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Cameroon: 2005 Article IV Consultation and Staff-Monitored Program—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Cameroon

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Cameroon and the staff-monitored program, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation and the staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on February 12, 2005, 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 March 31, 2005. 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 staff statement of April 22, 2005 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 22, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Cameroon.

The document listed below has been or will be separately released.

Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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CAMEROON

Staff Report for the 2005 Article IV Consultation and Staff-Monitored Program

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

Approved by David Nellor and Carlos Muniz

March 31, 2005

- The 2005 Article IV consultation and SMP discussions took place in Yaoundé during December 3–18, 2004 and January 28–February 12, 2005.
- Discussions were held with the Ministers of Finance and Planning in early December 2004, and continued after the cabinet reshuffle and ministerial reorganization of December 8, 2004 with the new Minister of Economy and Finance and other senior government officials. The mission also met with the new Prime Minister, the Secretary General at the Presidency, the Governor and the National Director of the regional Central Bank (BEAC), and representatives of the business and donor communities. Mr. Menye, advisor to the Executive Director for Cameroon, participated in the policy meetings.
- The staff team consisted of Ms. Ross (head), Messrs. Cossé and Weisfeld (all AFR), Ms. Bronchi (FAD) and Ms. Redifer (PDR). Mr. Nord (AFR), the head of the ex-post assessment (EPA) team, was in Yaoundé on December 3–5, 2004 for discussions on the draft EPA report. Mr. Bouley (FAD) joined the team during December 14-18, 2004 to provide technical advice on the functioning of the treasury.
- **The last Article IV consultation with Cameroon was completed on September 18, 2002**. On that occasion, Executive Directors underscored a need for (i) consolidating the fiscal position by strengthening non-oil revenue, containing non-priority spending, and improving fiscal management; and (ii) diversifying the economy and promoting private investment by speeding up structural reform and improving governance. Directors expressed concern about the slow use of HIPC resources.
- **On December 17, 2003, the Executive Board concluded the fourth review under the PRGF arrangement approved in 2000.** As Cameroon's policy performance had changed only little over the preceding 15 months, Directors' comments were similar to those made at the completion of the 2002 Article IV consultation.
- **No further reviews under the PRGF arrangement could be completed because of a deterioration of the public finances.** The arrangement lapsed in December 2004. The authorities now plan to build a track record of policy implementation through a staff-monitored program for 2005.

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EXECUTIVE SUMMARY

Growth, inflation, and external sector performance through 2004 has been good. Cameroon's nonoil economy is relatively diversified and should continue to strengthen if helped by infrastructure improvements. Tangible progress has been made in the health and education sectors, and a number of social indicators have improved significantly.

Prospects for sustainable growth and poverty reduction are, however, hampered by weak fiscal performance and important impediments to private sector growth. The deterioration in fiscal performance and related weaknesses in fiscal management could, in the longer term, threaten macroeconomic stability and debt sustainability. Moreover, sustainable private sector growth requires the authorities to address inadequate infrastructure, poor service delivery from troubled state enterprises, an investment climate overshadowed by poor governance, and low levels of financial intermediation.

Fiscal performance weakened considerably, particularly nonoil revenue, over the past two years. Budget pressures have been accommodated by an increase in domestic arrears and extra-budgetary spending. The financial situation of large public enterprises worsened considerably, adding to actual and contingent fiscal liabilities. The 2000 PRGF arrangement could not be completed due to weak fiscal performance.

The authorities intend to build a track record of policy implementation through a staff-monitored program (SMP) for 2005. The design of the SMP (see Letter of Intent and Memorandum of Policies in Appendix I) reflects the main conclusions of the Ex-Post Assessment. Initial steps by the government formed in December 2004 have been encouraging. Successful implementation of the SMP and a successor PRGF arrangement would allow for the possibility of reaching the HIPC completion point in 2006.

Improving fiscal performance and financial management is a key challenge. To restore the fiscal position, the authorities have adopted an ambitious 2005 fiscal program in their SMP. It seeks to mobilize nonoil revenue in the context of the secular decline in oil output, and to contain noninterest current expenditure. Public investment, especially funded through HIPC resources, should increase significantly. Key loss-making public enterprises will be restructured and/or privatized.

Removing impediments for private sector growth is essential to promote sustainable growth and poverty reduction. Infrastructure improvements and measures to strengthen the legal system and governance more generally aim to enhance the business climate and investor confidence. The staff welcomes the authorities' emphasis in their SMP on strengthening financial management and enhancing transparency, particularly in the oil sector. The authorities intend to adhere to the Extractive Industries Transparency Initiative.

I. INTRODUCTION

1. **Economic policy performance deteriorated against the backdrop of a stable political environment since the last Article IV consultation.** Presidential elections were held in early October 2004, and President Biya, in power since 1982, was reelected for a seven-year term. A cabinet restructuring in early December merged the Ministries of Economy and Finance, reversing their separation in 2002/03. The policy recommendations made during the last Article IV discussions in 2002 remain valid, as little progress has been made. In particular, due to the lack of fiscal consolidation, the 2000 PRGF arrangement lapsed a year after the fourth and last review was completed in December 2003. The authorities now plan to build a track record of policy implementation through a staff-monitored program (SMP) for 2005 (see Appendix I for the Letter of Intent and Memorandum of Policies). The SMP reflects the main findings of the Ex-Post Assessment (www.imf.org). Successful policy implementation under the SMP and a successor PRGF arrangement as well as further progress on the HIPC completion point triggers would allow for the possibility of reaching the HIPC completion point in 2006.

2. **Growth, inflation and external sector performance through 2004 has been good.** However, prospects for sustainable growth and poverty reduction are hampered by weak fiscal performance and public financial management, which in the longer term could threaten macroeconomic stability and debt sustainability, and by impediments to sustained private sector growth, including inadequate infrastructure, poor governance and low levels of intermediation by the financial sector.

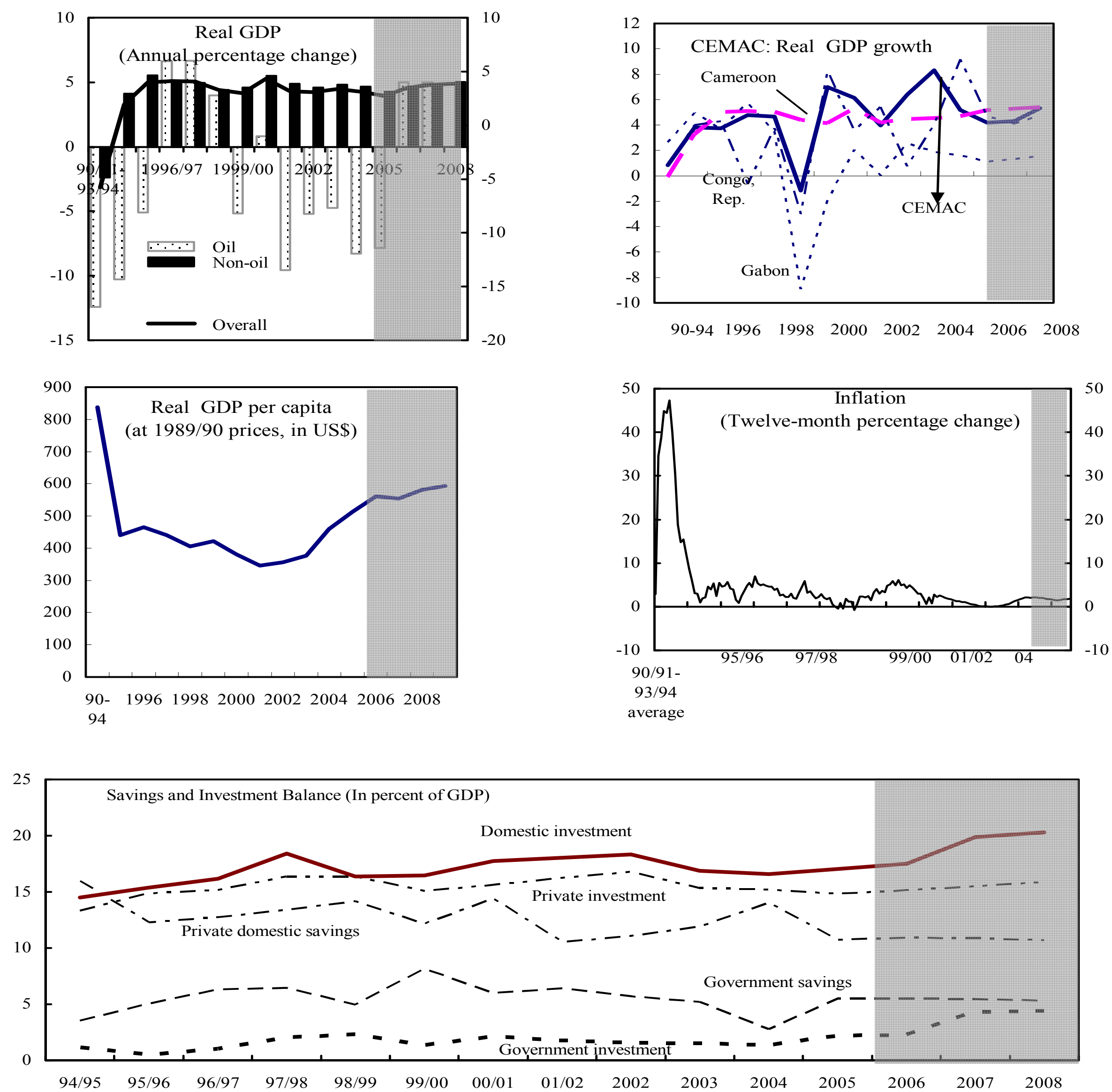
II. RECENT ECONOMIC DEVELOPMENTS

3. **Overall, macroeconomic performance through 2004 has been robust except for the significant weakening of the fiscal performance, particularly on the revenue side.** Overall spending was broadly as planned, but investment fell short of targets while there were overruns on current spending. The overall fiscal balance deteriorated to a deficit of 0.7 percent of GDP and arrears accumulated. The financial situation of public enterprises weakened considerably. Some progress was made in structural reforms in public financial management, transport, forestry, health and education, but there was less apparent progress in improving governance.

4. **Real GDP growth remained solid.** Nonoil growth was maintained at 4½–5 percent in 2003–04, resulting in per capita income gains of about 1½ percent per year (Figure 1 and Tables 1-2).[1] Growth was spread fairly evenly across Cameroon's relatively diversified nonoil economy. In the primary sector, forestry and agriculture were particularly buoyant, in the secondary sector, electricity generation and distribution picked up, easing an important constraint on manufacturing; in the tertiary sector, transport, communications (mobile

[1] Progress was made in reducing poverty through 2001; no later data are available.

Figure 1. Cameroon: Output, Prices, Savings and Investments, 1990/91-2008



Sources: Cameroonian authorities; and staff estimates and projections.

telephony) and retail trade performed best. In contrast, crude oil production continued on its long-term downward trend (Box 1). Among the aggregate demand components, exports performed well, while investment remained relatively weak (Table 3). Signs of a slowing in economic activity in the course of 2004 include a drop in credit growth to the private sector from 9 percent in 2003 to 2 percent in 2004 (Figure 2 and Table 4).

Box 1. Cameroon's Oil Sector

Cameroon is a small oil producer, but the oil sector contributes significantly to economic activity. Oil output amounted to 90,000 barrels/day in 2004 (2/5 and one third of the production in Congo and Equatorial Guinea, respectively). The share of the oil sector in Cameroon's total value added amounts to 10 percent, and oil is estimated to account for 40 percent of exports in 2004.

Output is to decline over the medium to long run, but the pace is uncertain. Oil output fell by half over the last two decades, and the pace of decline accelerated to an average of 5 percent over the last 5 years. However, thanks to recent discoveries, output is expected to rise by 5 percent in 2006-07 and to remain stable in 2008-10.

