580 billion.

3/ Excluding foreign-financed investment, restructuring expenditure, and privatization proceeds.

4/ There is a CFAF 3.5 billion discrepancy with the monetary survey stemming from an upward revision of expenditure in the quarter preceding the program.

Table 8. Cameroon: Selected Fiscal Indicators, 1998/99 - 2004/05 1/

(In percent of GDP, unless otherwise specified)

	1998/99	1999/2000		2000/01		2001/02		2002/03	2003/04	2004/05	
				Est.	Rev. prog.	Est.	Prog.	Rev. prog.	Revised projections		
Total revenue and grants	15.7	16.9	19.0	18.8	20.8	21.0	19.3	19.8	18.5	18.6	18.2
Total revenue	15.5	16.6	18.9	18.8	20.4	20.6	18.8	19.2	18.0	17.9	17.6
Oil sector revenue	2.5	3.2	5.7	5.6	6.6	6.9	4.7	4.9	3.3	2.7	1.9
Non-oil sector revenue	13.0	13.5	13.2	13.2	13.6	13.6	14.1	14.3	14.6	15.2	15.7
Direct taxes	3.2	3.3	3.3	3.1	3.5	3.5	3.7	3.7	3.9	4.0	4.2
Special tax on petroleum products	1.2	1.2	1.0	1.0	0.9	1.0	0.9	1.0	1.1	1.1	1.2
Taxes on international trade	2.6	2.7	2.6	2.4	2.4	2.3	2.6	2.5	2.5	2.6	2.7
Other taxes on goods and services	5.1	5.3	5.2	5.6	5.8	5.9	5.8	6.0	6.2	6.4	6.6
Of which: value-added tax (VAT)	4.2	4.3	4.4	4.6	4.9	4.9	4.9	5.0	5.2	5.4	5.5
Nontax revenue	1.0	0.9	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0
Total grants (current)	0.2	0.3	0.1	0.0	0.4	0.4	0.6	0.6	0.5	0.7	0.6
Total expenditure	18.9	19.5	18.9	17.4	18.4	18.6	19.5	19.3	18.7	18.0	18.1
Primary expenditure	10.9	11.4	11.6	11.6	13.0	13.0	14.6	14.4	14.1	13.6	14.0
Primary current expenditure	10.1	9.8	10.1	10.3	11.3	11.4	12.0	11.9	11.7	11.3	11.6
Of which: Wage bill	5.1	5.1	5.0	5.0	5.4	5.3	5.8	5.9	6.1	5.9	6.1
Goods and services	3.1	3.0	3.2	3.3	3.8	3.7	4.5	4.4	4.1	3.9	4.1
Transfers	1.9	1.8	1.8	1.9	2.0	2.1	1.8	1.8	1.5	1.5	1.4
Domestic contribution to investment	0.9	1.6	1.5	1.3	1.7	1.6	2.7	2.5	2.4	2.3	2.4
Investment expenditure (externally financed)	2.2	2.9	2.3	0.9	1.0	1.2	1.5	1.5	1.7	1.7	1.7
Other	0.5	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.2	0.2	0.0
Interest on public debt	5.2	4.6	4.4	4.4	4.0	3.9	3.0	3.0	2.7	2.5	2.4
Wages/ primary expenditure (in percent)	46.5	44.9	43.3	43.4	41.5	41.0	39.7	40.6	43.2	43.5	43.6
Transfers / primary expenditure (in percent)	16.9	15.7	15.4	16.1	15.6	16.1	12.1	12.4	10.9	11.0	10.3
Wages/ non-oil revenue (in percent)	39.0	38.1	38.2	38.2	39.6	39.1	41.3	40.9	41.5	39.1	38.9
Transfers / non-oil revenue (in percent)	14.2	13.3	13.6	14.1	14.9	15.4	12.6	12.5	10.5	9.9	9.2
Expenditure on education and health	3.0	3.0	3.0	3.2	3.9	3.9	4.8	4.4	4.8	5.1	5.1
Education	2.4	2.3	2.3	2.6	3.0	3.0	3.3	3.4	3.3	3.4	3.4
Health	0.6	0.7	0.7	0.6	0.9	0.9	1.5	1.0	1.5	1.7	1.7
Military expenditure	1.2	1.6	1.6	1.6	1.3	1.3	...	1.5	...	...	...
Current expenditure	15.2	14.5	14.4	14.5	15.2	15.1	15.1	15.0	14.4	13.9	14.0
Investment expenditure	3.1	4.5	3.8	2.1	2.6	2.8	4.2	4.0	4.1	4.0	4.1
Restructuring expenditure	0.5	0.5	0.5	0.5	0.4	0.5	0.3	0.3	0.1	0.1	0.0
Current balance (+ =surplus)	0.3	2.1	4.4	4.2	5.2	5.5	3.7	4.3	3.5	4.0	3.7
Primary balance (+ =surplus) 2/	4.6	5.2	7.3	7.2	7.4	7.5	4.1	4.8	3.9	4.3	3.6
Primary balance, excluding oil (+ =surplus)	2.1	2.0	1.5	1.6	0.6	0.6	-0.6	-0.1	0.6	1.5	1.7
Primary balance (incl. externally financed investment)	1.8	1.6	4.4	5.7	6.0	5.9	2.3	2.9	2.0	2.4	1.9
Overall deficit (commitment basis)											
Excluding grants	-3.4	-2.9	0.0	1.4	2.0	2.0	-0.7	0.0	-0.7	-0.1	-0.4
Including grants	-3.2	-2.6	0.1	1.4	2.4	2.4	-0.2	0.5	-0.2	0.6	0.1
Overall deficit (cash basis)											
Excluding grants	-4.3	-10.2	-1.5	-0.3	-0.9	-0.9	-6.1	-5.9	-1.1	-0.3	-0.6
Including grants	-4.1	-9.9	-1.4	-0.3	-0.5	-0.5	-5.5	-5.4	-0.6	0.3	0.0
Memorandum items:											
Total external assistance, including IMF (net)	10.1	19.4	9.1	7.4	5.5	7.3	15.3	15.5	7.0	6.4	5.4
Of which: IMF (net)	0.6	0.3	0.4	0.5	0.7	0.5	0.4	0.4	0.4	0.0	-0.3
Total external assistance, excluding IMF	9.5	19.1	8.7	6.9	4.8	6.8	14.9	15.1	6.6	6.4	5.7
Project financing	2.2	2.9	2.3	0.9	1.0	1.2	1.5	1.5	1.7	1.7	1.7
Program financing	2.1	1.6	1.4	0.9	0.1	0.3	0.8	0.8	0.7	0.7	0.6
Debt relief	5.1	5.6	5.0	5.2	3.7	5.4	3.9	4.0	4.2	1.9	1.1
Financing gap	0.0	9.0	0.0	0.0	0.0	0.0	8.7	8.8	0.0	2.1	2.2
Duties and taxes on imports/total imports, c.i.f. (in percent)	19.2	22.2	22.8	17.9	19.2	18.9	21.8	21.3	22.6	24.7	27.3
Duties	9.7	11.2	11.2	9.4	10.0	9.9	11.4	11.1	11.8	12.9	14.3
Taxes	9.5	11.0	11.6	8.6	9.2	9.0	10.4	10.1	10.8	11.8	13.0
GDP (in billions of CFA francs)	5,406	5,785	5,827	5,827	6,320	6,320	6,652	6,615	6,987	7,431	7,978

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

2/ Excluding foreign-financed investment, restructuring expenditure, and privatization proceeds.

Table 9. Cameroon: Central Government Operations, Including HIPC Initiative Expenditure, 2000/01-2002/03 1/

(In billions of CFA francs, unless otherwise indicated)

	2000/01 Est.	2001/02 Proj.	2002/03 Proj.
Total revenue and grants	1,326	1,309	1,291
Total revenue	1,301	1,272	1,255
Oil revenue	438	325	232
Non-oil revenue	863	947	1,023
Total grants	26	37	36
<i>Of which:</i> HIPC Initiative assistance	19	31	30
IMF	2	0	1
World Bank group	11	19	21
African Development Bank	7	11	8
Total expenditure	1,175	1,274	1,307
Current expenditure	951	989	1,010
Wages and salaries	338	387	424
Other goods and services	236	288	287
<i>Of which:</i> HIPC Initiative spending	0	45	36
Subsidies and transfers	133	118	107
Interest due	245	196	191
Capital expenditure	208	286	297
Foreign financed	75	100	121
Domestically financed	103	166	166
<i>Of which:</i> HIPC Initiative spending	0	50	54
Restructuring	31	20	10
Unclassified expenditure	15	0	0
Overall balance, commitment basis			
Excluding grants	126	-2	-52
Including grants	152	35	-16
Overall balance (excl. grants, in percent of GDP)	2.0	0.0	-0.7
Non-oil revenue (in percent of non-oil GDP)	16.1	16.0	16.0
Memorandum items:			
Total HIPC Initiative assistance	37	87	84
<i>Of which</i> bilaterals 2/	15	54	47
Total use of HIPC Initiative assistance	0	95	90

Sources : Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

2/ Following FAD and PREM (Poverty Reduction and Economic Management - World Bank) guidance on HIPC Initiative accounting (December 4, 2000), bilateral assistance is recorded as financing, while multilateral assistance is treated as grants.

Table 10. Cameroon: Oil Sector Contribution to the Government Budget, 1998/99-2004/05 1/

(In billions of CFA francs, unless otherwise indicated)