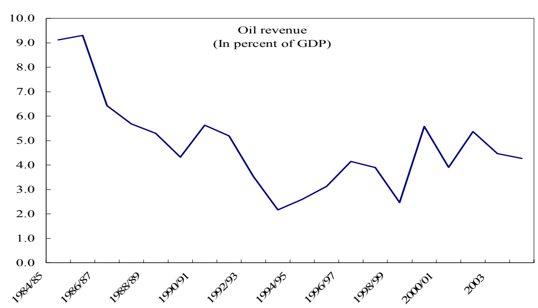
Cameroonian crudes are heavy and the differential below the WEO benchmark recently widened. Existing world refining capacity has recently preferred light crude oil, contributing to a significant rise in light-heavy spreads. In Cameroon, the differential against the WEO benchmark rose to US$5 per barrel in the last quarter of 2004, against a previous average of US$2 per barrel.

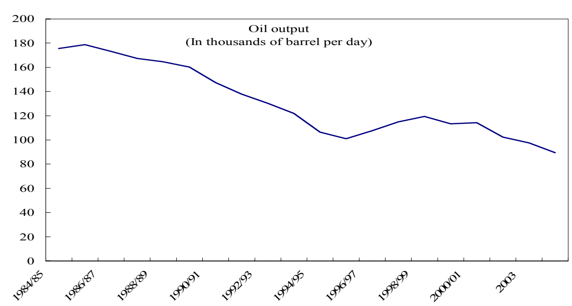
Despite the steady decline in oil output, oil revenue fluctuated with developments in oil prices and exchange rates. Oil revenue accounted for one quarter of government revenue in 2004.

The national oil company SNH (Société Nationale des Hydrocarbures) is under the aegis of the Secretary General at the Presidency and represents the authorities in their financial relations with the foreign oil companies. SNH receives about 70 percent of total output while operating costs are equally split with the oil companies. SNH is responsible for transferring oil revenue (after deducting costs) to the Treasury.

Further progress is needed to enhance transparency and accountability. The SNH provides quarterly data to Fund staff on oil production, exports, prices, revenues, and costs, but little is published. Financial audits, conducted by local accounting firms, are carried out with long delays (the respective audits for 2000-03 are only now being finalized). SNH makes significant expenditures on behalf of the government.

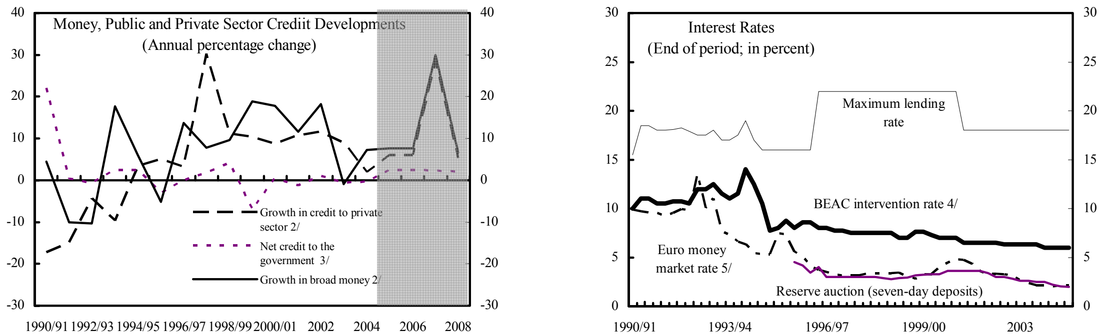
Given the volatility of oil prices, the SMP has a built-in contingency mechanism, whereby oil revenue exceeding program targets will be used to reduce domestic debt while net domestic borrowing will be adjusted upward by half of any revenue shortfall.





Sources Cameroonian authorities; and staff estimates.

Figure 2. Cameroon: Monetary Developments and Prospects, 1990/91-2008 1/



Sources: Cameroonian authorities; and staff estimates and projections

1/ Fiscal year begins in July. Starting in January 2003, the fiscal year corresponds to the calendar year. Shaded area indicates projections.
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 percent of broad money at the beginning of the period.
4/ In February 1996, the Bank of Central African States (BEAC) intervention rate was replaced by the auction rate, and the reverse auction rate was established (seven-day deposits).
5/ French money market rate until end-1999.

5. **Tangible progress has been made in the health and education sectors and a number of social indicators have improved significantly** (school enrollment, immunization rates, child mortality; see Appendix I, Attachment I, paragraph 7 and Annex I). However, income levels remain far below those enjoyed in the pre-crisis years before the devaluation of the CFA franc in 1994 and Cameroon continues to rank just above the first quintile (place 141 out of 177 countries) of UNDP's Human Development Index.

6. **Average inflation fell to ½ percent in 2003–04.** Inflation declined mainly because import prices declined due to the appreciation of the CFA franc against the U.S. dollar.[2] Also, favorable climatic conditions increased agricultural output and lowered food prices. Cameroon continued to benefit from the stability anchored in the prudent monetary policy of the regional central bank (BEAC).[3] Cameroon's banking sector has remained sound overall, with most commercial banks complying with the prudential ratios set by the regional supervisor (COBAC);[4] banks hold significant liquidity above prudential requirements.

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[2] Cameroon is a member country of the Central African Economic and Monetary Community (CEMAC). The regional currency, the CFA franc, is pegged to the euro.

[3] Of the four CEMAC convergence criteria, Cameroon violated two (nonnegative basic balance and no new arrears) in 2004, but met the inflation criterion (less than 3 percent) and the external debt criterion (less than 70 percent of GDP).

[4] Two small banks are under close watch by COBAC due to their deteriorating financial positions.

Effective progress at the judiciary level was made in 2003–04 to limit cases of abusive attachment of bank balances (*saisie-attributions*).

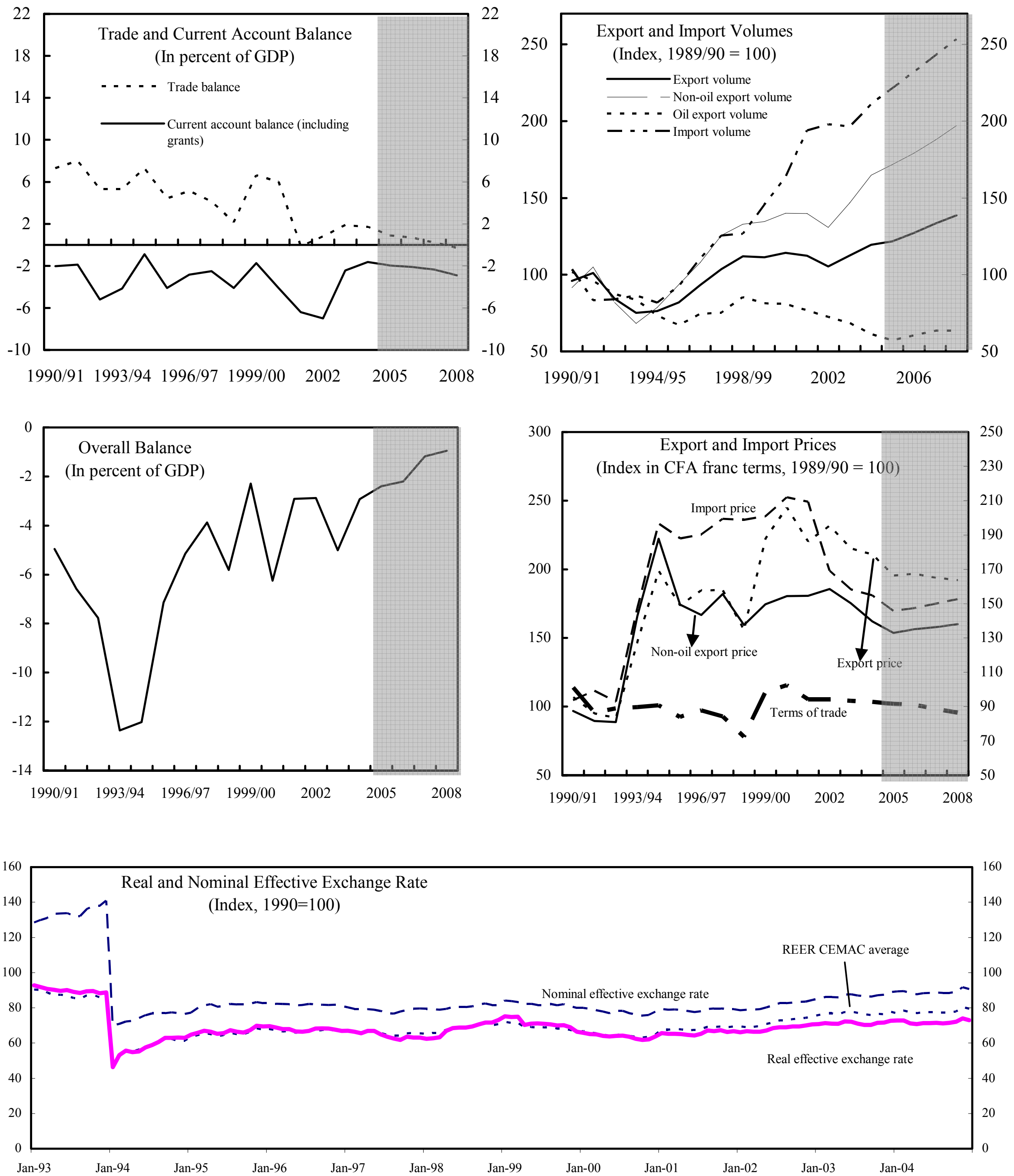
7. **The external current account deficit improved to about 2 percent of GDP in 2004**, due mostly to strong exports of primary goods (Figure 3 and Table 5). The terms of trade remained broadly unchanged. Despite the nominal appreciation of the CFAF against the U.S. dollar by 25 percent in 2003–04, the real effective exchange rate appreciated by only 3.3 percent with little effect on competitiveness because about two thirds of Cameroon's trade is with the Euro area and inflation remained low.[5] Cameroon benefited from higher-than-anticipated debt relief, reflecting mainly significant additional bilateral relief and exchange rate movements. Intermittent arrears were incurred to external creditors reflecting tight financing constraints as well as insufficient coordination between the Treasury and the debt agency (CAA).

8. **The underlying fiscal performance weakened significantly, particularly on the revenue side**. Non-oil revenue fell by 1 percent of non-oil GDP in 2004 instead of increasing as planned to offset the long-term decline in oil revenue (Figure 4, Tables 6–7). This decline was due largely to a weak performance of VAT and excises, and larger-than-expected revenue losses from the January 2004 personal income tax reform. This reflected a weakening of tax administration, lower tax compliance in an election year, and, according to the authorities, a shift in activity from the formal to the informal sector following completion of the Chad-Cameroon pipeline in 2003. Oil revenue continued its secular decline reflecting a downward trend in output, increasing discounts on Cameroon's heavy petroleum, and the dampening effect of the CFA franc appreciation against the U.S. dollar on the impact of the rise in international oil prices (Box 1 and Table 8). Overall spending was broadly as planned, but the decline in public investment did not correspond well to the priorities specified in the Poverty Reduction Strategy Paper (PRSP). Domestically-financed investment declined by 0.4 percent of GDP in each 2003 and 2004, while noninterest current expenditure (excluding HIPC spending) rose by 0.7 percent of GDP in 2004. The latter reflected mostly a weakening of expenditure control which resulted in off-budget spending and an increase in the float (accumulation of expenditure committed during past fiscal years but not yet paid). The level of social spending (health and education) probably increased slightly (the data for the functional breakdown of expenditure is incomplete), and the use of HIPC relief picked up slowly.

9. **Reflecting these developments, the overall fiscal balance including grants deteriorated by 1½ points during 2003-04 to a deficit of 0.7 percent of GDP**. The non-oil primary deficit deteriorated by over 1 point to 2½ percent of non-oil GDP in 2004. The 2004

[5] Other indicators of competitiveness, such as data on wages and unit labor cost, are not available. The forthcoming report on the regional CEMAC consultation will discuss monetary and exchange rate policies formulated at the level of the region.

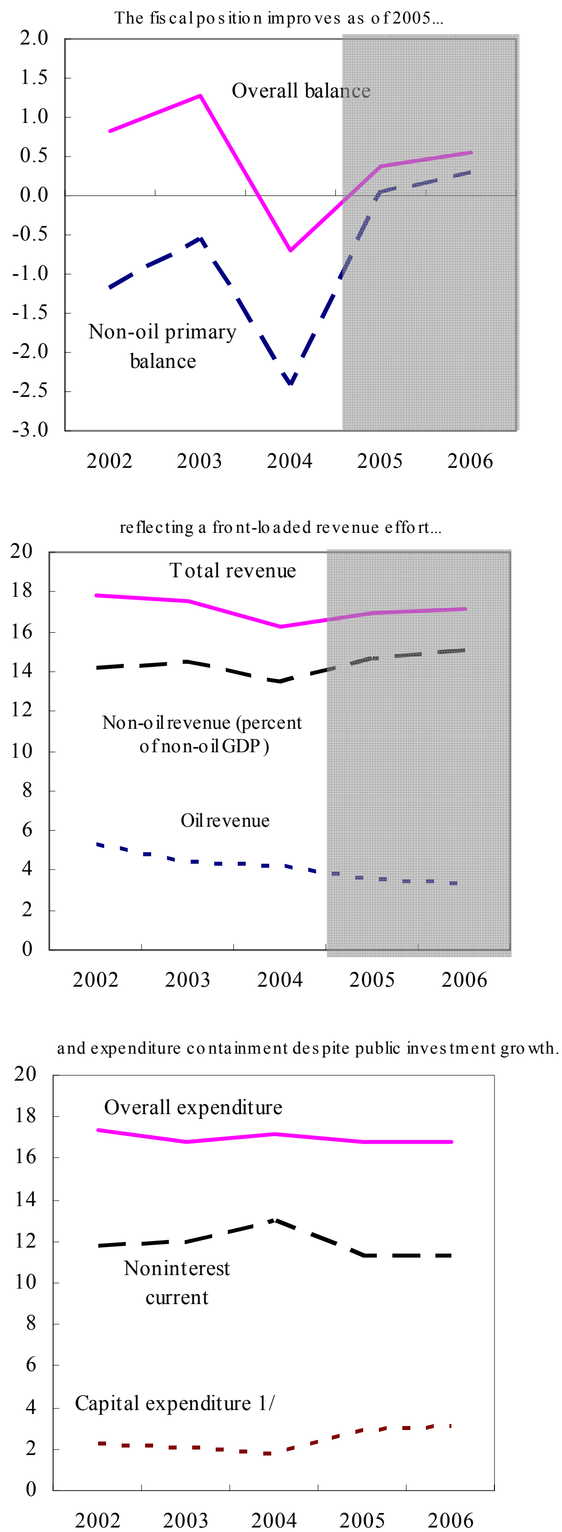
Figure 3. Cameroon: External Sector Developments and Prospects, 1990/91-2008 1/



Sources: Cameroonian authorities; and staff estimates and projections.

1/ Fiscal year begins in July. Starting in January 2003, the fiscal year corresponds to the calendar year. Shaded area indicates projections.

Figure 4. Cameroon: Fiscal Developments and Prospects, 2002-2006
(In percent of GDP)



Sources: Cameroonian authorities; and staff estimates and projections.
1/ Excluding restructuring expenditures.

deficit was financed by foreign financing/debt relief, a drawdown of cash resources, and an accumulation of domestic and external arrears. Available cash resources dropped sharply, the government met only around 30 percent of its non-bank domestic debt obligations, and transfers from the Treasury to the designated HIPC account at the BEAC lagged behind debt relief received (Box 2).

10. **The financial situation of the largest public enterprises weakened considerably, adding to actual and contingent fiscal liabilities.** The deterioration reflected weak management as well as growing payment arrears of the government. The national airline (CAMAIR) was kept afloat with large budget support, but appears to be bankrupt. Government arrears to the fixed-line telephone company (CAMTEL) undermined its ability to operate in a highly competitive market. The water utility (SNEC) remained unable to pay some of its suppliers, notably other public enterprises/utilities. The local refinery (SONARA) incurred substantial losses in 2004, due in part, to the decision to first slow and then suspend the mechanism for adjusting domestic fuel prices to

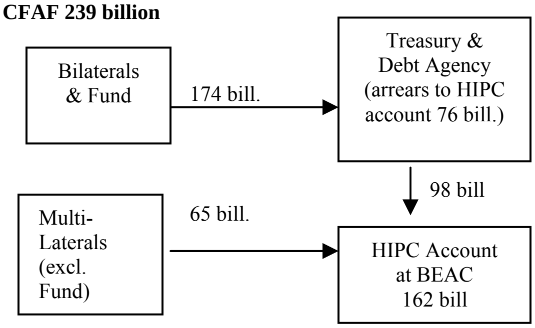
Box 2. Cameroon: HIPC Relief

The cumulative HIPC interim relief and additional bilateral debt relief obtained since the decision point in 2000 was significant (CFAF 239 billion at end-2004, or 3.1 percent of 2004 GDP). Part of this is deposited directly by creditors in the HIPC account and part is deposited on behalf of creditors by the Treasury. The Treasury had arrears of CFAF 77 billion to the account at end-2004. The authorities plan to transfer all HIPC relief received in 2005 into the account, and to establish a plan for replenishing the arrears from past years.

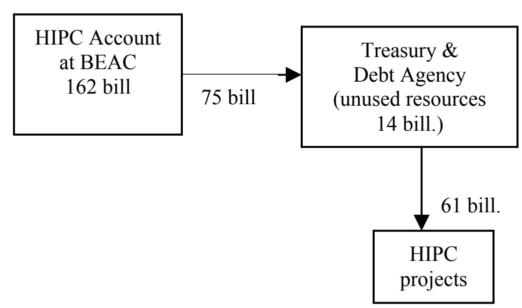
The use of HIPC resources to date has been slow. Payments for HIPC projects through end-2004 totaled some CFAF 61 billion. A broad-based HIPC Consultative Committee has approved projects eligible for HIPC resources totaling over CFAF 300 million, but delays in allocating approved project budgets to executing ministries and cumbersome administrative procedures have kept the use of HIPC resources low. The authorities have accelerated execution in 2004 and are streamlining procedures to speed up the implementation of HIPC projects further.

An audit on the use of HIPC resources was conducted in 2004, and a new audit covering 2004 is forthcoming. The new audit will report on implementation of the results of the first audit, which called for better prioritization of projects as well as better integrating HIPC projects into budgetary and execution processes.

End-2004 debt relief received: CFAF 239 billion



Cumulative use of HIPC relief as of end-2004: CFAF 61 billion



changes in international oil prices.[6] The postal savings bank continued to face a liquidity crisis, even after it was merged with the cash-generating mail operations in April 2004 to form CAMPOST, and required cash injections from the government to meet some of the strong demand for cash withdrawals.

11. **Structural reforms in public financial management were continued, but have yet to yield the desired results**. Implementation of the integrated financial management system (SIGEFI) since 2003 has made good technical progress, but has not yielded the desired

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[6] Market protection for SONARA, in part to compensate for technical problems (small size and incomplete technology), has kept domestic fuel prices high.

improvement in the accuracy and speed of fiscal reporting due, in part, to insufficient coordination within the Ministry of Finance. The expenditure classification adopted in 2003 is still to be integrated in all financial reports. Tax reforms included the creation of a large taxpayer unit, but start-up problems related to a change in the payment mechanism from check to bank transfer have delayed the expected strengthening of tax revenue. In public administration, a database of government employees (SIGIPES) was created and matched to payrolls in four pilot ministries, eliminating "ghost workers" and improving personnel management practices.

12. **Regarding other structural reforms conducive to economic growth, some progress was made, including toward meeting HIPC completion point triggers**. The reform of the Douala port made good progress; all commercial activity was transferred to private operators, and transaction costs and clearance time were reduced substantially. In the forestry sector, the allocation of logging rights through competitive bidding in the presence of an independent observer was strengthened. In the financial sector, a stock exchange was set up albeit its activities are still very limited, and Cameroon's microfinance institutions are being licensed. The authorities and the banking sector are collaborating with the BEAC in a study of how banks could satisfy a higher share of credit demand in the CFA franc area. In the education sector, gross enrollment rates increased and gender disparity declined, but repetition and dropout rates remain high. In the health care sector, the price of treatment for major diseases was reduced and immunization rates increased. Among the results is a decline in child mortality rates. Progress toward the HIPC completion point triggers is described in Appendix I (Attachment I, Annex I).

13. **Reforms aimed at improving governance and the business climate have made limited progress.** Some new institutions were set up (constitutional court, audit office and ministerial anti-corruption units), but not all are operational yet. Also, a new public procurement code was adopted in September 2004, but follow-up on cases of non-compliance needs strengthening. Despite a broadly designed national governance program, governance in Cameroon continues to be perceived by most observers as very weak. This may be due in part to the apparent absence of progress in strengthening the judiciary despite the existence of a priority action plan.

III. Ex-Post Assessment discussions[7]

14. **The authorities felt that the draft EPA report draws important lessons for the future**. They agreed that higher investment is needed to lift Cameroon's growth rate and make progress toward the Millennium Development Goals (MGDs), although they put more emphasis on public rather than private investment. On program design, they underscored the tension between conditionality and ownership and concurred that programs should target outcomes, rather than process, whenever possible. They also were interested in the proposed

[7] See Ex-Post Assessment (www.imf.org).

strengthening of the medium-term dimension of program design, including in setting fiscal targets.

15. **The authorities differed significantly in their assessment of past Fund-supported programs, particularly the PRGF arrangement of 2000**. They felt that the EPA did not stress sufficiently the successes achieved, notably the robust economic growth. They also felt that the slippages that occurred in 2002–2003, which led to a long delay in completing the fourth review, could not be solely attributed to the Cameroonian authorities. They considered the deviations from the program targets minor and due primarily to the Fund's changing definitions of program variables as well as unrealistic expectations regarding what could be achieved. The authorities did not agree that they had lacked ownership; rather, they felt that burgeoning conditionality and the threat of program suspension led them to agree to targets that proved unreachable, notably for non-oil revenue.

IV. Economic Prospects and Risks

16. **The authorities' policy strategy seeks to ensure macroeconomic stability, sustainable growth, debt sustainability, and progress toward the Millennium Development Goals (MDGs). The strategy builds on the conclusion of the last Article IV consultations and the recommendations of the EPA**. The main policy tools will be prudent fiscal policy consistent with debt sustainability, and further structural reforms that remove impediments to private sector growth. Fiscal performance as well as public financial management will need to be strengthened through mobilizing non-oil revenue to offset the secular decline in oil revenue, strengthening expenditure management, enhancing transparency of government operations (including in the oil sector), and restructuring of public enterprises to limit quasi-fiscal losses. Staff suggested that the authorities define a fiscal path smoothing out the volatility resulting from oil price fluctuations (Box 3). An increase in public investment will be essential to improve basic infrastructure especially in transport, communications and electricity supply that have been constraints on growth in the past. Further structural reforms targeting improvements in the business climate will be key to increasing private investment, including improvements in the legal system, payment of government arrears, and increased bank lending for business activities.

17. **Cameroon's medium-term economic outlook is favorable should the authorities implement the above strategy.** Non-oil real GDP growth is projected to accelerate to 5–5½ percent and non-oil exports are expected to broaden with the easing of energy supply bottlenecks and other infrastructure improvements following higher public investment. In 2005, however, non-oil real GDP growth is projected to decelerate slightly, reflecting the temporary impact of the fiscal retrenchment and the effect of a slower, albeit still robust, performance of traditional agricultural exports. Inflation is targeted to stay below 2 percent over the medium term consistent with projected inflation in the euro area. The monetary objectives provide sufficient room for the growth of private sector credit (Table 4). The external current account deficit is projected to stabilize at 2–2½ percent of GDP, reflecting price and output developments in the oil sector and robust exports of other primary goods.