	1998/99	1999/00	2000/01							2001/02							2002/03	2003/04	2004/05								
			Q1		Q2		Q3		Q4		Year		Q1		Q2					Q3		Q4		Year		Revised projections	
			Actual	Est	Actual	Est	Actual	Est	Actual	Est	Prog	Rev. proj.	Actual	Prog	Rev. proj.	Actual				Prog	Rev. proj.	Actual	Prog	Rev. proj.	Proj	Rev. proj.	Proj	Rev. proj.
Production, uses, and exports																											
Production and uses (in millions of barrels)																											
Production	43.6	41.4	10.4	11.0	10.2	10.1	39.5	41.8	41.7	10.4	9.8	10.3	9.8	9.3	39.1	39.3	35.3	31.8	28.6								
Percentage change	4.0	-5.2	...	...	...	...	-4.5	1.1	0.8	...	...	...	-6.2	-3.6	-7.8	-1.0	-5.8	-10.0	-10.0	
Uses	43.3	41.4	9.9	11.7	9.6	10.3	39.5	41.7	41.6	10.8	10.4	10.4	10.3	9.8	39.1	39.9	35.3	31.8	28.6								
Exports	43.3	41.4	9.9	11.7	9.6	10.3	39.5	41.7	41.6	10.8	10.4	10.4	10.3	9.8	39.1	39.9	35.3	31.8	28.6								
By SNH 2/	28.6	26.2	7.3	6.1	6.8	6.5	25.1	26.7	26.7	7.6	6.8	6.8	6.7	6.2	24.0	25.5	22.2	19.7	17.4								
By petroleum companies	14.7	15.2	2.6	5.7	2.8	3.8	14.4	14.9	14.9	3.2	3.6	3.6	3.6	3.6	15.1	14.4	13.1	12.1	11.2								
Value of uses	309.7	651.0	200.8	232.9	159.0	194.1	807.6	765.2	786.7	191.9	164.4	170.3	139.2	128.6	140.7	721.8	575.0	481.4	408.8	335.8							
Exports	309.7	651.0	200.8	232.9	159.0	194.1	807.6	765.2	786.7	191.9	164.4	170.3	139.2	128.6	140.7	721.8	575.0	481.4	408.8	335.8							
By SNH	205.8	412.2	148.3	120.5	112.9	122.1	515.1	489.7	503.8	134.9	108.0	111.9	90.7	81.3	86.2	442.5	367.5	302.8	253.1	204.5							
By petroleum companies	103.9	238.8	52.5	112.4	46.1	72.0	292.5	275.5	282.9	56.9	56.4	58.4	48.6	47.3	54.5	279.2	207.5	178.6	155.7	131.3							
SNH accounts 3/																											
Revenue	253.6	412.5	148.3	120.5	112.9	122.1	515.1	489.7	503.8	134.9	108.0	111.9	90.7	81.3	86.2	442.5	367.5	302.8	253.1	204.5							
Of which: export receipts	205.8	412.2	148.3	120.5	112.9	122.1	515.1	489.7	503.8	134.9	108.0	111.9	90.7	81.3	86.2	442.5	367.5	302.8	253.1	204.5							
Expenditure	-140.6	-94.3	-28.6	-29.7	-33.8	-35.1	-129.0	-127.2	-127.2	-28.9	-29.5	-29.3	-28.7	-28.7	-113.2	-109.2	-97.1	-78.7	-72.9								
Brass imports	-47.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0								
Cost sharing of 50 percent with oil companies	-71.1	-69.8	-26.3	-24.8	-25.3	-26.1	-89.4	-102.5	-102.4	-18.4	-18.6	-18.9	-20.0	-20.1	-20.1	-75.5	-79.0	-65.4	-52.5	-50.0							
Projects	-44.9	-50.4	-13.9	-14.0	-12.6	-13.0	-50.8	-53.5	-53.5	-13.1	-12.2	-12.5	-12.4	-12.2	-12.2	-49.7	-49.2	-45.3	-42.7	-40.1							
Investment	-8.7	0.0	-1.3	-1.2	-1.5	-1.6	-4.4	-5.6	-5.6	0.0	0.0	0.0	-1.1	-1.5	-1.5	0.0	-4.2	0.0	0.0								
Financial costs	-2.6	-2.9	-1.2	-1.1	-0.9	-0.7	-3.8	-4.0	-4.0	-0.8	-0.5	-0.5	-0.5	-0.5	-0.5	-3.7	-2.1	-2.1	-2.1								
Debt amortization	-14.8	-16.5	-5.0	-4.7	-5.8	-6.1	-22.5	-21.6	-21.6	-4.5	-5.8	-6.0	-5.9	-5.8	-5.8	-22.0	-23.5	-17.9	-7.8	-7.7							
Other expenses	-6.7	-7.5	-4.9	-3.8	-4.5	-4.7	-32.5	-17.9	-17.9	-2.2	-2.3	-2.3	-1.1	-4.1	-4.1	-15.4	-12.1	-12.6	-13.2	-13.7							
Payments to oil companies by government to ensure minimum 13 percent profit margin	-15.3	-17.0	-2.3	-1.1	-4.0	-4.3	-15.1	-11.7	-11.7	-8.0	-8.1	-8.3	-8.3	-4.5	-4.5	22.3	-18.1	-19.1	-13.0	-9.2							
Disposable income	113.0	318.3	119.7	90.9	79.2	87.0	386.1	362.6	376.7	106.4	79.1	82.3	61.3	52.6	57.5	329.3	258.2	205.7	174.4	131.6							
Oil companies' accounts																											
Export receipts	103.9	238.8	52.5	112.4	46.1	62.5	292.5	258.5	273.5	56.9	56.4	58.4	48.6	47.3	54.5	279.2	207.5	178.6	155.7	131.3							
Expenditure	-67.2	-71.1	-24.0	-45.8	-40.4	-41.2	-136.0	-148.6	-146.4	10.4	10.5	-10.7	-39.7	-43.5	-43.6	-130.9	-144.8	-71.9	-66.1	-63.1							
Cost sharing of 50 percent with government	-71.1	-69.8	-26.3	-21.0	-20.8	-21.4	-81.5	-84.6	-84.6	-18.4	-18.6	-18.9	-20.0	-20.1	-20.1	-79.0	-65.4	-52.5	-50.0								
Projects	-44.9	-50.4	-13.9	-14.0	-12.6	-13.0	-50.8	-53.5	-53.5	-13.1	-12.2	-12.5	-12.4	-12.2	-12.2	-49.7	-49.2	-45.3	-42.7	-40.1							
Investment	-8.7	0.0	-1.3	-1.2	-1.5	-1.6	-4.4	-5.6	-5.6	0.0	0.0	0.0	-1.1	-1.5	-1.5	0.0	-4.2	0.0	0.0								
Financial costs	-2.6	-2.9	-1.2	-1.1	-0.9	-0.7	-3.8	-4.0	-4.0	-0.8	-0.5	-0.5	-0.5	-0.5	-0.5	-3.7	-2.1	-2.1	-2.1								
Debt amortization	-14.8	-16.5	-5.0	-4.7	-5.8	-6.1	-22.5	-21.6	-21.6	-4.5	-5.8	-6.0	-5.9	-5.8	-5.8	-22.0	-23.5	-17.9	-7.8	-7.7							
Theoretical tax obligations 3/	-11.4	-18.3	0.0	-25.9	-23.6	-24.1	-69.6	-75.7	-73.6	0.0	0.0	0.0	-28.0	-28.0	-28.0	-77.8	-83.9	-25.7	-26.6	-22.3							
Payments to oil companies by government to ensure minimum 13 percent profit margin	15.3	17.0	2.3	1.1	4.0	4.3	15.1	11.7	11.7	8.0	8.1	8.3	8.3	4.5	4.5	22.3	18.1	19.1	13.0	9.2							
Contribution to government budget																											
Calculated	133.3	336.5	119.7	116.8	102.8	111.1	455.8	441.2	450.3	106.4	79.1	82.3	89.3	80.6	85.5	407.1	342.1	231.4	201.0	153.9							
SNH	113.0	318.3	119.7	90.9	79.2	87.0	386.1	362.6	376.7	106.4	79.1	82.3	61.3	52.6	57.5	329.3	258.2	205.7	174.4	131.6							
Oil companies' profit tax	20.4	18.3	0.0	25.9	23.6	24.1	69.8	78.7	73.6	0.0	0.0	0.0	28.0	28.0	28.0	77.8	83.9	25.7	26.6	22.3							
Actual (accrual basis)	144.3	333.3	119.7	116.8	102.8	111.1	455.6	438.3	450.3	107.4	79.1	82.3	89.4	80.7	85.6	407.5	338.1	231.8	201.4	154.3							
SNH's contribution	120.9	315.0	119.7	90.9	79.2	87.0	386.1	362.6	376.7	107.4	79.1	82.3	61.5	52.7	57.6	329.7	254.2	206.1	174.8	132.0							
Of which: SONARA arrears repayments	21.3	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Oil companies' profit tax	23.5	18.3	0.0	25.9	23.6	24.1	69.6	75.7	73.6	0.0	0.0	0.0	28.0	28.0	28.0	77.8	83.9	25.7	26.6	22.3							
Actual (cash basis) 4/	144.3	333.3	89.0	152.4	90.7	106.1	455.6	438.3	438.2	82.4	79.1	82.3	89.4	80.7	85.6	407.5	338.1	231.8	201.4	154.3							
SNH's contribution	120.9	315.0	89.0	126.5	67.1	82.0	386.1	362.6	364.6	82.4	79.1	82.3	61.5	52.7	57.6	329.7	254.2	206.1	174.8	132.0							
Oil companies' profit tax	23.5	18.3	0.0	25.9	23.6	24.1	69.6	75.7	73.6	0.0	0.0	0.0	28.0	28.0	28.0	77.8	83.9	25.7	26.6	22.3							
Memorandum items:																											
Oil price (U.S. dollars per barrel)																											
World Economic Outlook series	13.1	24.4	30.4	29.7	26.8	26.7	30.3	28.2	28.2	27.2	25.1	25.4	21.5	21.2	24.0	27.1	22.9	20.5	19.5	19.0							
Discount for lower quality of Cameroon's crude	1.0	0.5	2.3	3.4	3.5	1.7	2.0	3.4	2.7	-2.0	3.0	3.0	3.0	3.0	3.0	2.5	3.0	1.5	1.5	2.5							
Price for Cameroon's crude	12.1	23.9	28.1	26.3	23.3	25.0	28.3	24.8	25.5	25.2	22.1	22.4	18.5	18.2	21.0	24.6	19.9	19.0	18.0	16.5							
Exchange rate (CFA francs per U.S. dollar, average)	588.5	658.2	719.1	754.5	710.7	751.4	...	735.6	735.3	...	718.5	733.2	...	...	...	...	...	...	...	...

Sources: Cameroonian authorities; and staff estimates and projections

1/ Fiscal year begins in July.

2/ SNH (Société Nationale des Hydrocarbures)

3/ As reported by SNH.

4/ As reported in the government's fiscal reporting system (tableau de bord).

Table 11. Cameroon. Monetary Survey, March 1999-September 2002

(In billions of CFA francs, unless otherwise indicated, end of period)

	1999				2000				2001				2002		
	March	June	Sep.	Dec.	March	June	Sep.	Dec.	Mar. Est.	June Est.	Sep. Est.	Dec. Rev. proj.	Mar. Revised projections	June	Sep.
Net foreign assets	-183.9	-216.9	-199.5	-150.2	-59.3	-44.2	-13.6	50.5	76.3	83.7	145.4	128.2	102.7	92.4	90.8
Bank of Central African States (BEAC)	-226.8	-249.2	-248.0	-204.2	-112.6	-90.0	-66.7	-14.6	11.5	35.7	90.0	71.8	43.4	30.1	31.6
Commercial banks	42.9	32.3	48.5	54.0	53.3	45.8	53.1	65.1	64.8	48.0	55.4	56.5	59.3	62.3	59.2
Net domestic assets	943.3	998.4	1,010.8	1,018.8	956.5	972.7	1,004.0	996.4	983.1	1,010.6	1,016.7	1,020.1	1,045.6	1,072.2	1,139.4
Domestic credit	912.7	959.0	986.6	990.0	956.9	948.4	1,004.9	998.4	985.3	1,000.2	1,027.8	1,018.3	1,043.8	1,070.4	1,137.6
Net claims on the public sector	474.6	503.0	528.9	503.5	467.0	447.8	495.5	449.9	435.5	453.1	443.4	436.3	410.8	448.5	461.4
Net credit to the central government	418.8	444.5	470.2	438.4	402.5	371.1	419.6	350.0	354.1	347.5	339.7	362.2	336.7	374.4	387.3
Claims	540.6	566.7	565.8	566.4	549.2	527.8	560.1	592.0	585.5	591.4	609.2	552.0	550.5	550.5	579.5
Deposits	-121.8	-122.2	-95.6	-128.0	-146.7	-156.7	-140.5	-242.0	-231.4	-243.9	-269.5	-189.8	-213.8	-176.1	-192.2
Of which: HIPC Initiative	...	...	...	...	...	...	...	...	-4.4	-17.7	-23.7	-34.2	...	...	...
Credit to autonomous agencies	9.6	9.7	9.7	10.7	10.6	12.2	10.3	10.7	10.6	12.4	11.0	9.8	9.8	9.8	9.8
Credit to public enterprises	46.2	48.8	49.0	54.4	53.9	64.4	65.5	89.2	70.8	93.1	92.7	64.3	64.3	64.3	64.3
Credit to financial institutions	13.8	6.9	6.4	5.5	10.2	4.4	6.1	4.6	6.3	7.8	8.0	4.9	4.9	4.9	4.9
Credit to the private sector	424.3	449.1	451.3	481.0	479.7	496.1	503.2	544.0	543.5	539.3	576.4	577.1	628.1	616.9	671.3
Other items (net)	30.6	39.4	24.2	28.8	-0.3	24.3	-0.8	-2.1	-2.2	10.4	-11.1	1.8	1.8	1.8	1.8
Money and quasi money	759.4	781.5	811.3	868.5	897.2	928.5	990.4	1,046.9	1,059.4	1,094.3	1,162.1	1,148.4	1,148.4	1,164.5	1,230.2
Currency outside banks	196.8	191.8	201.6	235.7	223.8	222.5	221.8	265.0	246.9	241.1	247.0	277.5	277.5	277.5	277.5
Deposits	562.6	589.7	609.7	632.8	673.4	706.0	768.6	781.9	812.5	853.1	915.1	870.9	870.9	887.0	952.7
Memorandum items:															
Contribution to the growth of broad money															
Net foreign assets	9.0	0.5	0.4	2.7	31.2	22.1	22.9	23.1	2.6	13.8	16.1	9.7	1.7	-0.6	-5.1
Net domestic assets	0.3	9.2	15.0	11.6	-13.1	-3.3	-0.8	-2.6	15.5	4.1	1.3	4.8	7.4	11.6	20.4
Of which: credit to the central government	-1.1	2.1	11.5	5.2	-2.2	-9.4	-6.2	-10.2	-5.4	-2.5	-8.1	1.3	-1.4	2.5	4.1
Private sector credit	11.9	11.1	6.8	12.2	13.1	10.5	11.5	13.1	13.3	8.7	14.5	6.1	17.2	18.6	35.1
Broad money	9.3	9.7	15.4	14.3	18.1	18.8	22.1	20.5	18.1	17.9	17.3	14.5	9.0	11.0	15.3
Currency	24.3	12.9	23.4	14.6	13.7	16.0	10.0	12.4	10.3	8.4	11.3	13.3	2.8	0.9	0.0
Deposits	4.9	8.7	13.0	14.2	19.7	19.7	26.1	23.6	20.7	20.9	19.1	14.9	11.2	14.6	20.7
Claims on government/domestic credit ratio 1/	45.9	46.4	47.7	44.3	42.1	39.1	41.8	35.1	35.9	34.7	33.1	35.6	32.3	35.0	34.0
Currency outside banks/deposit ratio 1/	35.0	32.5	33.1	37.2	33.2	31.5	28.9	33.9	30.4	28.3	27.0	31.9	31.9	31.3	29.1
Velocity (non-oil GDP/average M2)	...	6.6	...	...	...	5.8	5.9	5.6	5.4	5.2	5.5	5.6	5.4	5.3	5.6
Velocity (GDP/average M2)	...	7.1	...	...	...	6.8	7.0	6.7	6.4	6.2	6.2	6.2	6.1	5.9	6.1
Net claims on the public sector 2/	422.9	447.4	460.1	428.9	382.5	367.8	399.1	360.6	328.0	347.4	300.8	339.9	314.4	352.1	365.0

Sources: Cameroonian authorities; and staff estimates and projections.

1/ In percent.

2/ In billions of CFA francs, using the definition of the Bank of Central African States; that is, including deposits of public enterprises and autonomous agencies.

Table 12. Cameroon: Central Bank Balance Sheet, March 1999-September 2002

(In billions of CFA francs, unless otherwise indicated; end of period)

	1999				2000				2001				2002		
	March	June	Sep.	Dec.	March	June	Sep.	Dec.	Mar. Est.	June Est.	Sep. Est.	Dec. Rev. proj.	Mar. Revised projections	June Revised projections	Sep. Revised projections
Net foreign assets	-226.8	-249.2	-248.0	-204.2	-112.6	-90.0	-66.7	-14.6	11.5	35.7	90.0	71.8	43.4	30.1	31.6
Foreign assets	6.2	6.1	6.3	7.6	16.9	51.4	80.4	12.6	6.8	8.9	7.4	12.6	12.6	12.6	12.6
Foreign liabilities	-233.0	-255.3	-254.3	-211.8	-129.5	-141.4	-147.1	-27.2	4.6	26.9	82.6	59.1	30.8	17.5	19.0
IMF credit	-89.7	-111.5	-124.8	-127.7	-127.7	-140.0	-144.9	-165.8	-166.7	-171.6	-179.6	-190.1	-188.6	-188.6	-217.6
Position in the French Treasury	-141.7	-140.3	-127.4	-82.1	9.1	44.6	73.6	142.6	176.6	204.3	268.1	251.2	221.4	208.1	238.5
Other foreign liabilities	-1.6	-3.5	-2.1	-2.0	-1.8	-1.4	-2.2	-4.0	-5.3	-5.9	-5.9	-2.0	-2.0	-2.0	-2.0
Net domestic assets	423.6	441.0	449.6	440.0	336.5	312.5	298.2	279.5	235.4	205.4	157.2	205.7	234.1	247.4	245.9
Net domestic credit	266.5	283.0	295.8	286.1	199.4	161.2	154.9	124.1	86.5	58.5	15.6	62.4	90.8	104.1	102.6
Net credit to central government	329.4	365.9	375.4	346.6	326.7	293.0	326.5	264.6	272.0	268.9	269.2	269.6	244.1	281.8	294.7
Credit to central government	375.3	401.0	402.7	403.2	385.0	363.2	400.4	434.2	429.7	438.2	459.2	387.0	385.5	385.5	414.5
Credit under statutory ceiling	130.2	139.2	132.7	135.3	122.2	93.3	130.8	148.9	148.8	157.8	176.1	69.1	69.1	69.1	69.1
Credit for bank restructuring	155.4	150.3	145.3	140.2	135.1	129.9	124.7	119.5	114.2	108.9	103.5	127.8	127.8	127.8	127.8
Counterpart of IMF credit	89.7	111.5	124.8	127.7	127.7	140.0	144.9	165.8	166.7	171.6	179.6	190.1	188.6	188.6	217.6
Deposits of central government	-45.9	-35.1	-27.3	-56.6	-58.3	-70.2	-73.9	-169.6	-157.6	-169.3	-190.0	-117.4	-141.4	-103.7	-119.8
Net claims on banks	-62.9	-82.9	-79.6	-60.5	-127.3	-131.8	-171.6	-140.5	-185.6	-210.4	-253.6	-207.2	-153.4	-177.7	-192.1
Claims on banks	5.0	2.7	2.7	2.2	2.2	1.7	1.7	1.1	1.1	0.6	0.8	1.7	1.7	1.7	1.7
Bank reserves	-67.9	-85.6	-82.3	-62.7	-129.5	-133.5	-173.3	-141.6	-186.7	-211.0	-254.4	-208.8	-155.0	-179.4	-193.8
Other items (net)	157.1	157.9	153.8	153.8	137.1	151.3	143.3	155.4	148.9	146.9	141.6	143.3	143.3	143.3	143.3
Currency outside banks	196.8	191.8	201.6	235.7	223.8	222.5	221.8	265.0	246.9	241.1	247.0	277.5	277.5	277.5	277.5
Memorandum items:															
Reserve money	264.8	277.4	283.9	298.4	353.3	356.0	395.1	406.6	433.6	452.1	501.4	486.3	432.5	456.9	471.3
External currency coverage ^{1/}	1.3	1.2	1.3	1.6	3.8	12.3	18.5	25.3	31.1	34.2	39.2	42.8	40.0	38.6	41.6

Sources: Cameroonian authorities; and staff estimate and projections.