Box 3. Cameroon: Medium-Term Fiscal Strategy and Outlook

The medium-term fiscal strategy for Cameroon aims at

- **ensuring fiscal and external sustainability over the medium term.** Cameroon's external debt ratios should be gradually reduced through cautious fiscal targets and HIPC Initiative relief. Public sector external debt ratios are projected to fall to 20 percent of GDP by 2010 and 89 percent of exports, with a debt service ratio of 10 percent (Appendix II).

- **smoothing out spending volatility arising from oil price volatility.** Fiscal balance should be established at a long-term average oil price, and windfall revenues either saved or allocated to one-off spending. The staff proposes to set this average price conservatively at €21/barrel for Cameroon's heavy crudes, that is, about €1 above the average of the past 20 years. Any windfall revenue based on actual prices would be allocated to the restructuring of domestic enterprises, domestic debt and arrears reduction, and faster replenishment of the HIPC account. Against this background, the staff proposes aiming gradually at an overall surplus of ½ to 1 percent of GDP at the long-term average oil price to allow some margin for unforeseen spending needs. The non-oil primary balance would also gradually strengthen to a surplus that should cover interest costs by the time oil revenue dries up.

- **expanding capital expenditure to boost growth and welfare while keeping a tight lid on current spending.** Current noninterest spending (excluding HIPC resources) would rise very gradually as public services are improved, while capital spending would double over 2004-10.

- **offsetting the projected decline in oil revenue by rising non-oil revenue.** Non-oil revenue would rise by almost 3 percent of non-oil GDP over 2004-10. Although the effort is expected to be front-loaded, it will need to be maintained over the medium term.

Cameroon: Medium-term Fiscal Strategy, 2003-10
(In percent of GDP, unless otherwise indicated)

	2003 Est.	2004 Est.	2005	2006	2007	2008	2009	2010
			Projections					
Revenue	18.1	16.4	17.1	17.4	17.4	17.5	17.6	17.7
Oil revenue	4.5	4.3	3.5	3.3	3.1	2.7	2.5	2.2
Windfall at € 21/barrel	1.3	1.6	1.1	1.1	1.0	0.7	0.6	0.5
Non oil revenue	13.1	12.0	13.5	13.8	14.2	14.6	15.1	15.4
Grants	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Expenditure 1/	16.5	17.0	16.1	16.1	16.2	16.4	16.6	16.6
Noninterest expenditure	14.0	14.9	14.3	14.4	14.8	15.2	15.5	15.8
Current expenditure	12.0	13.0	11.3	11.4	11.5	11.7	11.9	12.0
Of which : excl. HIPC spending	11.9	12.6	11.2	11.3	11.4	11.6	11.8	11.9
Capital expenditure 3/	2.1	1.8	2.9	3.1	3.3	3.5	3.7	3.8
Domestically financed	1.4	0.9	1.2	1.3	1.5	1.8	1.9	2.0
HIPC spending	0.1	0.1	0.8	0.9	0.8	0.8	0.8	0.8
Foreign-financed	0.5	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Interest	2.5	2.2	1.8	1.6	1.4	1.2	1.1	0.9
Overall balance (incl. grants) 2/	1.6	-0.6	1.1	1.3	1.2	1.1	1.0	1.0
Of which : excluding oil windfall at € 21/barrel:	0.3	-2.2	-0.1	0.1	0.2	0.3	0.4	0.5
Restructuring expenditure	0.2	0.1	0.7	0.7	0.3	0.2	0.2	0.2
Change in external debt (net) 2/ 3/	-0.4	-1.1	0.3	-0.5	-0.3	-0.3	-0.2	-0.3
Change in domestic debt (net) 3/ 4/	1.5	0.4	0.1	1.1	1.2	1.2	1.1	1.1
Memorandum items:								
Total revenue, excluding oil windfall at € 21/barrel	16.8	14.9	16.0	16.2	16.4	16.7	17.0	17.2
Non-oil revenue in percent of non-oil GDP 5/	14.5	13.5	14.4	14.9	15.3	15.7	16.1	16.3
Non-oil revenue measures in percent of non-oil GDP	...	...	0.9	0.5	0.5	0.4	0.4	0.2
Non-oil primary balance in percent of non-oil GDP 6/	-0.6	-2.4	0.1	0.1	0.3	0.3	0.5	0.6
Assumed debt relief	0.0	0.0	2.8	2.7	1.7	1.5	1.4	1.0

Sources: Cameroonian authorities; and Fund staff projections.
1/ Excluding restructuring expenditure.
2/ After debt relief.
3/ Positive sign=reduction.
4/ Excluding the arrears accumulated in 2003-04 and public enterprise debt.
5/ Excludes (i) a partial retention of local govermnment revenues at the central level in 2005-06 and (ii) an exceptional dividend from the state oil company in 2005.
6/ Excluding grants, foreign-financed investment, separation grants, and restructuring expenditure.

18. **Public debt appears sustainable over the medium term, however available debt data is not fully comprehensive.** Satisfactory implementation of the 2005 program would likely allow the authorities to resolve the liquidity constraints in 2005 through another Paris Club flow rescheduling. External debt sustainability is benefiting from past and prospective debt relief as well as solid GDP growth, which is projected to strengthen in the future with the right policy strategy in place. An analysis in the framework for low-income countries indicates that Cameroon's debt position is largely sustainable over the medium-term (Appendix II). Under the baseline scenario, which assumes a Paris Club rescheduling in 2005 but no HIPC completion point, and most of the standardized stress tests, debt-to-GDP ratios for public and publicly guaranteed debt remain well below 40 percent, the NPV of debt-to-exports falls well below 150 percent, and debt service falls steeply. Assuming the HIPC completion point is achieved in 2006, the results become more pronounced, with the NPV of debt ratio falling to 21 percent of GDP in 2006, and to 89 percent of exports, and debt service falling to some 9 percent of exports, and all declining steadily thereafter. These results should be qualified, however, as no data are available on the external debt of public enterprises that is not guaranteed by the government; the authorities are currently undertaking an audit to determine this debt. Recorded domestic debt stood at about 12 percent of GDP at end-2004, excluding domestic arrears to be established by the audit that is underway.

19. **Nonetheless, there are important risks to Cameroon's economic outlook**. The economy remains vulnerable to exogenous factors, particularly a deterioration in the terms of trade. Also, a further appreciation of the real effective exchange rate, combined with unfavorable developments in commodity prices, could reduce growth. The debt sustainability analysis above illustrated some of the potential effects on the debt outlook. The authorities' program for 2005 is ambitious, and thus prospects are open to a number of downside risks:

- The size of the fiscal adjustment in 2005 is large, reflecting in part tight financing constraints. Thus, strong political will and determined efforts will be needed to mobilize revenue and to keep a lid on current expenditure. Slippages would likely generate new arrears and undermine investor confidence.

- The financial position of utilities and major public enterprises is fragile. A failure to strengthen their position would undermine fiscal consolidation and weaken confidence and growth prospects.

- Institutional capacity limitations remain. These need to be addressed effectively to avoid continued delays in the implementation of the public investment program and structural reforms. In particular, the authorities' ability to spend the available HIPC resources on quality programs to improve human and physical capital will be critical to foster growth.

V. Policy Discussions

20. **The authorities agreed that the primary policy challenges ahead were improving fiscal performance to maintain macroeconomic stability and removing impediments to**

private sector growth. These challenges remain largely unchanged from those identified by Executive Directors at the time of the 2002 Article IV Consultation as little progress has been made in the interim.[8] The authorities' economic program for 2005 (see the Letter of Intent for the SMP and MEFP in Appendix I) constitutes an important step toward meeting these challenges. Box 4 summarizes the key elements of the 2005 SMP that are discussed below. The authorities emphasized their determination to build a strong macroeconomic track record to pave the way for a new PRGF arrangement and subsequently reach the completion point under the HIPC Initiative.

A. Strengthening Fiscal Performance and Management

21. **The authorities' fiscal program for 2005 is ambitious with an improvement in the non-oil primary deficit of 2.5 percentage points of non-oil GDP**. The overall balance is targeted to improve to a surplus of 0.4 percent of GDP. The size of the fiscal adjustment reflects tight financing constraints. The adjustment is to be achieved in equal parts through a substantial mobilization of non-oil revenue and strict expenditure restraint.

22. **Financing constraints are important in defining the size of the programmed fiscal adjustment**. Domestic financing is limited due to the government's low cash operating balances, the almost full use of advances from the BEAC (the statutory ceiling is 20 percent of government revenue of the previous year), and little access to voluntary commercial bank credit as a result of the diminished creditworthiness of the government due to recurrent past arrears. Regarding external financing, significant donor support is projected through project and program financing as well as debt relief. The authorities acknowledged that building a solid policy track record and the prospect of a new PRGF arrangement with the Fund would strengthen a request they plan to make for a new Paris Club rescheduling.[9]

23. **The authorities concurred with staff on the need to increase non-oil revenue.** Staff welcomed the tax measures of 0.9 percent of non-oil GDP in the 2005 budget. These aim mostly at broadening the tax base, but also include a ½ point increase in the VAT rate (MEFP paragraphs 10–12); several tax provisions that were not consistent with the CEMAC regulations were rescinded.[10] Staff expressed concerns about the reintroduction of extensive

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[8] At that time, Executive Directors underscored a need for (i) consolidating the fiscal position by strengthening non-oil revenue, containing non-priority spending, and improving fiscal management; and (ii) diversifying the economy and promoting private investment by speeding up structural reform and improving governance. Directors also expressed concern about the slow use of HIPC resources.

[9] The 2005 program assumes the rescheduling of pre-cutoff date maturities falling due on bilateral debt (about three fourths of scheduled debt service).

[10] The measures include (i) an increase by ½ percentage point in the VAT rate (yield 0.2 percent of non-oil GDP); (ii) elimination of VAT and excise tax exemptions on specific goods and services (0.4 percent); (iii) adjusting various stamp taxes (0.1 percent); and (iv) strengthening tax

(continued)

Box 4. Cameroon: Key Elements of the 2005 Staff-Monitored Program

The authorities' program for 2005 seeks to promote sustainable growth and poverty reduction by focusing on strengthening fiscal performance and removing impediments to private sector growth.

Strengthening fiscal policies to support continued macroeconomic stability and ensure debt sustainability

- improving fiscal performance and financial management
  - revenue mobilization (MEFP ¶10-12, 17)
  - expenditure restraint (MEFP ¶13-15)
  - increased public investment (MEFP ¶13)
  - arrears regularization (MEFP ¶16,32)
  - greater transparency and better financial management (MEFP ¶18-23)
- improving performance of public enterprises
  - restructuring/privatization (MEFP ¶26-27)
  - better monitoring of enterprise performance (MEFP ¶28)

Removing impediments to private sector-led growth and reducing poverty

- improving the business climate for private sector growth
  - increased public investment (MEFP ¶13)
  - improve service delivery by public enterprises (MEFP ¶26-28, 39-43)
  - efforts to improve governance (MEFP ¶21-23, 34-35)
- enhancing social sector reforms
  - PRSP update (MEFP ¶36-37)
  - Improvements in statistics and census (MEFP ¶38)

interruptions of the VAT payment chain at the level of large enterprises; the authorities will review this with the upcoming FAD technical assistance mission. The authorities indicated that they would take additional tax measures if needed to meet the 2005 revenue objective, but cautioned that efforts to raise additional non-oil revenue might reduce the purchasing power of low-income households, domestic consumption, and thus government revenue. Staff recommended that the authorities expedite the sale of government assets, particularly

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administration (0.2 percent). In addition, half of the VAT surcharge collected on behalf of local governments will be retained at the central level (0.3 percent of non-oil GDP).

minority shares in profitable companies. The authorities indicated that the national oil company (SNH) would increase its dividend payments to the government.

24. **Staff urged the authorities to monitor revenue administration closely.** The authorities were confident that strengthening tax audits and other measures would overcome the difficulties in implementing the new personal income tax and managing the large taxpayer unit that were encountered in 2004. Also, measures were introduced to limit tax fraud in the forestry sector. The authorities consider it important to reduce tax evasion and improve taxation of the informal sector, and requested FAD's assistance.

25. **In the authorities' view, noninterest current expenditure would need to bear the brunt of the expenditure restraint; public investment would be increased.** The authorities explained that they would impose tight limits on commitments under the 2005 budget; cuts would focus on travel expenses, non-priority construction, and vehicle acquisition. The bulk of the planned increase in investment spending would be funded by an acceleration of the use of HIPC resources. The staff noted that in previous years capital expenditure had typically fallen short of budgetary objectives, while non-interest current spending exceeded them. To prevent a recurrence of these systematic deviations from the budget, the authorities are strengthening institutional capacities to accelerate investment spending, and tightening budgetary control, particularly for spending on goods and services. The 2005 budget also provides for a significant increase in outlays for the restructuring/privatization of ailing public enterprises.

26. **The authorities concurred with the staff on the need to strengthen Treasury management.** This will enable them to better cope with the tight liquidity constraints in the short term and better support macroeconomic sustainability in the medium and long term.

- **The authorities will strictly control cash spending** (MEFP paragraphs 13–15). In early 2005, they limited payments for bills incurred in 2004 to small amounts and commissioned an audit to take stock of domestic arrears at end-2004 and develop a repayment plan.

- **The authorities will curtail advances from the national oil company (SNH).** In the past, these advances (0.8–0.9 percent of GDP in 2003–04) circumvented normal budgetary procedures. Since January 2005, SNH can only make advance payments after authorization by the Minister of Finance and against available budgetary allocations. The authorities committed to stop all advance payments as of July 2005 except for sovereign spending (MEFP paragraph 14).

- **Extra-budgetary spending**, which appears to have been significant in the past, will be reined in.[11] A ceiling was set on SNH's quasi-fiscal expenditure in 2005 (MEFP paragraph 14).

- **The authorities will complete the implementation of a single Treasury account** and close the numerous accounts still held by government entities in commercial banks, which seriously undermine cash management by the Treasury and a transparent expenditure tracking and payment process (MEFP paragraph 18). The authorities explained that the central Treasury lacked reliable cash flow programming and was not always able to respond to the needs of ministries in a timely way. The authorities will remedy this problem by strengthening Treasury operations.

27. **Debt regularization and payment of arrears will be particularly important to prevent a further weakening of investor sentiment.** Staff noted that the government's creditworthiness had been undermined by the non-payment of domestic debt obligations during the last two years. Based on the new audit, the authorities will formulate a comprehensive multiyear settlement plan, in consultation with major creditors, for the outstanding domestic debt and arrears (MEFP paragraph 16). Given the tight financial constraints, the authorities will not be able to fully replenish the arrears to the HIPC account in 2005, but will transfer current debt relief received and establish a plan for the full replenishment of the account. Also, Cameroon will not be able to meet fully its obligations to external creditors in 2005. The authorities intend to request a new Paris Club rescheduling once a new PRGF arrangement has been approved. They are also undertaking efforts to communicate with commercial creditors who did not participate in the commercial debt buyback of 2003, but one non-participating creditor has successfully sued and effectively seized official assets of some US$43 million (0.3 percent of GDP) in 2004.

28. **The authorities concurred that improving the quality of fiscal data is essential.** Staff noted that the provision of budgetary data deteriorated in 2004 and encouraged the authorities to make better use of the Integrated Information and Management System and consistently apply the 2003 expenditure classification. In response, the authorities have begun to prepare preliminary fiscal accounts within three weeks of the reporting month; they have also undertaken to better monitor spending on a cash and a commitment basis, and to assess the float (MEFP paragraph 19).[12]

29. **The staff advised the authorities to proceed cautiously in moving toward fiscal decentralization.** The authorities indicated that they intend to entrust local governments with decentralized responsibilities and related funding before the parliamentary election in early 2007. In the staff's view, in advance of such a move a clear framework for the allocation of responsibilities needs to be defined, capacity built at the local level, and proper safeguards

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[11] Including spending by the Ministry of Justice for judicial investigations.
[12] The float is carryover spending on account of previous fiscal years.

put in place. Furthermore, the staff cautioned that the decision to retain at the central level half of the local government surcharge on the VAT in 2005 was likely to have negative implications for local governments. The authorities agreed to reconsider this issue in the context of the future redefinition of revenue sharing (MEFP paragraph 24).

B. Improving the Performance of Public Enterprises

30. **The authorities agreed that the financial situation of key public enterprises needs to be improved as well as the services they provide.** Decisive action in their restructuring and privatization will reduce the burden the losses of these enterprises impose on the budget currently or in the future (MEFP paragraphs 26–28). The authorities will seek to divest most of the large loss-making enterprises, pay utility bills on a timely basis, and regularize government debt to enterprises as part of the overall domestic debt settlement strategy.

31. **The staff welcomed the government's decision to proceed speedily with privatization.** Regarding CAMAIR, the authorities have hired the International Financial Corporation (IFC) to advise them; they intend to liquidate the nonperforming assets and to transfer the viable assets to a new company in which the government would hold only a minority share. The staff cautioned that the proposed scheme could entail further budgetary costs if no private investor were found and the company remained active. The authorities intend to offer CAMTEL for sale by end-2005, and to launch a bid for a public-private partnership for SNEC. The staff recommended that, in light of the failed attempts to privatize these companies in 2002–03 and given the less-favorable current market conditions than in the late 90's, the authorities consider some measures to facilitate their privatization, such as a minimum investment program for CAMTEL. For SNEC, the authorities agreed to increase water tariffs gradually to reach cost recovery levels in the context of finalizing the public-private partnership.[13]

32. **The downstream activities in the oil sector need to be further liberalized to reduce fuel costs over the medium term** (MEFP paragraph 39), including fuel storage and distribution. In the short term, the authorities agreed to reinstate fully the fuel pricing formula and add a margin to allow SONARA to recoup the losses incurred in 2004. Furthermore, the authorities argued that fuel prices will continue to be set above international market prices to provide protection for SONARA in view of its strategic importance. They plan, however, to reduce over time the degree of protection provided to SONARA. Staff expressed concern about the extent of the losses and about the costs that high fuel prices impose on the economy, and recommended to strengthen SONARA's management and efficiency, and possibly seek a public-private partnership.

[13] Water tariffs have not been adjusted since 1994 following the devaluation of the CFA franc. SNEC covers water supply only for a limited number of users in urban areas.

33. **The staff stressed the need for decisive measures to restructure government-owned financial institutions** (MEFP paragraphs 29–30). While CAMPOST is thought to be bankrupt, the size of the government's liabilities (due to a full guarantee of all savings deposits) remains to be fully ascertained. The authorities agreed to establish a preliminary balance sheet and to progress gradually toward a split-up of postal and banking activities that would allow prudential and regulatory supervision of the banking activities by COBAC. The staff expressed concerns about the viability of a postal savings bank in light of Cameroon's well-developed microfinance sector, but the authorities consider the nationwide postal network essential in providing financial services to remote areas. The authorities agreed to review the role of the housing financing institution (CFC) in light of its high non-performing loan recovery ratio notwithstanding subsidized loan rates. They also undertook to improve the operations of the loan recovery agency (SRC) to accelerate recoveries on the remaining loan portfolio.

34. **Staff encouraged the authorities to strengthen transparency and accountability in public enterprises**. The authorities agreed to update the database that was established to assess the overall financial situation of the 20 largest public enterprises. Also, the monitoring of poorly performing companies that are under performance contracts with the government should be strengthened. Regarding oil sector operations, very little information is disseminated. The authorities recently indicated their interest in adhering to the Extractive Industries Transparency Initiative (EITI). Staff suggested a number of specific steps the authorities could take in publishing information following the example of the Republic of Congo (MEFP paragraph 21).

C. Removing Impediments to Private Sector Growth

35. **The government agreed that improvements in infrastructure will be important for growth and poverty reduction** (MEFP paragraphs 42–43):

- **Additional electric power generation capacity will be needed by 2006–07 to avoid power supply shortages.** The government committed to working closely with the World Bank to accelerate preparations for a gas-fired plant, and to develop a strategy for strengthening power supply in the medium and long term.

- **The road network needs to be better maintained and expanded.** The government is committed to improving the administration of the Road Fund and stepping up road maintenance, with a view to securing grants offered by the European Union.

- **Port reform will be continued,** including by upgrading information technology used at the port of Douala.

- **Rail transport needs strengthening.** The government agreed to meet its obligations toward the private operator (CAMRAIL) in accordance with the concession contract.

36. **The authorities see a number of constraints to increasing external trade**. Exports of goods and services amount to about 25 percent of GDP, but constraints to further growth include poor infrastructure and inadequate services to support international trade and meet international quality standards. A number of improvements have been made in trade facilitation (port facilities and customs administration) in recent years, and these efforts should continue. Staff agreed with the authorities' near term focus on seeking a reduction in the CEMAC common external tariff and the number of tariff headings. Cameroon's simple average tariff is 18 percent, with 4 basic tariff categories of 5, 10, 20, and 30 percent in line with CEMAC regulations. It has no significant non-tariff barriers, although there is an export ban on certain exotic timber varieties and an export tax on timber and logs.

37. **To contribute to a stable business environment, the authorities will continue to support the BEAC's monetary policy aimed at maintaining the peg of the CFA franc to the euro and containing inflation** (MEFP paragraph 29). This should allow an increase in credit to the private sector consistent with economic growth projections. The authorities will also seek to address the financial difficulties of government-owned financial institutions, and cooperate with COBAC in the supervision of microfinance institutions.

38. **The authorities agreed with the staff that decisive action is needed to improve transparency and governance** (MEFP paragraphs 34–35). Beyond the adherence to the EITI mentioned above, the government plans to update its National Governance Program. In particular, it will accelerate implementation of its priority action plan for judicial reform; prepare legislation allowing the application of the UN convention against corruption; make the Audit Office (*Chambre des comptes)* and the Constitutional Council operational; and further improve governance in the forestry sector (MEFP paragraph 41).

D. PRSP and Social Sector Policies

39. **The authorities agreed with the staff on the need to review key elements of the PRSP and improve the monitoring of and reporting on PRSP implementation** (MEFP paragraphs 36–38). Among the elements to be reviewed are the medium-term macroeconomic framework, poverty projections, and sectoral strategies. The review will be important for the preparation of the next annual PRSP progress report (expected in mid-2005), the 2006 budget, and medium-term projections. There is a need to monitor outcomes in relation to actual spending as well as to tighten the linkage between the PRSP and the medium-term sectoral strategies, the annual budgeting of expenditure, and the outcomes sought. Finally, the authorities will also enhance the monitoring of demographic and poverty trends, including by strengthening the National Statistics Institute and initiating a new census.

40. **In education and health care, recent efforts have led to improvements in key indicators, but more needs to be done to improve outcomes**. The authorities are working closely with the World Bank and are implementing medium-term sectoral strategies that aim to improve the efficiency of public spending and to make further progress towards reaching the MDGs.

VI. STAFF APPRAISAL

41. **Cameroon maintained solid growth and low inflation in recent years, but weak fiscal performance and public financial management could threaten macroeconomic stability and debt sustainability in the longer term** as noted in past Article IV consultations and the EPA report. Particularly in light of the recent slowdown of economic growth, there is an urgent need to address fiscal issues and remove impediments to private sector growth. Growth would be enhanced by increasing investment in basic infrastructure (electricity, transport and communications) and improving the overall investment climate for the private sector, including by tackling corruption. The new government of December 2004 has committed to an ambitious program for 2005 and has indicated its determination to strengthen policy performance so as to reach the completion point under the HIPC Initiative as early as possible. The reorganization of ministries sought to facilitate this by focusing economic decision making in the new Ministry of Economy and Finance.

42. **A key challenge for the authorities is to improve fiscal performance and management**. The slippages in revenue performance in 2003–04 were large, and the strong actions in the government's program for 2005 to remedy this are essential. Nonetheless, the proposed scale of adjustment, necessitated by financing constraints, is ambitious. Thus, the program is subject to a number of risks, including external shocks, a weakening of the political will to fully implement the program, including the fiscal adjustment and strengthening of enterprise performance, and institutional capacity limitations.