^{1/} In percent, using the definition of the Bank of Central African States (BEAC). The numerator is the sum of gross foreign assets of the BEAC (including gold reserves) and a credit balance in the operations account; the denominator comprises currency outside banks, deposits of the central government at the BEAC, bank reserves, the debit balance in the operations account, and other deposits.

Table 13. Cameroon: Balance of Payments, 1998/99-2004/05 1/

	1998/99	1999/2000 Est.	2000/01		2001/02		2002/03	2003/04	2004/05
			Prog.	Prel.	Prog.	Rev. proj.			
(in billions of CFA francs)									
Current account balance	-222	-101	-157	-152	-181	-291	-345	-332	-352
Trade balance	117	386	415	365	221	120	54	20	-27
Exports, f.o.b.	950	1,398	1,696	1,567	1,439	1,346	1,213	1,330	1,348
Oil and oil products	311	651	806	770	578	575	481	409	336
Non-oil sector	679	747	889	796	861	771	832	921	1,012
Imports, f.o.b.	-873	-1,012	-1,281	-1,202	-1,218	-1,226	-1,259	-1,310	-1,375
Services (net)	-408	-550	-662	-580	-508	-517	-517	-473	-452
Interest due on public debt	-254	-251	-221	-221	-186	-184	-178	-167	-168
Other	-154	-319	-441	-359	-323	-334	-339	-306	-284
Transfers (net)	69	64	90	63	106	106	118	121	126
Of which: official	10	0	26	0	37	37	38	40	44
Inflows	79	75	101	75	117	117	128	130	134
Outflows	-10	-11	-11	-12	-10	-11	-10	-9	-8
Capital account balance	-93	-33	3	-52	22	33	59	48	101
Official capital (net)	-96	-217	-202	-222	-167	-168	-139	-152	-109
Program loans	115	51	52	16	54	54	50	50	50
Project loans	121	51	62	75	100	100	121	127	134
Amortization	-332	-319	-316	-312	-320	-322	-310	-329	-293
Private capital (net)	4	184	205	169	189	202	198	200	210
Oil sector	-18	-18	-19	-23	-10	0	-9	-7	-9
Non-oil sector	21	202	223	193	199	202	207	207	219
Of which: direct investment	67	70	96	102	101	101	108	122	124
privatization receipts	11	75	102	0	125	23	25	15	0
other, including short term	-57	57	25	91	-27	78	74	70	94
Overall balance	-314	-133	-155	-204	-158	-258	-286	-284	-252
Financing	314	133	154	204	158	258	286	284	252
Bank of Central African States (BEAC)	-2	-159	-200	-126	-100	-5	-8	-13	-18
Use of Fund credit (net)	32	25	43	43	29	30	27	2	-21
Other reserves (net)	-35	-184	-243	-169	-129	-35	-35	-15	3
Debt rescheduling 2/	277	302	62	339	258	263	294	142	92
Net change in arrears 3/	40	-9	-453	-9	-580	-580	0	0	0
Financing gap 4/	0	0	745	0	580	580	0	155	178
(In percent of GDP)									
Trade balance	2.2	6.6	6.6	5.8	3.3	1.8	0.8	0.3	-0.3
Current account balance	-4.3	-1.7	-2.9	-2.4	-3.3	-5.0	-5.5	-5.0	-5.0
Excluding grants	-4.3	-1.7	-2.9	-2.4	-3.3	-5.0	-5.5	-5.0	-5.0
Including grants	-4.1	-1.7	-2.5	-2.4	-2.7	-4.4	-4.9	-4.5	-4.4
Overall balance	-5.8	-2.3	-2.4	-3.2	-2.4	-3.9	-4.1	-3.8	-3.2
(Percentage change, unless otherwise indicated)									
Export volume	8.2	-0.7	1.3	2.6	3.2	0.5	-0.5	0.1	0.9
Oil sector	13.2	-4.5	-4.5	-0.7	-8.0	-3.0	-11.4	-10.0	-10.0
Non-oil sector	5.8	1.2	4.0	4.1	8.3	2.1	4.2	3.8	4.3
Import volume	0.8	14.8	14.5	12.3	6.0	3.6	3.6	2.9	4.4
Of which: non-oil sector	4.3	16.7	15.6	12.9	7.3	4.3	4.6	3.4	4.8
Terms of trade	-15.7	41.3	7.4	3.3	-5.7	-13.1	-1.1	0.1	-0.1
Non-oil export price index (CFA francs)	-12.4	9.5	9.7	2.4	-0.8	-5.1	3.5	6.6	5.4
Import price index (CFA francs)	-0.2	1.1	8.9	5.7	-4.2	-1.6	-0.9	1.0	0.6
Exchange rate (CFA francs per U.S. dollar)	588.5	658.2	...	735.3	...	...	...	...	...

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July.

2/ From Paris Club and other non-Paris Club creditors.

3/ The net change in arrears in the 1999/2000 program largely reflects arrears to private commercial creditors for which the authorities are seeking rescheduling under the London Club. This operation was initiated on May 23, 2001.

4/ For 2001/02, the financing gap includes the London Club operation (initially scheduled for 2000/2001). The amount under the London Club operation is estimated at CFAF 580 billion. For 2003/04 and 2004/05, the financing gap will be covered through debt relief under the enhanced HIPC Initiative. The authorities intend to reach the HIPC Initiative completion point by end-December 2003.

Table 14. Cameroon: International Environment, 1997/98-2004/05

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
				Prel.	Projections			
Commodity price, World Economic Outlook (WEO) 1/								
Oil (US dollar per barrel) 2/	16.2	13.1	24.4	28.2	22.9	20.5	19.5	19.0
Robusta coffee (US cents per pound)	83.5	76.5	54.8	34.9	28.4	30.5	34.0	38.0
Cocoa beans (US dollar per ton)	1,710.5	1,453.0	1,190.0	977.1	1,075.2	1,150.0	1,250.0	1,350.0
Logs (US dollar per cubic meter)	209.8	178.3	188.5	176.2	162.1	175.9	202.5	223.5
Cotton (US cents per pound)	73.3	60.2	59.8	53.6	47.1	49.0	54.0	58.0
Aluminum (US dollar per ton)	1,510.5	1,276.5	1,278.0	1,495.8	1,470.1	1,575.0	1,675.0	1,750.0
Commodity price (Cameroon) 3/								
	(Percentage change, in CFA francs)							
Oil	-13.5	-20.7	107.9	29.3	-20.1	-11.4	-5.3	-3.0
Robusta coffee	7.3	-8.3	-19.8	-36.3	-18.8	7.5	11.5	11.8
Cocoa beans	26.6	-17.0	-8.4	-8.3	8.3	5.9	8.3	7.5
Logs	-6.3	-16.9	18.3	4.4	-9.5	7.5	14.7	9.9
Cotton	4.0	-19.7	11.0	0.2	-13.5	3.1	9.8	6.9
Aluminum	11.1	-17.4	12.0	30.8	-3.2	6.1	5.9	4.0
Export volume growth								
	(Percentage change, unless otherwise indicated)							
Oil	1.2	13.2	-4.5	-0.7	-3.0	-11.4	-10.0	-10.0
Robusta coffee	2.2	-4.7	68.7	3.0	2.0	4.0	4.0	4.5
Cocoa beans	1.6	-0.8	-7.2	3.0	2.0	4.0	4.0	4.5
Logs 4/	26.4	-5.8	-23.0	2.5	4.0	7.0	6.0	5.7
Cotton	-10.4	3.7	6.0	4.0	1.5	4.0	5.0	5.0
Aluminum	-13.6	15.0	15.7	6.0	4.0	5.0	5.0	5.0
Imports								
Price growth (in CFA francs)	4.8	-0.2	1.1	5.7	-1.6	-0.9	1.0	0.6
Volume growth	13.5	0.8	14.8	12.3	3.6	3.6	2.9	4.4
<i>Of which</i> : non-oil sector	13.3	4.3	16.7	12.9	4.3	4.8	3.4	4.8
Terms of trade								
	-4.5	-15.7	41.3	3.3	-13.1	-1.1	0.1	-0.1
Exchange rate (CFA francs per US dollar; period average)								
	602.1	588.5	658.2	735.3	...	...	...	...

1/ Latest projections are based on October 2001 WEO data.

2/ WEO data undiscounted.

3/ Includes adjustments to reflect Cameroonian data.

4/ Assumes no change in export regime (presumably, higher exports of sawn wood should offset lower exports of logs).

Table 15. Cameroon: External Public Debt Stock, 1998/99-2004/05 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	Est. 2/	Est.	Est.		Revised projections		
(In billions of CFA francs, end of period)							
Total external debt	4,876	4,635	4,907	4,342	4,408	4,293	3,877
External debt (excluding arrears)	4,408	4,159	4,327	4,342	4,408	4,293	3,877
Multilateral	1,045	905	1,195	1,211	1,323	1,401	1,470
Of which: IMF	108	143	195	151	185	173	193
Bilateral official	3,284	3,153	3,049	3,065	3,031	2,850	2,365
Pre-cutoff-date debt	2,441	2,509	2,380	2,429	2,432	2,300	1,857
Previously rescheduled debt	2,088	2,110	2,055	2,116	2,150	2,047	1,624
First Paris Club agreement	1	1	1	1	1	1	0
Second Paris Club agreement	450	427	378	370	361	330	278
Third Paris Club agreement	512	542	454	466	465	409	354
Fourth Paris Club agreement	400	400	398	398	398	382	382
Fifth Paris Club agreement	725	740	709	704	660	614	611
Sixth Paris Club agreement	0	0	96	178	267	311	311
Unrescheduled pre-cutoff-date debt	355	400	345	313	281	254	233
Paris Club	329	303	269	241	215	194	178
Nonparticipants	24	96	76	72	66	60	55
Post-cutoff-date debt	843	644	669	636	599	549	508
Banks	18	14	8	0	0	0	0
Of which: World Bank cofinancing	5	6	2	0	0	0	0
Short-term and other debt	62	87	75	65	54	42	42
Arrears 3/ 4/	468	476	580	0	0	0	0
Multilateral	0	0	0	0	0	0	0
Bilateral official	13	0	0	0	0	0	0
Pre-cutoff-date debt	13	0	0	0	0	0	0
Previously rescheduled debt	0	0	0	0	0	0	0
First Paris Club agreement	0	0	0	0	0	0	0
Second Paris Club agreement	0	0	0	0	0	0	0
Third Paris Club agreement	0	0	0	0	0	0	0
Fourth Paris Club agreement	0	0	0	0	0	0	0
Fifth Paris Club agreement	0	0	0	0	0	0	0
Sixth Paris Club agreement	0	0	0	0	0	0	0
Unrescheduled pre-cutoff-date debt	13	0	0	0	0	0	0
Paris Club	0	0	0	0	0	0	0
Nonparticipants	13	0	0	0	0	0	0
Post-cutoff-date debt 5/	0	0	0	0	0	0	0
Banks 6/	424	476	512	0	0	0	0
Of which: World Bank cofinancing	0	0	0	0	0	0	0
Short-term and other debt 7/	31	0	68	0	0	0	0
Of which: Paris Club deferred	0	0	0	0	0	0	0
(In percent of total debt, unless otherwise indicated)							
Memorandum items:							
Total debt/GDP (in percent)	90.2	79.5	77.6	65.6	63.1	57.8	48.2
Of which: total arrears/GDP	8.6	8.2	9.2	0.0	0.0	0.0	0.0
NPV of debt/GDP (in percent) 8/	53.9	57.0	53.0	51.0	48.8	46.6	43.7
Nonreschedulable debt	40.7	35.4	40.9	44.1	44.8	46.4	52.1
Multilateral debt	21.4	19.5	24.4	27.9	30.0	32.6	37.9
Post-cutoff-date debt	17.3	13.9	13.6	14.7	13.6	12.8	13.1
World Bank cofinancing	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other nonreschedulable debt	1.9	1.9	2.9	1.5	1.2	1.0	1.1
Bank debt	9.1	10.6	10.6	0.0	0.0	0.0	0.0

Sources: Caisse Autonome d'Amortissement du Cameroun; and staff estimates and projections.

1/ Fiscal year begins in July.

2/ External debt stocks at the end of 1997/98 were revised upward to reflect new drawings and the conclusion of some Fifth Paris Club bilateral agreements. Estimates for 1998/99 were revised in line with the loan-by-loan reconciliation exercise of November 1999.

3/ Includes arrears on interest and principal, as well as accumulated late interest.