43. **Raising revenue collections will be crucial for improving fiscal performance**. Planned technical assistance in tax policy as well as tax and customs administration should help. The authorities have undertaken important tax reforms in 2004, and need to focus on making these effective by overcoming the implementation problems. Tax rates, in particular for the VAT, are already high and efforts should focus on broadening the tax base through reducing exemptions and improving tax incidence in the informal sector.

44. **Prioritizing public expenditure in the context of overall expenditure restraint will be important**. While a sharp compression in non-interest spending is essential in 2005, improving the composition of expenditure will be crucial in enhancing its effectiveness. The new public procurement reform should contribute to expenditure that is more effective. Public investment remains very low, despite the increase planned for 2005. As a result, basic infrastructure is lacking and limiting business opportunities for the private sector, particularly away from the coastal areas. The channeling of spending toward the social sectors will also be essential in making progress toward the PRSP priorities and the MDGs.

45. **While some improvements in fiscal management have been made, further progress is needed to support macroeconomic stability**. The authorities have made significant investment in setting up a financial management system, but they are not yet reaping the full benefits of the systems installed in terms of speed, accuracy and comprehensiveness of fiscal reporting. Early progress in this area will be crucial and initial signs are encouraging. Similarly, reporting on the receipt and use of HIPC relief has lacked

transparency, and efforts are under way to address this. Civil service reform is progressing including through streamlining the payroll of some ministries and implementing other improvements in personnel management. Plans to expand these measures to all ministries are much welcome.

46. **Debt management needs to be improved**. Past domestic debt restructurings were not fully implemented and new arrears have been incurred; this has undermined the government's credibility. The audit of domestic debt as of end-2004 is an important step toward the regularization of government obligations; it will be crucial that the government develop a realistic debt-servicing plan and implement it fully. Similarly, external payments arrears on non-reschedulable debt should be avoided.

47. **Poor management of public enterprises has resulted in large actual and potential fiscal costs**. Privatization in a transparent manner remains a priority to limit the ongoing quasi-fiscal losses of public enterprises and improve service quality. The authorities are pursuing steps in this direction. Prompt action, especially with respect to CAMAIR, CAMTEL, SNEC, and CAMPOST, is essential. Progress will also be important in improving domestic fuel pricing and the financial performance of SONARA.

48. **Another key challenge for the authorities is to lay the foundation for sustained growth and further progress toward the MDGs**. In the social sectors, tangible progress has been made in health and education. A number of social indicators have improved significantly, though more progress is urgently needed. The authorities should persist in their efforts to further enhance the efficiency of spending in these areas and implement the medium-term sectoral strategies elaborated together with the World Bank. The staff welcomes the authorities' plans to review the key elements of the PRSP as well as to strengthen implementation and monitoring.

49. **Low inflation is conducive to improvements in the business climate**. The regional currency union has served Cameroon well in maintaining low inflation and macroeconomic stability. The authorities need to improve basic infrastructure and continue structural reforms, including in public enterprises that will enhance competitiveness and overall economic efficiency.

50. **Staff urged the authorities to renew their efforts to improve governance as concerns about corruption undermine public and investor confidence**. While the authorities adopted a broad-based National Governance Program in 1999, there is relatively little evidence of tangible improvements. For example, the Audit Office and the Constitutional Council were set up in a formal sense, but neither has become operational. Also, while the Douala port reform has been successful in reducing port clearance costs and time, the public reportedly continues to consider customs services as highly corrupt. The authorities intend to improve Cameroon's reputation among potential investors, both domestically and abroad. They have enhanced their contacts with the business community as well as donors in order to better understand their concerns and work jointly on resolving problems. The staff urges the authorities to focus less on general policy intentions and more

on generating results. Enforcing penalties against proven cases of corruption will be an important step in this direction.

51. **The staff welcomes the government's intention to enhance transparency in the oil sector and adhere to the EITI**. It encouraged the authorities to demonstrate early evidence of this resolve through the publication of detailed information on oil sector operations and the national oil company.

52. **Data provision to the Fund remains adequate for surveillance purposes, but there is significant room for improvement**. The staff welcomes the authorities' efforts to enhance national accounts and fiscal data, as well as the plans to improve data on poverty and social indicators with donor assistance. Other real sector indicators remain weak, however, and BOP statistics are compiled with long delays.

53. It is proposed that the next Article IV consultation with Cameroon take place on the standard 12-month cycle.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
		Est.	Est.	Projections			
	(Annual percentage changes, unless otherwise indicated)						
National income and prices							
GDP at constant prices	4.2	4.5	4.3	3.9	4.6	4.8	4.9
Of which : non-oil GDP	4.6	4.8	4.7	4.3	4.6	4.8	5.0
GDP deflator	1.9	1.1	0.7	-0.8	1.8	1.3	1.3
Consumer prices (12-month average)	2.8	0.6	0.3	2.0	2.0	2.0	2.0
Consumer prices (end of period)	2.4	-0.1	1.9	2.0	2.0	2.0	2.0
Nominal GDP (in billions of CFA francs)	6,869	7,260	7,620	7,858	8,367	8,883	9,439
Oil output (in thousands of barrels a day)	102	98	89	82	87	91	91
External trade							
Export volume	-7.0	6.9	6.1	1.9	4.5	4.9	4.0
Of which : non-oil sector	-6.6	12.3	12.2	4.3	4.3	4.8	5.0
Import volume	1.9	-0.6	7.4	4.9	4.8	4.6	4.4
Average oil export price (U.S. dollars per barrel)	23.6	27.3	35.0	35.5	35.0	33.0	32.0
Nominal effective exchange rate	6.6	5.4	1.9	...	...	...	...
Real effective exchange rate	5.9	2.9	0.4	...	...	...	...
Average exchange rate (CFA francs per SDR)	902	814	782	...	...	...	...
Terms of trade	0.0	-0.8	0.2	-1.4	-0.7	-3.1	-2.5
Non-oil export price index (in CFA francs)	2.8	-5.5	-7.5	-5.2	1.6	1.0	1.4
Money and credit (end of period)							
Net domestic assets [1]	4.1	1.8	0.3	5.6	5.1	6.5	6.2
Net credit to the public sector [1]	1.0	-0.6	-0.2	2.5	0.7	1.9	2.2
Credit to the private sector	11.6	8.9	2.0	6.1	8.9	9.2	8.1
Broad money (M2)	18.3	-0.9	7.3	7.6	7.6	9.4	8.8
Velocity (GDP/average M2)	5.4	5.3	5.3	5.1	5.1	4.9	4.8
Discount rate (end of period; in percent)	6.5	6.0	6.0	…	…	…	…
Central government operations							
Total revenue	0.5	3.7	-2.5	7.4	7.7	6.8	6.9
Of which : non-oil revenue	-2.9	10.5	-3.4	15.4	9.3	9.0	9.6
Total expenditure	0.1	2.5	7.2	0.8	6.8	4.3	7.0
	(In percent of GDP, unless otherwise indicated)						
Gross national savings	11.3	14.5	14.9	15.1	15.4	15.6	15.6
Gross domestic investment	18.3	16.9	16.6	17.0	17.5	18.0	18.5
Central government operations							
Total revenue (excl. grants)	17.9	17.5	16.3	17.0	17.2	17.3	17.4
Oil revenue	5.4	4.5	4.3	3.5	3.3	3.1	2.7
Non-oil revenue	12.5	13.1	12.0	13.5	13.8	14.2	14.6
Non-oil revenue (in percent of non-oil GDP)	14.2	14.5	13.5	14.7	15.1	15.3	15.7
Total expenditure	17.3	16.8	17.1	16.8	16.8	16.5	16.6
Noninterest total expenditure [2]	13.7	13.6	14.1	13.4	13.5	13.9	14.3
Capital expenditure [3]	2.2	2.1	1.8	2.9	3.1	3.3	3.5
Overall fiscal balance (excl. net changes in arrears)							
Excluding grants	0.5	0.7	-0.9	0.2	0.3	0.7	0.7
Including grants	0.8	1.3	-0.7	0.4	0.5	0.9	0.8
Primary balance [2 4]	4.2	4.0	2.1	3.6	3.6	3.4	3.1
Non-oil primary balance (in percent of non-oil GDP)	-1.3	-0.6	-2.4	0.1	0.3	0.3	0.3
External sector							
Current account balance (including grants)	-7.0	-2.4	-1.6	-1.9	-2.1	-2.3	-2.9
NPV of public external debt	54.8	42.5	43.4	35.9	31.4	27.9	25.0
	(In percent of exports of goods and services, unless otherwise indicated)						
Net present value (NPV) of external public debt	170.5	166.5	165.6	146.8	129.5	118.5	108.7
External debt service (before debt relief)							
Scheduled	27.9	26.1	22.5	22.0	20.1	16.4	14.5
Scheduled (in percent of government revenue)	42.8	38.2	37.9	33.2	29.8	24.0	20.8
External debt service [5]	10.0	8.8	6.9	10.0	7.5	7.4	6.8

Sources: Cameroonian authorities; and staff estimates and projections.

1/ In percent of broad money at the beginning of the period.
2/ Excluding foreign-financed investment, restructuring expenditure and separation grants.
3/ Excluding restructuring expenditure.
4/ Excluding external grants and privatization proceeds.
5/ After debt relief.

Table 2. Cameroon: Millenium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1 Eradicate extreme poverty and hunger					
Population below $1 a day (%)	...	...	17.1	...	
Poverty gap at $1 a day	...	...	4.1	...	
Percentage share of income or consumption held by poorest 20%	...	...	5.6	...	
Prevalence of child malnutrition (% of children under 5)	15.1	...	...	...	[7.6]
Goal 2 Achieve universal primary education					
Net primary enrollment ratio (% of relevant age group)	...	...	...	...	
Percentage of cohort reaching grade 5 (%)	...	...	61.9	...	
Youth literacy rate (% ages 15-24)	81.1	86.2	90.0	...	
Goal 3 Promote gender equality					
Ratio of girls to boys in primary and secondary education (%)	82.5	84.4	85.0	...	[100]
Ratio of young literate females to males (% ages 15-24)	87.9	92.5	95.7	...	
Proportion of seats held by women in national parliament (%)	...	12.0	...	...	
Goal 4 Reduce child mortality					
Under 5 mortality rate (per 1,000)	139.0	156.0	166.0	166.0	[46.3]
Infant mortality rate (per 1,000 live births)	85.0	92.0	95.0	95.0	[28.3]
Immunization, measles (% of children under 12 months)	56.0	46.0	62.0	62.0	[18.6]
Goal 5 Improve maternal health					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	730.0	...	
Births attended by skilled health staff (% of total)	58.4	...	60.0	...	[14.6]
Goal 6 Combat HIV/AIDS, malaria and other diseases					
Prevalence of HIV, female (% ages 15-24)	...	...	12.7	...	
Incidence of tuberculosis (per 100,000 people)	...	...	145.0	187.7	
Tuberculosis cases detected under DOTS (%)	...	2.0	16.0	59.6	
Goal 7 Ensure environmental sustainability					
Forest area (% of total land area)	56.0	...	51.3	...	
Nationally protected areas (% of total land area)	...	4.5	4.5	4.5	
GDP per unit of energy use (PPP $ per kg oil equivalent)	3.9	3.7	4.7	...	
CO2 emissions (metric tons per capita)	0.1	0.3	0.4	...	
Access to an improved water source (% of population)	51.0	...	58.0	...	
Access to improved sanitation (% of population)	77.0	...	79.0	...	
Goal 8 Develop a Global Partnership for Development					
Fixed line and mobile telephones (per 1,000 people)	3.5	5.1	27.1	49.7	
Personal computers (per 1,000 people)	...	1.5	3.9	5.7	
General indicators					
Population (in millions)	11.7	13.4	15.1	15.8	
Adult literacy rate (% of people ages 15 and over)	57.9	64.9	71.3	...	
Total fertility rate (births per woman)	6.0	5.2	4.8	4.6	
Life expectancy at birth (years)	54.2	53.6	50.1	43.4	