4/ Discrepancies between stocks and flows of arrears stem largely from fluctuations in exchange rates. For 2001/02, the elimination of arrears reflected the expected agreement with the London Club. Only the net impact of such an agreement is reflected in the balance of payments and fiscal accounts, pending the formulation of a concrete debt- and debt-service-reduction proposal by commercial creditors.

5/ Excluding the deferral of arrears stemming from the Second, Third, and Fourth Paris Club agreements.

6/ Until an agreement on the restructuring of commercial debt is concluded, it is assumed that arrears are not cleared. The figures are subject to charge late interest calculations are made.

7/ Including the deferral of arrears stemming from the Second, Third, and Fourth Paris Club agreements.

8/ After traditional debt-relief mechanisms.

Table 16. Cameroon: External Debt Service Due, 1999/2000-2004/05 1/

(In billions of CFA francs)

	1999/00			2000/01			2001/02			2002/03			2003/04			2004/05		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
	Estimates									Revised projections								
Total external public debt service	319.0	232.0	551.0	312.2	220.6	532.8	322.4	183.6	506.0	312.1	176.6	488.7	341.7	166.6	508.3	308.6	166.5	475.1
Debt service on debt outstanding at end-June 1997 2/	308.7	193.2	501.9	312.2	216.6	528.8	322.4	177.6	500.0	312.1	159.5	471.6	341.7	145.9	487.6	292.9	125.7	418.6
Multilateral	66.6	41.5	108.1	71.0	33.6	104.6	69.1	28.5	97.6	66.1	24.4	90.5	67.4	22.9	90.2	51.7	14.6	66.2
Of which: IMF	11.8	1.8	13.6	4.6	0.9	5.5	0.0	1.7	1.7	2.5	0.6	3.1	12.4	1.6	14.0			
Official bilateral	203.7	136.7	340.3	189.2	158.3	347.5	190.5	144.2	334.8	229.6	131.8	361.4	257.3	120.7	378.0	238.1	106.4	344.5
Paris Club	144.2	135.1	279.2	181.8	155.5	337.2	184.5	141.5	326.0	223.9	129.1	353.0	250.1	117.9	368.0	233.4	104.1	337.6
Pre-cutoff date debt	116.2	110.8	227.0	153.3	127.6	280.8	152.0	117.8	269.9	186.2	108.3	294.5	200.4	96.5	296.9	157.9	81.1	239.0
Previously rescheduled	64.1	91.7	155.8	110.4	119.7	230.1	109.7	112.8	222.5	160.5	105.0	265.5	179.4	94.5	273.9	142.2	78.5	220.7
First Paris Club agreement	31.3	4.9	36.2	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Second Paris Club agreement	32.8	37.2	70.0	57.9	33.6	91.5	54.8	28.0	82.8	63.0	23.6	86.6	62.5	20.0	82.5	60.0	9.9	69.9
Third Paris Club agreement	0.0	23.4	23.4	1.6	25.7	27.2	1.9	30.4	32.3	43.1	29.7	72.8	55.6	26.7	82.3	55.5	27.8	83.3
Fourth Paris Club agreement	0.0	26.3	26.3	7.0	27.7	34.7	8.0	24.2	32.2	10.2	23.8	34.0	15.0	22.7	37.7	21.2	23.3	44.5
Fifth Paris Club agreement	0.0	0.0	0.0	43.8	32.8	76.6	44.8	30.3	75.1	44.1	27.9	72.0	46.2	25.1	71.3	5.6	17.5	23.0
Not previously rescheduled	52.1	19.0	71.1	42.9	7.8	50.7	42.4	5.0	47.4	25.7	3.3	29.0	21.0	2.0	23.0	15.6	2.7	18.3
Post-cutoff-date debt 3/	28.0	24.3	52.2	28.5	27.9	56.4	32.5	23.7	56.1	37.7	20.8	58.5	49.7	21.4	71.1	75.6	23.0	98.6
Non-Paris Club	59.5	1.6	61.1	7.4	2.9	10.3	6.0	2.7	8.7	5.7	2.7	8.4	7.2	2.8	10.0	4.7	2.3	7.0
Commercial banks	20.6	8.0	28.6	2.8	0.3	3.1	4.2	0.7	4.9	0.0	0.0	0.0	0.0	0.0	0.0	1.3	3.6	4.9
Of which: World Bank cofinancing	2.4	1.6	4.0	2.8	0.3	3.1	4.2	0.0	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term and Paris Club deferred	17.8	7.1	24.9	9.3	4.1	13.4	13.7	4.1	17.8	11.4	3.3	14.7	12.1	2.3	14.4	1.9	1.1	3.0
Other 4/	10.3	32.2	42.5	40.0	20.2	60.2	45.0	0.0	45.0	5.0	0.0	5.0	5.0	0.0	5.0	0.0	0.0	0.0
Debt service on new loans	0.0	6.7	6.7	0.0	4.0	4.0	0.0	6.0	6.0	0.0	17.1	17.1	0.0	20.7	20.7	15.7	40.8	56.5

Sources: Caisse Autonome d'Amortissement du Cameroun; and staff estimates and projections.

1/ Before debt relief. Fiscal year begins in July.

2/ To account for the impact of the Fifth Paris Club agreement in this table, we assume for simplicity that it took effect as at July 1, 1997, instead of October 1, 1997. The original agreement, which expired in August 2000, was extended to end-December 2000.

3/ Excluding service on arrears deferred in Second, Third, Fourth, and Fifth Paris Club agreements.

4/ Including cushion built into the projections.

Table 17. Cameroon: Indicators of External Vulnerability, 1995/96 -2000/01 ¹

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Exports (percent change, 12-month basis in U.S. dollars)	-3.0	13.1	-0.9	-6.6	26.3	0.3
Imports (percent change, 12-month basis in U.S. dollars)	11.8	12.2	6.9	2.9	3.7	6.3
Terms of trade (percent change, 12-month basis)	-8.6	5.1	-4.5	-15.7	41.3	3.3
Current account balance (in percent of GDP)	-4.1	-2.8	-2.5	-4.1	-1.7	-2.4
Capital and financial account balance (in percent of GDP)	3.3	1.2	2.5	4.1	1.7	2.3
Gross official reserves (in millions of U.S. dollars) ²	...	...	...	...	...	...
(in months of imports of goods and services of the following year) ²	...	...	...	...	...	...
Gross reserves of the banking system (in millions of U.S. dollars) ²	...	...	...	...	...	...
(in months of imports of goods and services of the following year) ²	...	...	...	...	...	...
Central Bank short-term foreign liabilities (in million of U.S. dollars) ²	...	...	...	...	...	...
Official reserves/broad money (M2) (in percent) ²	...	...	...	...	...	...
Total short term external debt by original maturity (in millions of U.S. dollars)	25.8	22.0	11.0	6.8	4.6	0.5
Total short term external debt by remaining maturity (in millions of U.S. dollars)	893.8	737.1	299.3	547.7	437.2	353.8
Total short term external debt/reserves by original maturity (in percent) ²	...	...	...	...	...	...
Total short term external debt/reserves by remaining maturity (in percent) ²	...	...	...	...	...	...
Total Public and Publicly guaranteed debt (in millions of U.S. dollars)	7,894	6,922	7,519	7,652	6,524	6,029
Total external debt to exports of goods and services (in percent)	385.4	300.2	326.1	341.5	239.9	222.4
External interest payments to exports of goods and services (in percent)	25.3	21.9	19.4	19.3	12.9	11.1
External amortization payments to exports of goods and services (in percent)	34.2	22.4	21.0	25.9	18.2	15.9
Exchange rate (per U.S. dollar, period average)	502	541	602	588	658	735
Exchange rate (per U.S. dollar, end of period)	515	588	612	621	711	769
Net foreign assets of commercial banks (in millions of U.S. dollars)	6.7	73.0	51.1	54.8	69.5	65.2

Sources: Cameroonian authorities; and staff estimates.

¹ Fiscal year begins in July.

² Not applicable, as Cameroon is a member of the Central African Economic and Monetary Community (CEMAC), and the monetary policy is conducted by the regional central bank (BEAC).

Table 18. Cameroon: Indicators of Fund Credit, 1997/98-2004/05 1/

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
				Est.	Projections			
Fund credit outstanding								
(end of period)								
In millions of SDRs	90.5	131.7	159.3	204.2	236.0	265.1	267.6	244.1
In millions of U.S. dollars	119.2	175.9	200.6	253.4	302.3	340.8	344.3	314.8
In billions of CFA francs	72.9	109.2	142.6	194.9	218.8	244.4	245.9	223.9
In percent of quota	48.7	70.9	85.8	110.0	127.1	142.8	144.1	131.5
Debt service to the Fund								
In millions of SDRs	14.2	15.8	9.7	5.9	1.8	4.5	15.3	25.1
In millions of U.S. dollars	19.2	21.2	13.2	7.6	2.3	5.8	19.6	32.3
In billions of CFA francs	11.6	12.5	8.7	5.6	1.7	4.2	14.0	23.0
In percent of:								
Export of goods and nonfactor services	0.8	0.9	0.5	0.3	0.1	0.2	0.8	1.3
Total debt service due	2.1	2.1	1.6	1.1	0.3	0.9	2.8	5.0
Government revenue	1.4	1.5	0.8	0.4	0.1	0.3	1.1	1.6
GDP	0.2	0.2	0.1	0.1	0.0	0.1	0.2	0.3
Quota	7.7	8.5	5.2	3.2	1.0	2.4	8.2	13.5
Debt service to the Fund								
(in millions of SDRs)								
Charges	3.3	3.0	1.3	1.0	1.8	1.8	1.8	1.6
Repurchases/repayments	11.0	12.8	8.5	4.9	0.0	2.7	13.5	23.4

Sources: IMF, Treasurer's Department; and staff estimates and projections.

1/ Fiscal year begins in July.

Table 19. Cameroon: Review and Phasing of Disbursements Under the Three Year Poverty Reduction and Growth Facility Arrangement

(In millions of SDRs)

Date of Board Approval	Conditions	Disbursement
December 21, 2000	Disbursed upon Board approval of the three-year PRGF arrangement.	15.92
July 16, 2001	Disbursed upon completion of the first review under the PRGF arrangement by the Board; end-March 2001 performance criteria.	15.92
On or after January 9, 2002	Completion of the second review under the PRGF arrangement by the Board; end-September 2001 performance criteria.	15.92
On or after July 15, 2002	Completion of the third review under the PRGF arrangement by the Board; end-March 2002 performance criteria.	15.92
On or after January 15, 2002	Completion of the fourth review under the PRGF arrangement by the Board; end-September 2002 performance criteria.	15.91
On or after July 15, 2003	Completion of the fifth review under the PRGF arrangement by the Board; end-March 2003 performance criteria.	15.91
On December 20, 2003	Completion of the final review under the PRGF arrangement by the Board; end-September 2003 performance criteria.	15.92

December 28, 2001

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

Dear Mr. Köhler:

1. The government of Cameroon is implementing a medium-term economic and financial program, which is supported under the new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) approved by the IMF Executive Board on December 21, 2000. The main goal of the policies and reforms is to achieve a sustainable reduction in poverty through high economic growth, increased private investment, improved efficiency of public expenditure, strengthened governance, and well-targeted poverty reduction measures. This letter, which supplements that of December 6, 2000 and the supplementary letter of June 28, 2001, reviews Cameroon's performance during the first annual program (October 1, 2000-September 30, 2001) supported by the PRGF arrangement. It also outlines the government's objectives and policies for the second annual program (October 1, 2001-September 30, 2002) and takes stock of the progress achieved in implementing the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, including the preparation of a full-fledged poverty reduction strategy paper (PRSP). The government reiterates its resolve to achieve the objectives set forth in its medium-term program, particularly in light of a less favorable prospective international environment and the mounting domestic spending pressures that could materialize ahead of the elections expected in 2002.

2. During the first annual program, the good record of macroeconomic performance established under the previous arrangement (1997-2000) in the macroeconomic area continued and the structural reform process progressed further. All the quantitative performance criteria for end-March and end-September 2001 were met, with the exception of the end-March 2001 criterion for net bank credit to the central government because of unexpected delays in the privatization of the telecommunications company (CAMTEL). In the same vein, all the quantitative benchmarks for end-December 2000 and end-June 2001 were also met, except for the floor on the reduction of domestic arrears, which was missed owing to a slower-than-envisaged pace of securitization of domestic arrears. In this regard, the government faced difficulties in convincing small creditors to accept securities in exchange for their claims. Furthermore, the results of the validation process carried out in 2000 were significantly challenged for some types of claims, thus, forcing the authorities to reopen the issue. The verification of these claims has now been completed and the strategy is being revised, with the intention of paying all remaining claims in cash.

3. With regard to structural reforms, all the performance criteria and benchmarks for the first half of the program year were met, with the exception of the development of a computer interface for maintaining the government payroll file updated, owing to unexpected technical

difficulties encountered in the implementation of the four pilot sectoral sites (Ministries of Economy and Finance, Education, Health, and Civil Service). As regards governance, the financial audit for fiscal-year 1999/2000 (July-June) and the second phase of the organizational and operational audit of the oil company (SNH) were completed. The privatization of the electricity company (SONEL) was also completed. In contrast, due in large part to reasons beyond its sole control, the government was unable to implement a number of the structural measures envisaged for the second half of the program year, which ended in September 2001. In particular, the negotiations with the bidder selected for the privatization of CAMTEL could not be concluded. As a result of intensified efforts, however, many of these measures are now in place. The consultant's contract has been signed, and he has received the terms of reference of the mission (*ordre de mission*), together with the effective launching date of the technical audit of the judiciary system. The government has also begun to address the worrisome problem of *saisies-attribution* (see para. 13 below). Negotiations pertaining to the privatization of the national water company (SNEC) were intensified, and an offer for the tea component of the Cameroon Development Corporation (CDC) was received. Further progress was also made in the implementation of the rehabilitation plan for the Postal Savings Bank, with the appointment in October 2001 of its top management and the launching in December 2001 of the bids for the selection of consultants to assist with the restructuring.

4. Preliminary estimates suggest that the pace of economic activity in 2001/02 was broadly in line with the assumed real GDP growth of 5.3 percent. Investment related to the Chad-Cameroon pipeline proceeded more rapidly than envisaged; other private residential and business construction gained momentum; and investment in the wood processing sector expanded. However, the 12-month national consumer price inflation rate accelerated to about 3 percent on an average basis (versus a programmed annual rate of 2 percent), driven by higher foodstuff prices following a drought in the northern provinces and increased demand from neighboring countries. Budgetary performance was somewhat better than programmed, with the primary surplus for the first annual program CFAF 14 billion larger (0.2 percent of GDP) than envisaged in the program. The improved revenue performance and lower-than-programmed domestically financed public investment expenditure more than offset the overruns in domestic noninterest current expenditure. Total revenue was 0.3 percent of GDP higher than programmed, reflecting continued good performance in both oil and non-oil revenues. Current noninterest expenditure exceeded the target by 0.2 percent of GDP, owing to slippages in the wage bill, other goods and services, and transfers and subsidies during July-September 2001. Domestically financed capital expenditure remained significantly lower than targeted, mainly on account of delays in approving the HIPC Initiative-related spending. At the same time, however, foreign-financed public investment was higher than targeted. Monetary developments during the first annual program showed a moderate expansion of credit to the private sector and a net repayment to the banking system by the central government of CFAF 79.9 billion (1.3 percent of GDP). Cameroon's contribution to the improvement in the net foreign assets position of the regional central bank (BEAC) further strengthened and broad money increased by 17 percent by end-September 2001, reflecting mainly an increase in bank deposits.

Macroeconomic and budgetary prospects for the second annual program (October 1, 2001-September 30, 2002)

5. Based on recent developments and the October 15, 2001 World Economic Outlook (WEO) projections, the macroeconomic framework assumes real GDP growth rates of 4.6 percent and of 4.9 percent (down from initial projections of 5.5 percent and 6 percent) for fiscal-years 2001/02 and 2002/03, respectively. It also assumes real non-oil GDP growth rates of 5.0 percent and 5.5 percent for the same years (down from initial projections of 6.1 percent and 6.2 percent), reflecting a less favorable external environment and the delays in structural reform. The 12-month national consumer price inflation rate is projected at less than 3 percent for the second annual program, as the supply of foodstuff is expected to improve and imported inflation to remain low. The projected decline in oil prices will result in a deterioration of Cameroon's terms of trade, which, combined with the long-term decline in oil output, is expected to have a negative impact on both government oil revenue and national income.

6. The government will continue to adhere to a cautious fiscal stance during the second annual program. Oil revenue is projected to amount to 4.9 percent of GDP in 2001/02 and to 3.3 percent of GDP in 2002/03, based on (i) average oil prices for Cameroon of US\$19.9 per barrel and of US\$19 per barrel, respectively; and (ii) oil output projections of 39.3 million barrels and 35.3 million barrels, respectively (versus initial projections of 38.1 million and of 37.7 million barrels-- reflecting the long-term decline in production as the major known oilfields are expected by both the oil industry and the authorities to be depleted by 2010/11). With a further strengthening of tax and customs administrations and the programmed tax initiatives (see paras. 9, 10, and 11 below), and based on the assumed growth in the non-oil sector, non-oil government revenue should remain at 16 percent of non-oil GDP in 2001/02. Noninterest expenditure is targeted to increase to no more than 16 percent of GDP. The increase is mainly driven by (i) HIPC Initiative spending of CFAF 95 billion (1.4 percent of GDP); and (ii) a higher wage bill; together, these would allow for selective new recruitments in the context of the medium-term sectoral strategies in education and health. The higher wage bill also reflects the gradual implementation of new statutes for the various professions within the civil service. Transfers and subsidies will be limited to 1.8 percent of GDP, and domestically financed and foreign-financed public investment is targeted at 2.5 percent of GDP and 1.5 percent of GDP, respectively. On this basis, the primary fiscal surplus should reach 4.8 percent of GDP in 2001/02, and the overall fiscal situation, on a commitment basis and excluding grants, will be balanced. Excluding expenditure financed by the savings resulting from the enhanced HIPC Initiative, total expenditure would be limited to 18 percent of GDP in 2001/02, with public investment expenditure targeted at 2 percent of GDP.

7. Improving public expenditure management will continue to be at the core of the second annual program. The government is aware that a swift improvement in public expenditure is critical to achieve its budgetary targets, further consolidate macroeconomic stability, and enhance Cameroon's fiscal policy credibility. To this end, some of the deficiencies of the existing fragmented and obsolete information system that monitors budget execution are being addressed on an urgent basis, in line with the action plan developed with the Fund's Fiscal Affairs Department (FAD) and other donors' technical assistance, which was finalized and formally adopted on December 28, 2001 (a prior action). The priorities, as indicated in Table 2,

are to (i) implement a new budget classification; (ii) link the existing information systems at the treasury with that at the budget department of the Ministry of Economy and Finance; and (iii) pursue the work on improving the quality of fiscal data, with a view to eliminating inconsistencies between the treasury balances and the budget execution tables (including, notably, the table on central government financial operations (*tableau de bord*)). Moreover, the action plan sets a path to migrate successfully from the existing system to a fully integrated computerized information system to manage central government revenue and expenditure from the commitment to the payment stage (*chaîne des recettes et des dépenses publiques*) by end-September 2003.

8. Furthermore, the government has started to (i) strengthen internal controls, along the lines of the recommendations of the September 2001 FAD mission on the treasury; and (ii) develop an action plan, by end-March 2002, to ensure proper external control of central government finances (through, notably, the introduction of an external audit body (*Chambre des Comptes*)). Steps are also being implemented to (i) further enhance budgetary procedures and the quality of public expenditure; and (ii) reduce the supplementary period for closing the accounts of the preceding fiscal year to no more than 60 days. Finally, the government will also (i) pursue the implementation of the other key measures that are already contemplated under the program, including, notably, the multiyear settlement plan to clear domestic arrears; (ii) continue to further enhance the quality and timeliness of the quarterly reports on the financial and physical execution of the budget of key Ministries (including Education, Health, Public Works, and Agriculture); and (iii) improve the coordination between the debt agency *Caisse Autonome d'Amortissement* (CAA) and the relevant departments in the Ministry of Economy and Finance (including, notably, the treasury and the budget department), with respect, particularly, to monitoring of domestic public debt. In this regard, the CAA will start collecting information on (domestic and external) loans contracted by public enterprises.

9. The government will continue to strengthen its capacity to mobilize non-oil revenue through measures to enhance customs and tax administration. These include, notably, (i) the adoption of a code of tax procedures; (ii) the establishment, within the tax directorate, of a large-taxpayer unit to monitor and control tax liability for the 300-400 largest taxpayers; (iii) the reorganization of the central tax administration along functional lines; and (iv) improvement of the administration of the value-added tax (VAT) and forestry taxation, including the securitization of forestry receipts through the effective levy of the 17.5 percent exit tax on timber at the entrance to the *points francs* (*entrée points francs*) and the implementation of a system of adjudication for export quotas of unprocessed logs. Furthermore, the government will also pursue its preparatory work for (i) the formulation of a comprehensive reform of the income tax system; and (ii) the introduction of a property tax, based on a land survey (*cadastre fiscal*) that is being put in place. The government plans to submit its income tax reform plan to the National Assembly in 2002.

10. In the customs area, the government will pursue the implementation of its reform program, including the strengthening of the single processing window (*guichet unique*) for external trade. In addition, it will continue carrying out the other priority measures which are already contemplated in its previous letters of intent to improve the administration of customs, increase revenue, and simplify international trade procedures. In particular, the government will

ensure that the computer links between the tax and the customs information systems are operational, so as to facilitate the exchange of data between the two information systems. The government will also improve the physical and documentary controls for the release of goods (*prise en charge des marchandises*) and ensure that the control system for exemptions and special-status traffic (transit, bonded warehouses (*entrepôts*), and temporary admissions) will be strengthened, procedures simplified, and the computer system (PAGODE) modernized (following its successful securitization in March 2001). The government will implement additional revenue-enhancing measures in line with the recommendations of the FAD technical assistance mission of October-November 2001. In particular, it will (i) strengthen the valuation office; (ii) improve the collaboration with the Société générale de surveillance (SGS), especially with a view to double-checking the valuation of imported merchandise; and (iii) strengthen ex post controls.

11. The government is committed to not introducing any new tax and customs exemptions, and to enhancing VAT refund procedures. In order to limit the magnitude of the negative budgetary effects of the recently introduced exemptions, the government reiterates its commitment to restrict VAT exemptions on computer material exclusively to computers and to the program period. As regards exemptions to support the development of the press, a special unit, comprising representatives from the Ministry of Communications and the customs and tax administrations, has been established for the issuance of exemption certificates to eligible companies on a case-by-case basis and in a transparent manner. The government reiterates its commitment to restrict exemptions granted to support the HIV/AIDS program to those products that are specifically required to ensure detection of the HIV/AIDS virus and treatment and to grant them only for the duration of the remainder of the current three-year program. In addition, the government is committed to (i) undertaking an evaluation of the revenue loss stemming from the existing exemptions on VAT and on the special tax on petroleum products (TSPP); and (ii) formulating a plan to reduce VAT exemptions over a five-year period in order to return to the basic regime (1998/99 Budget Appropriations Act).

12. The monetary projections have been revised, taking into account recent developments, including the impact of the September 11, 2001 events on the terms of trade and the balance of payments. The reduction in Cameroon's contribution to the net foreign assets position of the regional central bank (BEAC) would be contained and net bank credit to the central government would be increased by CFAF 15 billion (on a cumulative basis from end-June 2001) by end-December 2001 (a benchmark) and reduced by CFAF 11 billion (on a cumulative basis) by end-March 2002 (a performance criterion). Money growth is projected to slow progressively over October 1, 2001-March 31, 2002.

Governance

13. The government is determined to implement the programmed measures included in its letter of intent of December 6, 2000 and supplementary letter of intent of June 28, 2001. The technical audit of the judiciary system will begin in early January 2002, as specified in the consultant's terms of reference (*ordre de mission*) (a prior action), which are in time with those

agreed with the IMF and World Bank. In the meantime, the government has also taken steps to address some of the judicial deficiencies that could have an adverse impact on the health of the banking system and private sector investment. In this regard, it has started to investigate thoroughly the cases of *saisie-attribution* and will forward its recommendations to the relevant bodies, in order to (i) ensure that all necessary corrective actions are taken and appropriate sanctions imposed, as required; and (ii) propose legislative, regulatory, and other provisions necessary to correct the nonfunctioning features in the *saisie-attribution* procedure. Moreover, the government will intensify its ongoing efforts, including, notably, by (i) conducting seminars at the provincial level to inform and train magistrates regarding the legal provisions of the Organization for the Harmonization of Business Law in Africa (OHADA) Treaty and their interpretation and implementation; (ii) rendering the general inspection office of the judicial system operational and effectively implementing controls by the Heads of Court in their respective jurisdictions; (iii) codifying the OHADA's legal provisions and communicating them to all magistrates; and (iv) promulgating the Cameroonian laws as foreseen under the OHADA Acts.

14. The government is committed to taking additional steps to improve transparency and accountability in public sector management and to combat corruption. These steps, which are consistent with the World Bank recommendations, include, notably, the following: (i) starting effectively, before December 31, 2001 the audit, by an internationally reputed independent auditor, of the government procurement contracts in fiscal-year 2000/01, with a view to completing the audit by end-March 2002; (ii) signing the decree pertaining to the tender commissions before January 31, 2002; and (iii) adopting, before December 31, 2001, an updated action plan for the implementation of the procurement reform. Moreover, with the assistance of the World Bank and other multilateral partners, the government has articulated a number of specific actions in the context of its priority action plan of August 2000 for improving governance and combating corruption. These include, in particular, (i) posting on the government's website the priority action plan; (ii) rendering operational anticorruption units in ten ministries, including the governance observatory in the Ministry of Education; and (iii) adopting an action plan, before end-March 2002, for the establishment of the jurisdictional bodies called for in the constitution, including an audit body for the external control of the State finances.

Structural and sectoral policies

15. The government is determined to consolidate and deepen the ongoing reforms in several structural and sectoral core areas, with a view to stimulating private sector investment, enhancing the competitiveness and efficiency of the economy, boosting production, and consolidating the recent gains on the macroeconomic and budgetary fronts. In addition to the actions in the area of governance (paras 13 and 14 above), actions in the financial sector will continue to be designed and implemented in close consultation with the World Bank and IMF staffs. Actions in the other core areas of privatization, petroleum, transport, forestry, and agribusiness will continue to be designed and implemented in close consultation with the World Bank.

16. In the financial sector, the government will continue to follow up on the progress in implementing the single commercial bank licensing system within the Central African Economic and Monetary Community (CEMAC). It is also determined to complete the implementation of the other key measures already committed in its December 20, 2000 and June 28, 2001 letters of intent, in line with the recommendations of the Financial Sector Assessment Program (FSAP) of May 2000, in order to strengthen the financial system and ensure the viability and resilience of Cameroon's financial system. These measures include, in particular, (i) implementing the recently adopted plan for the financially troubled state-owned Postal Savings Bank, with a view to completing the rehabilitation by end-September 2002; (ii) bringing to an end, by end-December 2001, the processing of the registration requests (*dossier d'agrément*) of the saving and loan cooperatives (COOPECs) and eliminating from the registry of the Ministry of Agriculture the cooperatives that have not presented a request and, therefore, will be closed; (iii) supporting the ongoing work under the auspices of the Central African Banking Commission (COBAC) on the preparation of a regulatory framework for microfinance, to be adopted in early 2002; (iv) completing the bank liquidation run by the Société de Recouvrement des Créances (SRC), with the exception of the BMBC and BCCI by end March 2002 (in this regard, the government will ensure that the financial compensation to the legitimate beneficiaries is conducted in a transparent manner and equitably); (v) pursuing the ongoing work on reforming the payments system undertaken with the assistance of the World Bank and the IMF; and (vi) pursuing the broad reform of the social security system in accordance with the strategy adopted by the interministerial committee in November 1999.

17. With regard to the privatization program, the government reiterates its commitment to address the remaining issues and complete within a reasonable time frame the privatization of SNEC and CAMTEL, which is critical to the provision of better services, an increase in investment and growth, and the reduction of poverty. As regards the SNEC, the government hopes to finalize the agreement with the interim adjudicator before end-December 2001. However, in the absence of such an agreement, an interim administrator will be appointed in January 2002 and the privatization process relaunched. As regards CAMTEL, with the failure to reach agreement with the interim adjudicator, the government has turned to the second bidder, who has until January 20, 2002 to submit a final offer.