Source: http://www.developmentgoals.org/.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with debt sustainable in the long-term. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Table 3. Cameroon: Savings-Investment Balances, 2002-2008

(In percent of GDP at market prices)

	2002	2003 Est.	2004 Est.	2005 Projections	2006 Projections	2007 Projections	2008 Projections
Total economy (current account balance)	-7.0	-2.4	-1.6	-1.9	-2.1	-2.3	-2.9
Gross national savings 1/	11.3	14.5	14.9	15.1	15.4	15.6	15.6
Of which: domestic savings 2/	16.8	17.1	16.8	16.3	16.4	16.3	16.0
Gross domestic investment	18.3	16.9	16.6	17.0	17.5	18.0	18.5
Private sector	-8.6	-3.9	-1.2	-3.7	-3.9	-4.2	-4.7
Gross national savings	8.2	11.4	14.0	11.1	11.2	11.3	11.2
Of which: domestic savings	11.1	11.9	14.0	10.8	10.9	10.9	10.7
Gross domestic investment	16.8	15.3	15.2	14.8	15.2	15.5	15.9
Non-oil sector	-14.5	-9.1	-6.8	-7.9	-8.0	-8.1	-8.2
Gross national savings	1.9	5.9	7.8	6.4	6.6	7.0	7.3
Of which: domestic savings	3.5	5.4	6.7	5.2	5.5	5.9	6.2
Gross domestic investment	16.4	14.9	14.6	14.3	14.7	15.1	15.5
Oil sector	5.9	5.1	5.6	4.1	4.1	3.8	3.5
Gross national savings	6.3	5.5	6.2	4.7	4.6	4.3	3.8
Of which: domestic savings	7.6	6.5	7.3	5.5	5.4	5.0	4.5
Gross domestic investment	0.3	0.4	0.6	0.6	0.5	0.4	0.3
Central government	1.6	1.5	-0.4	1.8	1.8	1.9	1.8
Gross national savings 3/	3.1	3.1	0.9	4.0	4.1	4.3	4.4
Of which: domestic savings 4/	5.7	5.2	2.8	5.5	5.5	5.4	5.3
Gross domestic investment	1.6	1.5	1.4	2.2	2.3	2.5	2.6
Memorandum items:							
Gross disposable national income	94.5	97.4	98.1	98.8	99.0	99.3	99.6
Total consumption	83.2	82.9	83.2	83.7	83.6	83.7	84.0
Private	71.4	70.9	70.0	72.4	72.2	72.2	72.3
Central government 5/	11.8	12.0	13.2	11.3	11.4	11.5	11.7

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Gross disposable national income minus total consumption.
2/ GDP at market prices minus total consumption, or gross national savings minus factor services (net) and unrequited transfers (net).
3/ Central government total revenue (including grants) minus current expenditure (excluding interest payments to the IMF).
4/ Government national savings minus government factor services (net) and government unrequited transfers (net).
5/ Central government current expenditure minus domestic subsidies and transfers and domestic and foreign interest payments.

Table 4. Cameroon: Monetary Survey, December 2002-December 2008

	2002	2003	2004				2005				2006	2007	2008
	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	Projections		
							Prog.						
	(In billions of CFA francs, unless otherwise indicated; end of period)												
Net foreign assets	298.5	259.8	313.2	264.5	306.5	357.1	360.7	364.4	368.2	387.1	427.1	477.1	527.1
Bank of Central African States (BEAC)	205.0	154.5	191.6	148.5	192.8	241.7	241.7	241.7	241.7	256.7	286.7	326.7	376.7
Commercial banks	93.5	105.3	121.6	116.0	113.7	115.4	119.0	122.7	126.5	130.4	140.4	150.4	150.4
Net domestic assets	1,118.5	1,143.9	1,125.7	1,157.0	1,134.1	1,148.4	1,150.5	1,152.6	1,172.6	1,233.1	1,316.1	1,429.1	1,547.5
Domestic credit	1,165.7	1,216.1	1,209.3	1,235.5	1,222.1	1,231.0	1,233.1	1,235.2	1,255.2	1,315.6	1,398.6	1,511.7	1,630.0
Net claims on the public sector	475.8	467.8	429.4	481.5	463.9	464.5	426.8	448.8	456.7	501.4	513.1	545.9	586.9
Net credit to the central government	380.6	359.5	330.3	374.5	370.5	369.3	330.0	352.0	359.9	404.6	416.3	449.1	490.1
Claims	665.1	618.3	613.2	594.7	591.7	567.6	558.9	556.8	553.9	540.3	535.7	527.2	521.3
Deposits	-284.4	-258.9	-282.9	-220.2	-221.2	-198.4	-228.9	-204.8	-194.0	-135.7	-119.4	-78.1	-31.3
of which HIPC	-95.6	-106.7	-108.0	-111.0	-111.0	-86.4	-73.0	-61.2	-47.8	-31.1	...	...	...
Credit to autonomous agencies	10.2	11.2	10.4	13.2	14.1	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Credit to public enterprises	84.9	97.1	88.6	93.7	79.3	80.7	82.3	82.3	82.3	82.3	82.3	82.3	82.3
Credit to financial institutions	10.3	8.1	12.7	10.8	12.1	11.5	13.3	13.3	13.3	13.3	13.3	13.3	13.3
Credit to the private sector	679.6	740.2	767.2	743.3	746.2	755.0	792.9	773.0	785.1	800.9	872.2	952.4	1,029.8
Other items (net)	-47.2	-72.2	-83.6	-78.6	-88.0	-82.6	-82.6	-82.6	-82.6	-82.6	-82.6	-82.6	-82.6
Money and quasi money	1,416.9	1,403.6	1,438.9	1,421.5	1,440.7	1,505.5	1,511.1	1,517.0	1,540.8	1,620.2	1,743.2	1,906.2	2,074.6
Currency outside banks	332.1	296.8	276.9	256.4	269.6	324.2	282.5	261.5	275.0	330.7	324.5	316.4	308.0
Deposits	1,084.8	1,106.8	1,162.0	1,165.1	1,171.1	1,181.3	1,228.7	1,255.5	1,265.8	1,289.5	1,418.7	1,589.8	1,766.6
Memorandum items:	(In percent of beginning period broad money, unless otherwise indicated)												
Contribution to the growth of broad money													
Net foreign assets	14.2	-2.7	-0.6	-0.2	4.3	7.8	3.3	7.0	4.3	2.0	2.5	2.9	2.6
Net domestic assets	4.1	1.8	5.4	7.7	1.5	2.5	1.7	-0.3	2.7	5.6	5.1	6.5	6.2
Of which : credit to the central government	0.9	-1.5	-1.3	5.1	1.4	1.3	0.0	-1.6	-0.7	2.3	0.7	1.9	2.2
Private sector credit (annual percentage change)	11.6	8.9	17.0	9.2	5.2	2.0	3.4	4.0	5.2	6.1	8.9	9.2	8.1
Broad money (annual percentage change)	18.3	-0.9	4.7	7.5	5.8	7.3	5.0	6.7	7.0	7.6	7.6	9.4	8.8
Currency	12.2	-10.6	-3.5	2.8	1.9	9.2	2.0	2.0	2.0	2.0	-1.9	-2.5	-2.7
Deposits	20.3	2.0	6.9	8.6	6.8	6.7	5.7	7.8	8.1	9.2	10.0	12.1	11.1
Claims on government/domestic credit ratio 1/	32.7	29.6	27.3	30.3	30.3	30.0	26.8	28.5	28.7	30.8	29.8	29.7	30.1
Currency outside banks/deposit ratio 1/	30.6	26.8	23.8	22.0	23.0	27.4	23.0	20.8	21.7	25.6	22.9	19.9	17.4
Velocity (non-oil GDP/average M2)	4.8	4.7	4.9	4.9	4.8	4.7	4.9	4.9	4.8	4.7	4.6	4.5	4.5
Velocity (GDP/average M2)	5.4	5.3	5.5	5.4	5.4	5.3	5.4	5.3	5.2	5.1	5.1	4.9	4.8
Net claims on the public sector 2/	336.5	349.8	282.7	338.4	326.2	336.1	298.4	320.4	328.3	373.0	416.3	449.1	490.1

Sources: Cameroonian authorities; and staff estimates and projections.

1/ In percent.

2/ In billions of CFA francs, using the definition of the Central Bank of African States, which includes deposits of public enterprises and autonomous agencies.

Table 5. Cameroon: Balance of Payments, 2002-2008 1/

	2002	2003	2004	2005	2006	2007	2008
		Est.	Est.	Projections			
	(In billions of CFA francs)						
Current account balance	-482	-176	-124	-153	-176	-208	-274
Trade balance	55	137	131	69	58	19	-26
Exports, f.o.b.	1,380	1,370	1,425	1,346	1,415	1,462	1,507
Oil and oil products	604	551	576	506	524	519	503
Non-oil sector	776	819	850	841	891	943	1,004
Imports, f.o.b.	-1,326	-1,233	-1,295	-1,277	-1,356	-1,443	-1,533
Services (net)	-628	-428	-324	-300	-314	-315	-338
Interest due on public debt	-178	-155	-139	-117	-112	-98	-85
Other	-450	-273	-185	-182	-203	-217	-253
Transfers (net)	92	115	69	78	79	88	89
Of which : official	19	40	3	2	0	0	0
HIPC assistance	24	36	37	31	24	19	14
Inflows	102	124	80	88	91	100	102
Outflows	-9	-9	-11	-11	-12	-12	-13
Capital account balance	284	-188	-98	-36	-14	99	186
Official capital (net)	-270	-247	-198	-223	-161	-105	-81
Program loans	51	40	47	14	25	17	15
Project loans (to central government and public enterprises)	26	38	51	55	85	95	103
Amortization	-347	-325	-296	-292	-271	-217	-198
Private capital (net)	554	60	100	187	147	204	266
Oil sector	387	-12	-79	7	17	15	-9
Non-oil sector	166	72	179	180	130	188	275
Direct investment	123	125	128	131	133	160	176
Privatization receipts	2	0	0	0	0	0	0
Other, including short term	41	-54	51	50	-4	28	99
Overall balance	-198	-363	-222	-189	-191	-109	-88
Financing	198	363	222	189	191	109	88
Bank of Central African States (BEAC)	-136	51	-87	-15	-40	-50	-50
Use of Fund credit (net)	29	6	-15	-9	-5	-8	-6
Other reserves (net)	-164	44	-72	-6	-35	-42	-44
Debt rescheduling 2/	914	313	297	0	0	0	0
Of which : HIPC assistance	44	25	6	...	...	...	...
Net change in arrears 3/	-580	0	13	-13	0	0	0
Financing gap 4/	0	0	0	216	231	159	138
Of which : Possible debt relief	0	0	0	216	231	159	138
	(In percent of GDP)						
Trade balance	0.8	1.9	1.7	0.9	0.7	0.2	-0.3
Current account balance							
Excluding grants	-7.3	-3.0	-1.7	-2.0	-2.1	-2.3	-2.9
Including grants	-7.0	-2.4	-1.6	-1.9	-2.1	-2.3	-2.9
Overall balance	-2.9	-5.0	-2.9	-2.4	-2.3	-1.2	-0.9
(Percentage change, unless otherwise indicated)	(Percentage change, unless otherwise indicated)						
Export volume	-7.0	6.9	6.1	1.9	4.5	4.9	4.0
Oil sector	-6.6	-5.6	-10.4	-6.4	5.2	5.2	0.0
Non-oil sector	-6.6	12.3	12.2	4.3	4.3	4.8	5.0
Import volume	1.9	-0.6	7.4	4.9	4.8	4.6	4.4
Terms of trade	0.0	-0.8	0.2	-1.4	-0.7	-3.1	-2.5
Non-oil export price index (CFA francs)	2.8	-5.5	-7.5	-5.2	1.6	1.0	1.4
Import price index (CFA francs)	-0.4	-6.4	-2.2	-6.0	1.3	1.7	1.7
Exchange rate (CFA francs per U.S. dollar)	696.4	580.8	528.0	…	…	…	…

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Including the financing of the Chad-Cameroon oil pipeline in 2001-03.
2/ From Paris Club and other non-Paris Club creditors.
3/ Including the London Club operation, estimated at CFAF 580 billion in 2002.
4/ From 2005 onward, the financing gap could be covered through debt relief.