18. In the petroleum sector, the authorities will make sure that the provisioning by the SNH for depleted oil wells is made on a regular basis and in line with the related contractual arrangements. The bidding process for the sale of the shares held by the SCDP (the petroleum storage facility) on behalf of the government will be launched before end-May 2002, so as to transfer these shares to the private sector, which will thereafter manage the SCDP. Among the recommendations of the action plan to reform the petroleum sector formulated in late 2000, the government will, by end-June 2002, (i) redefine the role and responsibilities of the private sector, the SNH, the ministry responsible for hydrocarbons and other entities involved in the hydrocarbon sector and provide a timetable for the implementation of the reform program; (ii) submit to parliament the new natural gas code; and (iii) provide a strategy and an action plan for promoting private sector investment in the hydrocarbon sector. It will also ensure that SNH completes the installation of its upgraded financial management and accounting. Finally, should world oil prices rise above US\$25 per barrel in 2001/02, the government will adjust

upward the prices of gasoline (super) and gas oil, as appropriate, in the context of the automatic petroleum retail price mechanism, so as to prevent the reemergence of any petroleum subsidies.

19. In the transport, forestry and agro-industrial sectors, which are critical for improving competitiveness and enhancing job creation opportunities, the government will pursue the reforms agreed with the World Bank and other donors. As regards air transportation, the government intends to recruit a consultant to conduct a comprehensive evaluation of the national airline (CAMAIR), with a view to completing the evaluation by May 2002 and recruiting, by end-September 2002, an adviser to help launch the privatization of the company. In the port sector, in particular the port of Douala, the priorities are to (i) complete the institutional reforms, including the adequate financing of the autonomous port of Douala and the liquidation of the former Office National des Ports du Cameroun (ONPC); (ii) privatize industrial and commercial activities; (iii) reduce the clearance delays of containerized merchandise to seven days for imports and two days for exports, based on the action plan put in place in line with the ongoing customs reform; and (iv) modernize the operations of the container terminal by selecting a concessionaire through international bidding. In the forestry sector, in addition to the fiscal measures specified in para. 9 above, the government will, by December 31, 2001, (i) adopt the regulatory texts and attribute the contracts and/or conventions required to ensure satisfactory implementation and supervision of the management plans; (ii) adopt the legal instruments needed to define the priority rights of forestry communities in rural forests; and (iii) prepare a draft decree revising the statutes of the National Forestry Development Office (ONADEF), in line with the recommendations of the institutional audit of the sector. Moreover, the government will apply legal sanctions in the event of serious violations of forestry rules and management plans, and will make public the list of cases that have been dealt with and/or are in process. In the agro-industrial sector, the key policy actions are (i) the privatization of the remaining agro-industrial enterprises, including SODECOTON (a review of the strategy in the cotton sector and a launching of the bidding process) and the CDC (an analysis of the financial offer in February 2002, appointment of an interim adjudicator for the tea crop component by March 2002, and the launching of a new bidding process for the other three non-attributed crop components).

Social and poverty reduction policies, PRSP preparation, and use of savings resulting from the debt relief under the enhanced HIPC Initiative

20. The main focus of the government's social policies is to ensure that strengthened economic performance translates into tangible results in terms of job creation, poverty reduction, and an improvement in the economic welfare of the population as a whole. To this end, the authorities have started to strengthen the technical and administrative capacities of several sectoral ministries in the priority sectors of health, education, and urban and rural development, with assistance from the World Bank and other donors. Comprehensive strategies for the health and education sectors have already been formulated, their respective costings are being carried out, and progress is being made in formulating strategies in the other priority sectors (rural and urban infrastructure). A first series of programs and projects to be financed through the savings resulting from the debt relief under the enhanced HIPC Initiative was adopted on October 26 and on December 6, 2001, for a total amount of CFAF 35 billion. The

selected programs and projects are concentrated in the priority poverty reduction-related sectors of education, health, urban sanitation, rural road infrastructure, and safe drinking water. In line with the orientations specified in the decision point document of October 2000, the key aim of these programs and projects is to improve the delivery of social services. Moreover, the work on the formulation of a second series of programs and projects to be financed through the savings of CFAF 58 billion (expected for the current fiscal-year 2001/02) will be discussed by the national consultative committee for the follow-up on the implementation of the HIPC Initiative in the first quarter of 2002.

21. Consistent with its action plan of September 2001 for the preparation of a full poverty reduction strategy paper (PRSP), the government is pursuing the preparation of a high-quality PRSP. The process, which relies on an enhanced participatory approach, is progressing well and is expected to be completed by June 2002. It draws extensively on the results of the sectoral strategies, the ongoing household survey, and other pertinent analytical and empirical studies. In the meantime, a PRSP Preparation Status Report is being prepared and will be submitted to the Executive Boards of the World Bank and the Fund by end-December 2001.

22. The savings resulting from the debt relief under the enhanced HIPC Initiative have been deposited into a special account opened at the central bank (the BEAC). The government remains committed to pursuing its policy of making deposits at the special account at the central bank (including the savings from bilateral debt relief). It is also fully aware of the importance of holding regular meetings of the national consultative committee for the follow-up on the implementation of the HIPC Initiative; these meetings are vital to ensure that the use of available resources is closely monitored and remains consistent with the ongoing efforts to improve public expenditure management, the orientations specified in the October 2000 decision point document, and the priorities being discussed in the context of the preparation of the full PRSP.

External sector policies and debt management

23. A key objective of Cameroon's external policy remains to enhance external competitiveness in order to achieve external viability and strengthen growth prospects. To this end, the government will continue to implement and even further strengthen the efficiency-enhancing measures of the program. It will also continue to take the lead in promoting enhanced regional integration in the Central African Economic and Monetary Community (CEMAC) zone through further reductions in the common external tariff (to a maximum of 20 percent rate) and in the number of bands (from five to four), as well as through the enactment of a common investment charter. Finally, it has also started to effectively implement the new foreign exchange regulations (*réglementation des changes*) of the CEMAC.

24. Following the Paris Club agreement of January 24, 2001 to support Cameroon's program with a comprehensive and concessional treatment under the enhanced HIPC Initiative, the government requests that the deadline for signing the bilateral agreements be extended through end-March 2002. The government will pursue its efforts to reach agreement on commercial bank debt, following its settlement offer of May 2001 to buy all external

commercial debt and insured supplier and trade credits. While the commercial banks' counteroffer of July 2001 is significantly different from the government's proposal, negotiations are expected to be completed by June 2002. The government will endeavor to ensure that the terms under all the agreements with non-Paris Club creditors are at least as favorable as those obtained recently from the Paris Club under the enhanced HIPC Initiative.

Prior actions, request for waiver, and program monitoring and review

25. The government understands that the following measures constitute prior actions that would need to be in place before Cameroon's documents are issued for Executive Board consideration:

- adoption of an action plan to introduce a fully integrated information system to manage central government revenue and expenditure, consistent with the recommendations of the Fund's FAD;
- signing of the contract of the consultant and notification of the terms of reference (*ordre de mission*), together with the effective launching of the technical audit of the judiciary system ; and
- effective functioning of the operational interface (ANTILOPE-SIGIPES) for keeping the government payroll updated in all four sectoral pilot sites (i.e., Ministries of Economy and Finance, Education, Health, and Civil Service).

26. The government requests a waiver for the nonobservance, on September 30, 2001, of the structural performance criterion on the completion of the development of the computer interface (ANTILOPE-SIGIPES) to ensure that the salary file of the government payroll system remains current. The four pilot sites were not in place by September 30, 2001, for the reasons explained in para. 3 above. Following the implementation of these sites, the ANTILOPE-SIGIPES interface became operational on December 10, 2001.

27. To monitor program implementation, a number of quantitative benchmarks for end-December 2001 and quantitative benchmarks and performance criteria for end-March 2002 have been established, as specified in the attached Table 1. In addition, the reform measures specified in Table 2 constitute structural performance criteria and benchmarks for the first half (October 2001–March 2002) of the second annual program. The government considers that these are essential for (i) achieving the macroeconomic objectives of the program; (ii) improving public expenditure management; and (iii) enhancing the prospects for increased private sector investment.

28. In view of the uncertainties about external debt relief and oil prices, the program contains a built-in contingency mechanism for the adjustment of the quantitative benchmark and performance criteria, as spelled out in the attached technical memorandum of understanding (TMU). In the same vein, given the uncertainties surrounding the implementation of the privatization program, the related receipts are excluded from the

definition of the ceiling on net bank credit to the government. If the privatization receipts materialize, the government will agree with Fund staff on the specific use of these resources.

29. The fourth disbursement under the PRGF arrangement will be subject to (i) the observance of the end-March 2002 performance criteria; and (ii) the completion of the third review by no later than mid-July 2002. The review will focus mainly on public expenditure management, budgetary non-oil revenue performance, customs and tax administration reform, detailed strategies in the poverty reduction-related priority sectors, further advancement in the preparation of the full PRSP, and progress in governance. The fifth disbursement under the PRGF arrangement will be subject to (i) the observance of the performance criteria to be established in the context of the third review; and (ii) the completion of the fourth review scheduled for mid-January 2003. The third annual program supported by the PRGF arrangement will be discussed with the staff in late 2002.

30. As in the past, program implementation will be regularly examined in cabinet meetings chaired by the Prime Minister, Head of Government. An Interministerial Supervisory Council, chaired by the Minister of Economy and Finance and comprising the key economic and social sector ministers, has effectively started to coordinate program implementation with the assistance of the CTS (technical committee for the implementation of the economic programs). The CTS will provide Fund staff with all the necessary data on a timely basis to effectively monitor the program. To this end, the government also will continue to improve data quality, coverage, and timeliness in the context of the General Data Dissemination System (GDDS).

Sincerely yours,

Peter Mafany Musonge
Prime Minister
Head of Government

Table 1. Cameroon: Quantitative Performance Criteria and Benchmarks During the Second Annual Program Supported by an Arrangement Under the Poverty Reduction and Growth Facility, June 30, 2001-September 30, 2002

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

	Sept 30 ¹ 2001	Dec. 31 2001	Mar. 31 2002	June 30 ² 2002	Sept. 30 ² 2002
Ceiling on the increase in net claims of the banking system on the central government excluding privatization receipts ^{3, 4, 5, 6, 7}	15	23	-3	35	48
Floor on the primary budget balance ^{3, 6, 8}	64	89	181	254	321
Ceiling on the accumulation of external payments arrears of the central government ^{3, 9}	0	0	0	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government ^{3, 10}	0	0	0	0	0
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year ^{3, 10, 11}	0	0	0	0	0
Floor on total revenue of the central government ^{7, 12, 13}	291	327	650	981	1280
<i>Of which: non-oil revenue</i> ^{7, 13}	222	237	479	724	965
Floor on reduction of domestic arrears ¹³	-11	-8	-16	-245	-252
<i>Of which: cash payments</i> ¹³	-11	-8	-16	-245	-252
Memorandum items:					
Assumed external debt relief ¹⁴	76	68	135	767	840
External program financing ¹⁵	6	25	60	115	121
of which IMF	0	15	15	30	30
Privatization proceeds	23	0	0	0	0
Stock of net credit to the central government	340	362	337	374	387

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

1 Cumulative since end-June 2001.

2 Indicative targets; definitive targets as well as performance criteria for end-September 2002 will be set at the time of the third review.

3 These targets will constitute performance criteria for end-March 2002.

4 This target will be adjusted (a) upward for a shortfall in program financing, and external debt relief up to an amount equivalent to 50 percent of the shortfall (for a total cumulative shortfall of CFAF 35 billion); (b) downward by the full amount of any excess of the programmed levels in program financing and external debt relief; and (c) downward by the full amount of any shortfall in the reduction of domestic arrears, on a net basis, in comparison with the program.

5 The flows have been constructed on the basis of end-September 2001 data; they will be adjusted on the basis of the actual outcome.

6 The targets will be adjusted upward/downward for 50 percent of the windfall/shortfall in oil revenue. For a windfall/shortfall beyond a threshold of CFAF 35 billion, the authorities will consult with Fund staff to formulate policies to adjust performance criteria.

7 This ceiling excludes privatization receipts.

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

9 Excluding reschedulable external payments arrears. The targets will be adjusted for deviations from projected program financing. To be monitored on a continuous basis.

10 In millions of U.S. dollars. Nonconcessional debt (including leases) is defined as debt with a grant element of less than 35 percent, using discount rates based on the commercial interest reference rates (CIRRs). Debt is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted on August 24, 2000.

11 Excluding normal, import-related credit. To be monitored on a continuous basis, from the date of completion of the second review.

12 This target will be adjusted for the full amount of higher/lower-than-programmed oil revenue.

13 These benchmarks do not constitute performance criteria.

14 Including IMF disbursements.

15 Including the financing gap.

Table 2. Structural Performance Criterion and Benchmarks for the
First Half of the Second Annual Program
(October 1, 2001–March 31, 2002)

Criterion and Benchmarks	Target Dates
Criterion	
Complete the link between the information system of the treasury and that of the budget department in the Ministry of Economy and Finance in order to follow all expenditures from the commitment to the payments stage carried out both at the central government level and by the local branches of the central government (<i>déconcentré</i>).	End-March 2002
Benchmarks	
Complete the link between the information system of the treasury and that of the budget department in the Ministry of Economy and Finance in order to follow all expenditures from the commitment stage to the payment stage at the central government level.	End-December 2001
Finalize and validate the new budget classification.	End-December 2001
Complete the investigation of the existing cases of <i>saisie-attribution</i> and forward the recommendations to the relevant government bodies, in order to <ul style="list-style-type: none"> • take all necessary corrective actions and appropriate sanctions, as required; and • propose legislative, regulatory, and other provisions that are necessary to correct the non functioning features in the <i>saisie-attribution</i> procedures. 	End-March 2002
Complete the bank liquidation process run by the Société de Recouvrement des Créances (SRC), except for the BMBC and BCCI.	End-March 2002
Adopt an action plan for the implementation of an audit body for external control of the State finance.	End-March 2002

CAMEROON

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

A. Introduction

1. This memorandum supplements the technical memorandum of understanding annexed to the memorandum of economic and financial policy of December 6, 2000 and the supplementary technical memorandum of understanding annexed to the letter of intent of June 28, 2001. It sets out the understandings between the Cameroonian authorities and the staff of the International Monetary Fund regarding the definitions of the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement and the built-in contingency mechanism, as well as the related reporting requirements.

B. Definitions

External debt

2. The size and rate of growth of external indebtedness are important factors in the design of a program for a country, especially one benefiting from the Initiative for Heavily Indebted Poor Countries (HIPC) assistance like Cameroon. Consistent with the Guidelines on Performance Criteria with respect to Foreign Debt (Decision N° 12274- (00/85), August 24, 2000), external debt will be understood to mean a current, that is, not a contingent, liability created under a contractual arrangement by the government of Cameroon, or guaranteed by the government of Cameroon, with a nonresident party through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being the following:

- **Loans.** These are advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).

- **Suppliers' credits.** These are contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided.
 - **Leases.** These are arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.
3. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Concessionality of external debt

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

Cash relief from external debt rescheduling

5. For the purpose of the program, the only debt relief that will be subject to the contingency mechanism described below is one that leads to an effective reduction in programmed debt service. This excludes debt relief given on debt that has been in drawn-out rescheduling/restructuring negotiations with non-Paris Club creditors and for which no debt service has been paid in the past year— for example, debts to be considered under the debt- and debt-service-reduction operation with commercial creditors, and for which no provision in debt service has been explicitly made in the fiscal program (except for up-front costs).

Domestic arrears

6. Domestic arrears include nonstructured domestic debt contracted by the government. Nonstructured debt is defined to be a liability for which there has been neither a formal agreement, nor a cash payment, nor securitization. Specifically, this debt includes salary arrears; commercial debt; rental/lease arrears; debt on account of indemnities and expropriations; fees and tax refunds or reimbursements; and debt on account of social adjustment programs arising from the restructuring of public enterprises. The government intends to settle these liabilities in the form of cash payments.

Net claims of the banking system on the central government

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

Primary balance of the budget

8. The primary budget balance is calculated as total central government revenue (oil and non-oil), excluding foreign grants and privatization proceeds (counted as financing), less noninterest expenditure, excluding foreign-financed investment and restructuring expenditure.

Privatization receipts

9. For the purpose of this memorandum, privatization receipts will be understood to mean all monies received by the central government through the sale or concessioning of a public company, organization, or facility to a private company(ies) (including ones fully owned by foreign governments), organization(s), or individual(s). All privatization receipts should be presented on a gross basis; if costs are incurred in the sale or concessioning, they should be recorded separately as expenditure.

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

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

Deviations from programmed oil revenue

11. The programmed oil revenue is based on oil price assumptions of US\$18.5 and US\$18.2 per barrel (for Cameroon) for the first and second quarters of the second annual program (October 1, 2001–September 30, 2002), and on volume estimates of 10.3 and 9.8 million barrels, respectively. Based on these assumptions, the oil revenue contribution to the central government's budget is estimated at CFAF 62 billion and CFAF 53 billion in the first and second quarters of the second annual program, respectively.

12. In case of lower-than-programmed oil revenue (owing to events beyond the government's control), the government will compensate 50 percent of the shortfall by expenditure savings and/or additional revenue from other sources. For the remaining

50 percent of the shortfall, the above-mentioned quantitative performance criteria and benchmarks will be adjusted upward. For a shortfall beyond a threshold of CFAF 35 billion per quarter, the authorities will consult Fund staff to formulate corrective policies to adjust performance criteria.

13. The entire amount of the oil revenue above the programmed amounts will be placed in a treasury account at the Bank of Central African States (BEAC). A maximum of 50 percent of the windfall will be used to (i) increase high-priority infrastructure investment and social expenditures; and (ii) reduce domestic arrears. The remainder of the windfall revenue will be sterilized by lowering the ceilings on the above-mentioned quantitative performance criteria and benchmarks.

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

14. The above-mentioned quantitative performance criteria and benchmarks will be adjusted (i) upward for a shortfall in exceptional external financing (i.e., program financing and external debt relief) up to an amount equivalent to 50 percent of the shortfall (for a total cumulative shortfall of CFAF 35 billion); (ii) downward for the full amount of any excess in external assistance (i.e., program financing and external debt relief); and (iii) downward by the full amount of any shortfall in the reductions of domestic and external payments arrears in comparison to the program.

Program exchange rate

15. Amounts denominated in SDRs will be converted to U.S. dollars at the fixed exchange rate of US\$1.284 per SDR, and converted into CFA francs in accordance with the exchange rates agreed with the authorities. IMF liabilities, which are included in the definition of net claims on the central government by the banking system, will be valued at this exchange rate. Any deviations in the exchange rate will lead to a full adjustment in the valuation of the stock of IMF liabilities at the central bank, and to a similar adjustment in the ceiling on the net claims of the banking system on the central government.

D. Prior Actions, Structural Performance Criterion, and Structural Benchmarks

16. The prior action relating to the “effective functioning of the operational interface (ANTILOPE-SIGIPES) for keeping the government payroll updated” will be deemed to have been in place if (i) the SIGIPES application is effectively in operation and its network actually connected with ANTILOPE; and (ii) the SIGIPES-ANTILOPE application is also in operation as the functional links between the Ministry of Civil Service and the three other pilot ministries or sites, namely the Ministry of Economy and Finance, the Ministry of National Education, and the Ministry Health, are actually operational.

17. The structural performance criterion relating to the completion of the link between the information system of the treasury with that of the budget department of the Ministry of Economy and Finance will be deemed to have been observed upon verification that the computer link between the information system of the treasury with that of the budget department in the Ministry of Economy and Finance, based on the required integrated applications, actually tracks all expenditures from the commitment to the payment stage for transactions carried out both at the central government level and by local branches of the central government.

18. The structural benchmark relating to the completion of the link between the information system of the treasury with that of the budget department in the Ministry of Economy and Finance will be deemed to have been observed upon verification that the computing link between the information system of the treasury and that of the budget department in the Ministry of Economy and Finance, based on the required integrated applications, actually tracks all expenditures from the commitment to the payment stage at the central government level.

19. The structural benchmark relating to the finalization and validation of the new budget classification will be deemed to have been observed once the Minister of Economy and Finance has officially notified the Fund that this new classification (*nomenclature budgétaire*) has been put into effect.

E. Reporting Requirements

20. The Cameroonian authorities will send to the Fund the following data within the time limits set out in the attached Table 1. Except as otherwise indicated, data transmission will take the form previously agreed between the authorities and the Fund. The authorities will supply the Fund with any additional information that the Fund requests in connection with monitoring performance under the program on a timely basis.

Table 1. Data Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey	Monthly	25 th of the month for the previous month
	Interest rates	Irregular	One week after new changes announced
	HIPC Initiative BEAC account transactions	Monthly	25 th of the month for the previous month
Fiscal data	<i>Tableau de bord</i> , including details on revenues, expenditures, financing and domestic debt payments (including settlement of arrears)	Monthly	25 th of the month for the previous month
	Treasury balances	Monthly	25 th of the month for the previous month
	Treasury "flash" reports	Monthly	10 th of the month for the previous month
	Domestic debt settlement plan execution report	Monthly	25 th of the month for the previous month
	Investment budget execution report	Quarterly	One month after end of quarter
	Expenditure reports by selected ministries	Quarterly	One month after end of quarter
	National oil company (SNH) operations, including export volumes, exchange rates, prices and values, transferable balance, and summary accounts	Monthly	25 th of the month for the previous month
	HIPC Initiative spending plans and budget execution	Quarterly	One month after end of quarter
Real sector data	Consumer price index, Yaoundé	Monthly	10 th of month for previous month's data
	National consumer price index	Quarterly	20 th of month for previous quarter's data
	Index of industrial production	Quarterly	One month after end of quarter
	National accounts	Annual	Summary estimates; six months after the end of year

Table 1. Data Reporting Requirements (concluded)

Category of Data	Table/Report	Frequency	Target Date
Balance of payments data	Imports by use and exports by major product, trade balance	Monthly	25 th of the month for the previous month's data
	Price and volume indices of imports and of exports	Quarterly	One month after end of quarter
	Consolidated estimates of the balance of payments	Annual	Summary estimates; six months after the end of year
External debt	Debt service due before and after debt relief	Quarterly	At beginning of fiscal year; updates as needed
	Cash debt service paid	Monthly	25 th of the month for the previous month's data
	Debt service reconciliation table ("access table")	Quarterly	25 th of the month for the previous quarter's data
	Stock of outstanding debt and arrears	Quarterly	25 th of the month for the previous quarter's data
	Drawings on new loans	Quarterly	25 th of the month for the previous quarter's data
External grants	Disbursements	Monthly	25 th of the month for the previous month's data

CAMEROON: FUND RELATIONS
As of November 30, 2001

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

II. General Resources Account:	<u>SDR million</u>	<u>%Quota</u>
Quota	185.70	100.0
Fund holdings of currency	185.16	99.7
Reserve position in Fund	0.54	0.3

III. SDR Department:	<u>SDR million</u>	<u>%Allocation</u>
Net cumulative allocation	24.46	100.0
Holdings	0.01	0.06

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>%Quota</u>
Enhanced Structural Adjustment Facilities (ESAF) arrangements	193.96	104.4

V. Financial Arrangements:

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
Poverty Reduction and Growth Facility (PRGF)	12/21/2000	12/20/2003	111.42	31.84
ESAF/PRGF	08/20/1997	12/20/2000	162.12	162.12
Stand-by	09/27/1995	09/26/1996	67.60	28.20

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	<u>08/31/01</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal				8.1	18.9	27.0
Charges/interest		0.5	1.5	1.5	1.5	1.3
Total		0.5	1.5	9.6	20.4	28.3

VII. Implementation of HIPC Initiative:

	<u>Enhanced framework</u>
Commitment of HIPC assistance	
Decision point date	10/11/2000
Assistance committed (NPV terms) ¹	
Total assistance (US\$ million)	1,260
<i>Of which:</i> Fund assistance (SDR million)	28.5
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	2.2
Interim assistance	2.2
Completion point ²	...
Amount applied against member's obligations (cumulative)	1.8

VIII. Safeguards Assessments:

Introduction

¹ Net present value (NPV) terms at the completion point under the original framework; and NPV terms at the decision point under the enhanced framework.

² Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

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

Safeguards Areas and Main Remedies

The External Audit mechanism: The auditing function and the quality control procedures of the external auditor are adequate. The safeguards assessment proposed that: (i) the external auditor refer explicitly to the international standards of auditing (ISA) in its opinion, (ii) the external auditor become more cognizant of the accounting rules applicable to the recording of Fund's balances; and (iii) the BEAC should include the audit opinion in the annual publication of the financial statements. The management of the BEAC has agreed to implement these actions for the FY 2002 accounts.

Legal Structure and Independence: The legislation governing BEAC is adequate

Financial Reporting: The monthly statements of the bank's financial position are not published in any form and the December 31, 2000 audited financial statements were not published in a timely manner. The staff recommended that the BEAC: (i) enhance the readability and the credibility of the published annual accounts by including detailed explanatory notes on the accounting methods followed, and if these methods referred explicitly to a generally accepted accounting framework; (ii) adopt International Accounting Standards; and (iii) change the accounting of some of its operations with the Fund, especially with regard to the revaluation of the IMF accounts. The management of the BEAC has agreed to implement these recommendations by FY 2002.

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

In its response to the Stage Two report, the management of the BEAC has specifically agreed to expand the scope and coverage of the audit department, and increase the number of qualified staff. A charter for the audit department will also be prepared, with the assistance of Fund staff, which will provide the BEAC with the relevant documentation. A gradual implementation of these recommendations should be completed by end-2002. The management of the BEAC did not specifically cover in its answer to the report the recommendation related to the risk-based rolling multi-year audit program.

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

In its response to the Stage Two report, the management of the BEAC has agreed to establish an audit committee by 2002. Regarding the proposed segregation of duties, management noted that an internal assessment was under way, but that for budgetary reasons a formal audit cannot be undertaken before end-2001.

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

IX. Exchange Arrangements:

Cameroon's currency, the CFA franc, is pegged to the French franc at the fixed rate of CFAF 100 per French franc.

Local currency equivalent: CFAF 939.6=SDR 1 as of November 27, 2001

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

X. Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on July 16, 2001.

XI. FSAP Participation, ROSCs, and Offshore Financial Center (OFC)

Assessments:

The Financial System Stability Assessment (FSSA) report of May 24, 2000 (FO/DIS/00/66) is based on the findings of the joint IMF-World Bank mission that visited Cameroon during February 29-March 14, 2000. The findings of the Financial Sector Assessment Program (FSAP) mission were presented to the authorities on March 13-14, 2000 in the context of the 2000 Article IV consultation.

Report on the Observance of Standards and Codes (ROSC). Fiscal Transparency and Transparency of Monetary and Financial Policies	June 1, 2000	EBS/00/96
Report on the Observance of Standards and Codes. Data Module	June 13, 2001	SM/01/168

XII. Technical Assistance:

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

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

June 2000: FAD mission on the modernization of customs.

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

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

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

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

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

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

October–November 1998: STA mission on the METADATA project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on the preparation of a VAT.

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

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

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

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

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

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

XIII. Resident Representatives:

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

Cameroon: Relations with the World Bank Group

(As of November 30, 2001)

1. During fiscal-years 2000/01, the World Bank Group approved loans for Cameroon totaling US\$130.1 million, of which \$53.4 million was IBRD. These projects were the following:

(amount in US\$ millions)

Chad/Cameroon Pipeline	53.4
Environmental Oil Technical Assistance	5.8
Multi-sectoral HIV/AIDS Project	50.0
Public/Private Partnership	20.9

2. Seven investment projects in the portfolio are being implemented covering agricultural extension; the Chad-Cameroon pipeline, environment, education, HIV/AIDS, the public/private partnership for growth and poverty reduction, and transport. There is one adjustment project and one grant project. The total value (original principal) of these projects amounts to US\$428.6 million, of which \$53.4 million is IBRD, \$6 million is grants, and \$369.2 million is IDA. See table for detailed breakdown.

Bank Group Portfolio	
(As of August 27, 2001)	
	(US\$ mil)
IDA total	369.2
Sectoral composition (%):	
SAC	57.0
Agriculture	4.0
Transport	16.0
Education (LIL)	1.5
Public Private Partnership	6.0
Environment Capacity Building	1.5
HIV/AIDS Multi-Sector	14.0
Undisbursed IDA amount	185.1
IBRD	
Chad-Cameroon Pipeline	53.4
IFC total	51.2
Energy	48.0
Financial Sector	1.7
Food & Agribusiness	1.5
MIGA: No investment guarantees issued.	

5. The Board of the World Bank approved on June 25, 1998 a third structural adjustment credit for an amount of \$180 million focusing on privatization (public utilities and agro-industries), private sector development, and the transport, financial, and forestry sectors. The first tranche (US\$50 million) was disbursed in late September 1998, the second tranche (US\$26 million) in June 1999, and a third tranche of US\$26 million in June, 2000. A supplemental credit in the amount of US\$13 million was disbursed in April 1999. Another supplemental credit was made effective on September 26, 2000. The forestry floating tranche due to be disbursed in fiscal-year 2000/01 is now expected to be disbursed before the end of 2001.

NEWS  BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 02/8
FOR IMMEDIATE RELEASE
January 30, 2002

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

IMF Completes Review Under Cameroon's PRGF Arrangement and Approves US\$20 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Cameroon's performance under the three-year Poverty Reduction and Growth Facility (PRGF)¹ arrangement. As a result, Cameroon will be able to draw up to SDR 15.92 million (about US\$20 million) immediately.

Cameroon's three-year PRGF arrangement was approved on December 21, 2000 (see Press Release No. 00/86) for SDR 111.42 million (about US\$139 million). So far, Cameroon has drawn SDR 31.84 million (about US\$40 million) under the arrangement.

After the Executive Board's discussion on Cameroon, Anne Krueger, First Deputy Managing Director and Acting Chair, stated:

"The implementation of the first annual program under the Poverty Reduction and Growth Facility (PRGF) arrangement has been broadly

¹ It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. Cameroon's full PRSP is expected to be finalized by June 2002. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

satisfactory. Cameroon met all the quantitative performance criteria and benchmarks but one at end-September 2001. Fiscal performance was in line with targets, despite some slippages in the final quarter of the program year. Overall, economic and financial conditions have strengthened further, and inflation has remained contained. These achievements on the macroeconomic front deserve credit. However, the slow pace in improving public expenditure management, strengthening governance, and implementing structural reforms are areas of concern.

“Prospects for the second annual program and beyond remain worrying with the expected decline in oil output and a less favorable external environment. Thus, for sustained economic growth and lasting poverty reduction to materialize, it is crucial for Cameroon to consolidate the gains obtained so far in the fiscal area and structural reforms. To that end, enhancing non-oil revenue mobilization, notably by limiting tax exemptions and reforming the income tax system, improving public expenditure management, and strengthening the procurement system will be critical. It is also essential to continue tackling the weaknesses in governance, notably in the judiciary system, so as to help foster investor confidence and prevent a possible deterioration of the financial health of the banking system.

“The 2001/02 budget envisages a cautious fiscal stance, while being appropriately tailored toward poverty reduction. Projects financed by savings resulting from the enhanced HIPC Initiative assistance have started to be implemented, in line with the priorities set by the national consultative committee for the follow-up of the implementation of the enhanced HIPC Initiative.

“The preparation of a full-fledged Poverty Reduction Strategy Paper (PRSP) is progressing toward possible completion by mid-year, based on a commendably broad-based participatory process,” Ms. Krueger said.

**Statement by Alexandre Barro Chambrier, Executive Director for Cameroon
January 30, 2002**

I. Introduction

Cameroon's economic performance during the first year of the new three-year PRGF program continues to be encouraging. Economic activity was in line with the program projections. Substantial progress was made in the implementation of macroeconomic and structural reforms. The authorities also met all the quantitative performance criteria for end-September 2001, with the exception of the criterion for net bank credit to the central government because of the unexpected delays in the privatization of the telecommunications company (CAMTEL). The benchmarks on the floor on the reduction of domestic arrears and on the development of a computer interface for maintaining the government's payroll file updated were also missed, on account of the difficulties of the government to convince small creditors to accept securities in exchange for their claims and of unexpected technical difficulties encountered in the implementation of the new information system in the four pilot Ministries. Since then, corrective measures have been taken and many of these measures are now in place. Substantial inroads have also been made in the areas of governance and poverty reduction with the preparation of a PRSP Status Report and work is underway to strengthen the capacity of ministries in the priority sectors.

Despite these achievements, Cameroon's medium-term outlook remains fragile, especially in the context of a less favorable external environment and the deeper-than envisaged decline in oil output. The main challenges facing the authorities are to consolidate the gains obtained so far in economic reforms and maintain this momentum, so as to foster a strong and diversified economic growth and reduce poverty. At this critical juncture, the authorities are determined to strengthen their adjustment efforts, especially in the budgetary and governance areas and they would like to reiterate their commitment to finalize their PRSP with full participation of civil society. In view of Cameroon's good track record and commitment to reform, I would like to request the Board's support for waiver for the nonobservance of a structural performance criterion, the completion of this review and the extension of the HIPC Initiative interim assistance through end December 2002.

II. Program Implementation and Recent Economic Developments in 2001

The good track record of economic performance established under the previous arrangement (1997-2000) was maintained in 2001. On the macroeconomic front, the pace of real GDP growth was in line with the target of 5.3 percent, thanks to a favorable external environment, improved policy implementation, strong investment in the Chad-Cameroon pipeline, and buoyant activity in the construction and wood-processing sectors. Despite the drought in the northern provinces and increased demand of foodstuff from neighboring countries, inflation remained at low levels around 3 percent. Budgetary performance was better than programmed with a larger primary surplus, reflecting improved revenue performance and lower than-programmed domestically financed public investment expenditure that helped

offset the overruns in domestic noninterest current expenditure. The authorities pursued their efforts to reform the customs administration, improve domestic tax administration and collection and strengthen the value-added tax (VAT).

Monetary developments in 2001 showed an increase in broad money, reflecting mainly increase in bank deposits and the strengthening of Cameroon's contribution in the net foreign position of BEAC. Credit to the private sector increased significantly, in line with the level of economic activity and the central government recorded a net repayment to the banking system.

Progress was made in the area of structural reforms. In the governance area, the financial audit of the oil company (SNH) for 1999/2000 was completed. It should also be noted that progress in privatization was mixed, due to difficulties and delays beyond the government control. An offer was received for the tea component of the Cameroon Development Corporation (CDC). While the privatization of the electricity company (SONEL) proceeded as scheduled, the negotiations with the bidder selected for the privatization of CAMTEL were not conclusive because the bidder could not raise enough funds to acquire the company. Although the government intensified negotiations for the privatization of the National water company (SNEC), an agreement could not be reached with the sole bidder. Further progress was made in the implementation of the rehabilitation plan for the Postal Savings Bank, with the appointment of its top management and the launching of the bids for the selection of consultants. As regards the audit of the judiciary system, a contract has been signed and the study will be launched shortly.

III. Medium-Term Program and Policies

The growth prospects in the medium-term remain favorable, despite a number of shocks, including the less favorable external environment in the wake of the September 11, 2001 events and the projected long-term decline in oil production. Real GDP growth rates have been revised downward to 4.6 percent in 2001/02 and 4.9 percent in 2002/03, and real non-oil GDP growth rates to 5 percent and 5.5 percent in 2001/02 and 2002/03 respectively, reflecting a weakening of external demand.

Fiscal Policy

The authorities will continue to adhere to a cautious fiscal stance during the next annual program. Oil revenue is expected to decrease to 4.9 percent of GDP in 2001/02 and 3.3 percent in 2002/03, reflecting the depletion of the major known oilfields. The authorities are aware that the attainment of fiscal sustainability is based on two pillars: strengthening their capacity to mobilize non-oil revenue, while containing public expenditure.

On the revenue side, the authorities are committed to taking measures to enhance tax and customs administration. *In the tax area*, they intend to take a number of measures, including the adoption of a code of tax procedures, the establishment within the tax directorate of a large taxpayer unit to monitor and control tax liability for the 300-400 largest taxpayers, the reorganization of the central tax administration and, improvement of the administration of the

value-added tax (VAT) and forestry taxation. In addition, the authorities intend to formulate a comprehensive reform of the income tax system, introduce a property tax and submit an income tax reform to the National Assembly in 2002. *In the customs area*, the authorities will pursue the strengthening of the single processing window for external trade and, the improvement of tax administration of customs. To this end, they will put information systems in place, in order to facilitate the exchange of information between tax and customs administrations, while improving the valuation of imported goods and the physical and documentary control systems for the release of goods. In order to meet their non-oil revenue targets, the authorities will avoid introducing any new tax and customs exemptions and limit the scope of the existing ones on computer material, the press and, HIV/AIDS to the duration of the remainder of the current three-year program.

On the expenditure side, the authorities intend to contain public expenditure in non-priority sectors, while improving public expenditure management and strengthening internal and external controls. Noninterest outlays are expected to increase to no more than 16 percent of GDP, mainly driven by HIPC spending and a higher wage bill, reflecting selective recruitments to support the implementation of medium-term strategies in health and educations sectors and gradual implementation of new statutes in some civil service areas. Domestic arrears will continue to be cleared, in line with the multiyear settlement plan in place, but with more payments of claims in cash, in order to take into account the difficulties encountered in the securitization process. At the same time, the authorities will continue to improve public expenditure management through measures such as the implementation of a new budget classification, the establishment of links between the existing information systems of the treasury and the Ministry of Economy and Finance, and the establishment of a fully integrated computerized information system to manage central government accounts from the commitment to the payment stage. In order to improve transparency, the authorities will take steps to strengthen internal and external control of public finances, notably through measures such as the establishment of an external audit body (*Chambre des Comptes*), the enhancement of budgetary procedures, the reduction of the supplementary period for closing the accounts, and improved coordination between the debt management agency *Caisse Autonome d'Amortissement* (CAA) and the relevant department of the Ministry of Economy and Finance.

Monetary Policy and Financial Reforms

Monetary policy conducted at the BEAC level will be geared toward containing the reduction of Cameroon's contribution to the net foreign assets position of the regional central bank and maintaining price stability. Consistent with the fiscal targets, net bank credit to the central government will increase slightly while credit to the private sector is expected to increase in line with the expected level of activity. In the financial sector, the authorities will continue to implement measures in line with the Financial Sector Assessment Program (FSAP) recommendations, in order to strengthen the financial system and support the implementation of regional policies. In the domestic front, the authorities will, among others, implement the action plan to restructure the State-owned Postal Savings Bank, complete the bank liquidation run by the *Société de Recouvrement des Créances* (SRC) and pursue the reform of

the social security system. At the regional level, they will proceed with the implementation of a single commercial bank licensing system within the Central African Economic and Monetary Community (CEMAC) zone, as well as the establishment of a regional payment system, and the preparation of a regulatory framework for microfinance.

Structural Reforms

In the structural area, the main objective of the authorities is to stimulate private sector investment, enhance the competitiveness of the economy and job creation opportunities, while consolidating the recent gains on the macroeconomic and budgetary fronts.

To this end, the authorities intend to accelerate the privatization of the remaining public enterprises. In the absence of an agreement within a reasonable timeframe with the sole bidder for the water company (SNEC), the authorities will appoint an interim administrator in the next few weeks and relaunch the privatization process, on a transparent and competitive basis. As regards the telecommunications company (CAMTEL), the authorities have turned to the second bidder to submit a final offer by the end of January 2002, given the inability of the first bidder to raise funds. In the transport sector, the authorities will complete the evaluation of the airline company (CAMAIR) to help launch the privatization and take measures to improve the competitiveness of the port of Douala. Regarding the latter, the authorities will among others, complete institutional reforms, privatize the main industrial and commercial activities of the port, reduce clearance delays of merchandise and modernize the operations of the container terminal. In the agro-industry sector, the authorities will accelerate the privatization of the remaining agro-industrial enterprises, including the cotton company (SODECOTON) and the tea production entity of Cameroon Development Corporation (CDC). In the petroleum sector, the authorities will accelerate the privatization of the petroleum storage facility (SCDP), make sure that the provisioning by the national oil company (SNH) for the depleted oil wells is made on a regular basis and foster the implementation of the action plan to reform and liberalize the petroleum sector. As regards the forestry sector, in addition to the fiscal measures currently envisaged, the authorities will strengthen the regulatory framework, so as to improve the protection of forestry and strengthen the sector institutional capacity.

On governance issues, the authorities are determined to take additional steps to address some judicial deficiencies, improve transparency and accountability in public sector management and combat corruption. To this end, the authorities will among others, launch the technical audit of the judiciary system, take measures to address the nonfunctioning features of the "saisie-attribution" procedure that could adversely impact the health of the banking sector and private investment. At the same time, they will foster the implementation and dissemination of the provisions of the Organization for the Harmonization of Business Law in Africa (OHADA) laws and render the general inspection office of the judicial system operational. These measures will be complemented with efforts to foster transparency through, inter alia, launching an international audit of the government procurement contracts for 2000/01, signing the decrees on the establishment of the tender commission, establishing an audit body for the external control of the State finances, disseminating the action plan for

improving governance and combating corruption and, rendering operational the anti-corruption units in ten Ministries.

Poverty Reduction

The main objective of the authorities' social policies is to ensure that improved economic performance translates into tangible results in terms of job creation, poverty reduction and an improvement in the economic welfare for the average citizen. To this end, the authorities are finalizing sector strategies for several sectoral ministries, including health, education and urban development and have started to strengthen their technical and administrative capacities. They have also made progress in the preparation of a high quality and fully participatory PRSP, including the publication of a Status Report, the completion of a household survey and other analytical studies on poverty issues. In order to complete the full PRSP, as scheduled in June 2002, the authorities will carry out the remaining work, including the costing of sectoral strategies and, the finalization of poverty reduction targets and monitoring indicators. They also intend to further strengthen policy coordination and the participation of the civil society, reinforce the links between PRSP objectives and the budget through the preparation of a medium-term framework, improve data analysis on poverty and ensure that HIPC resources are closely monitored under the integrated public expenditure management system.

IV. Conclusion

Cameroon has maintained its good track record established under the previous first three year PRGF arrangement. The economic and financial performance is improving and the outlook remains broadly satisfactory. However, the situation remains fragile, as evidenced by the long-term decline of oil production that would adversely affect fiscal performance and the external account position. My Cameroonian authorities are determined to strengthen their adjustment efforts, so as to foster economic growth and improve prospects for poverty alleviation. They are hopeful that these efforts will be supported by timely international assistance.