Table 6. Cameroon: Central Government Operations, 2002-08

(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005				2005	2006	2007	2008
				Jan.-Mar.	April-June	July-Sept.	Oct.- Dec.				
			Est.	Proj	Proj	Proj.	Proj.	Projections			
Total revenue and grants	1,247	1,312	1,253	340	327	337	343	1,348	1,452	1,545	1,649
Total revenue	1,227	1,273	1,241	337	323	333	340	1,333	1,435	1,532	1,638
Oil sector revenue	369	324	325	56	73	73	74	276	280	274	259
Non-oil sector revenue	859	948	916	281	250	260	266	1,057	1,155	1,259	1,379
Direct taxes	260	232	224	79	51	51	59	240	262	283	306
Special tax on petroleum products	68	67	72	18	19	20	20	76	82	88	94
Taxes on international trade	165	176	177	46	47	48	48	190	205	221	238
Other taxes on goods and services	318	384	358	112	110	111	115	446	501	541	597
Of which: value-added tax (VAT) 1/	310	341	331	90	92	93	96	371	430	464	512
VAT refund	-53	-49	-51	-15	-11	-13	-16	-55	-54	-58	-64
centimes additionnels	...	...	...	5	5	5	5	19	13	...	...
Nontax revenue	72	68	93	25	21	30	25	100	106	126	144
Of which: pipeline revenue	0	0	13	4	4	4	4	16	16	16	16
privatization revenue	0	0	8	0	0	0	0	0	0	0	0
Uncashed tax revenue	-25	21	-7	1	2	2	0	5	0	0	0
Total grants (current)	19	40	12	4	4	4	4	14	17	13	10
Of which: HIPC	24	32	3	0	0	1	1	2	...	...	...
Total expenditure	1,190	1,219	1,307	294	330	334	359	1,317	1,407	1,467	1,569
Current expenditure	1,011	1,049	1,168	242	262	259	269	1,032	1,088	1,145	1,219
Wages and salaries	403	421	448	115	115	115	119	463	452	475	506
Other goods and services	299	321	417	63	77	78	78	297	368	402	453
Of which: HIPC	1.4	6	31	2	2	2	2	8	8	10	10
Subsidies and transfers	127	126	140	31	32	33	34	131	130	143	147
Scholarships and subsidies	64	61	77	15	15	15	15	60	60	64	65
Pensions	63	66	63	16	17	18	19	70	70	80	82
Separation grants (POEs)	0	0	0	0	0	0	0	1	0	0	0
Interest due	199	181	164	33	37	33	38	141	137	125	114
External	178	154	138	26	31	27	32	116	111	97	84
Domestic	22	27	26	6	6	6	6	25	26	28	30
Capital expenditure	178	166	150	52	69	75	90	285	319	322	350
Foreign-financed investment	26	38	60	14	19	14	19	67	76	81	85
Domestically financed investment	128	112	80	36	42	42	43	163	181	210	244
Of which: HIPC	0.8	7	10	15	15	15	20	65	72	75	79
Restructuring public companies	24	16	10	2	7	18	28	55	62	30	20
Of which: large companies	0	0	0	0	5	16	24	45	52	20	0
Unclassified expenditure	-17	4	-11	0	0	0	0	0	0	0	0
Overall balance, excl. net change in arrears											
Excluding grants	38	53	-66	43	-7	-1	-19	16	29	65	69
Including grants	57	93	-53	46	-3	3	-16	30	45	78	79
Net change in arrears and statistical discrepancy	-337	-36	9	-14	-1	-1	-1	-17	-48	-79	-82
External	-357	0	13	-13	0	0	0	-13	0	0	0
Domestic	-26	-16	-4	-1	-1	-1	-1	-4	-48	-79	-82
Deferred payments and float 2/	46	-19	0	0	0	0	0	0	0	0	0
Overall balance, cash basis											
Excluding grants	-299	18	-56	29	-8	-2	-20	-1	-20	-14	-13
Including grants	-280	58	-44	33	-4	2	-17	14	-3	-1	-2
Financing	280	-58	44	-67	-72	-37	-53	-230	-228	-158	-136
External financing (net)	401	26	84	-19	-89	-24	-93	-225	-186	-131	-108
Amortization	-347	-325	-296	-32	-103	-43	-114	-292	-271	-217	-198
Drawings	972	350	379	13	13	19	21	67	85	86	90
Project financing	26	38	51	13	13	13	15	55	60	69	75
Program financing (loans)	32	0	43	0	0	6	6	12	25	17	15
Debt rescheduling	914	313	285	0	0	0	0	0	0	0	0
of which: HIPC debt relief	44	23	46	0	0	0	0	0	0	0	0
Domestic financing (net)	-121	-83	-39	-48	17	-13	40	-5	-41	-27	-28
Banking system	10	-20	10	-39	22	8	45	35	12	33	41
Banking system, excl. HIPC account	46	-9	-10	-53	10	-5	28	-20	...	...	...
Net HIPC flows	-36	-11	20	13	12	13	17	55	...	...	...
Amortization	-114	-54	-33	-9	-5	-21	-5	-40	-43	-50	-59
Nonbank financing	-18	-9	-16	0	0	0	0	0	0	0	0
Privatization proceeds	2	0	0	0	0	0	0	0	0	0	0
Reserves	0	0	0	0	0	0	0	0	-10	-10	-10
Financial sector	0	0	0	0	0	0	0	0	0	0	0
Securitization	0	0	0	0	0	0	0	0	0	0	0
VAT refund 1/	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Remaining financing needs	0	0	0	35	77	35	70	216	231	159	139
Of which : possible debt relief	0	0	0	35	77	35	70	216	231	159	138
Non-oil primary budget balance 3/	-81	-37	-166	37	-16	-8	-8	4	24	28	288

Sources: Cameroonian authorities; and staff estimates and projections.

1/ VAT revenue is on a net basis.

2 / Including payments in 2003 of arrears of CFAF 15.8 billions to CAMAIR that are excluded from the debt reduction plan.

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

Table 7. Cameroon: Selected Fiscal Indicators, 2002-08
(In percent of GDP, unless otherwise specified)

	2002	2003	2004	2005	2006	2007	2008
			Est.	Projections			
Total revenue and grants	18.1	18.1	16.4	17.1	17.4	17.4	17.5
Total revenue	17.9	17.5	16.3	17.0	17.2	17.3	17.4
Oil sector revenue	5.4	4.5	4.3	3.5	3.3	3.1	2.7
Non-oil sector revenue	12.5	13.1	12.0	13.5	13.8	14.2	14.6
Direct taxes	3.8	3.2	2.9	3.1	3.1	3.2	3.2
Special tax on petroleum products	1.0	0.9	0.9	1.0	1.0	1.0	1.0
Taxes on international trade	2.4	2.4	2.3	2.4	2.4	2.5	2.5
Other taxes on goods and services	4.6	5.3	4.7	5.7	6.0	6.1	6.3
Of which: value-added tax (VAT)	3.7	4.0	3.7	4.0	4.5	4.3	4.7
Nontax revenue	1.0	0.9	1.2	1.3	1.3	1.4	1.5
Of which: pipeline revenue	…	…	0.2	0.2	0.2	0.2	0.2
Uncashed tax revenue	-0.4	0.3	-0.1	0.1	0.0	0.0	0.0
Total grants (current)	0.3	0.5	0.2	0.2	0.2	0.1	0.1
Total expenditure	17.3	16.8	17.1	16.8	16.8	16.5	16.6
Total HIPC expenditure	0.0	0.2	0.5	0.9	1.0	1.0	0.9
Current expenditure	14.7	14.5	15.2	13.1	13.0	12.9	12.9
Wages and salaries	5.9	5.8	5.9	5.9	5.4	5.4	5.4
Other goods and services	4.1	4.5	5.3	3.8	4.4	4.5	4.8
Of which: HIPC spending	0.0	0.1	0.4	0.1	0.1	0.1	0.1
Subsidies and transfers	1.8	1.7	1.8	1.7	1.6	1.6	1.6
Interest due	2.9	2.5	2.2	1.8	1.6	1.4	1.2
External	2.6	2.1	1.8	1.5	1.3	1.1	0.9
Domestic	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Capital expenditure	2.6	2.3	2.0	3.6	3.8	3.6	3.7
Foreign-financed investment	0.4	0.5	0.8	0.9	0.9	0.9	0.9
Domestically financed investment	1.9	1.5	1.1	2.1	2.2	2.4	2.6
Of which: HIPC spending	0.0	0.1	0.1	0.8	0.9	0.8	0.8
Restructuring	0.4	0.2	0.1	0.7	0.7	0.3	0.2
Unclassified expenditure	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0
Overall balance, excl. net change in arrears							
Excluding grants	0.5	0.7	-0.9	0.2	0.3	0.7	0.7
Including grants	0.8	1.3	-0.7	0.4	0.5	0.9	0.8
Net change in arrears	-4.9	-0.5	0.1	-0.2	-0.6	-0.9	-0.9
External (interest)	-5.2	0.0	0.2	-0.2	0.0	0.0	0.0
Domestic 1/	-0.4	-0.2	0.0	-0.1	-0.6	-0.9	-0.9
Deferred payments and float	0.7	-0.3	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis							
Excluding grants	-4.4	0.2	-0.7	0.0	-0.2	-0.2	-0.1
Including grants	-4.1	0.8	-0.6	0.0	0.0	0.0	0.0
Financing	4.1	-0.8	0.6	-2.9	-2.7	-1.8	-1.4
External financing (net)	5.8	0.4	1.1	-2.9	-2.2	-1.5	-1.1
Amortization	-5.1	-4.5	-3.9	-3.7	-3.2	-2.4	-2.1
Drawings	14.1	4.8	5.0	0.9	1.0	1.0	1.0
Domestic financing (net)	-1.8	-1.1	-0.5	-0.1	-0.5	-0.3	-0.3
Banking system	0.1	-0.3	0.1	0.4	0.1	0.4	0.4
Amortization	-1.7	-0.7	-0.4	-0.5	-0.5	-0.6	-0.6
Others	-0.2	-0.1	-0.2	0.0	-0.1	-0.1	-0.1
Remaining financing needs	0.0	0.0	0.0	2.8	2.8	1.8	1.5
Of which: possible debt relief	0.0	0.0	0.0	2.8	2.8	1.8	1.5
Memorandum items:							
Primary budget balance (+ surplus) 2/ 3/	4.2	4.0	2.1	3.6	3.6	3.4	3.1
Primary budget balance (+ surplus) 2/ 4/	3.8	3.7	2.0	2.9	2.9	3.1	2.8
Non-oil primary budget balance 3/ 5/	-1.2	-0.6	-2.4	0.1	0.3	0.3	0.3
Non-oil revenue 5/	14.2	14.5	13.5	14.7	15.1	15.3	15.7
Non-oil overall balance (excl. net change of arrears) 3/ 5/	-5.5	-4.1	-5.7	-3.6	-3.3	-2.5	-2.2
Noninterest expenditure 3/	13.7	13.6	14.1	13.4	13.5	13.9	14.3
Social spending (in percent of noninterest expenditure) 6/	26	28	31	33	…	…	…
Nominal GDP (in billions CFA francs)	6,869	7,260	7,620	7,858	8,367	8,883	9,439
Non-oil nominal GDP (in billions CFA francs)	6,061	6,528	6,808	7,192	7,673	8,205	8,790

Sources: Cameroonian authorities; and staff estimates and projections.

1/ Nonstructured domestic debt contracted by the State of Cameroon as specified in the settlement plan drawn up by the authorities.
2/ Excluding external grants and privatization proceeds.
3/ Excluding foreign-financed investment, restructuring expenditure and separation grants.
4/ Excluding foreign-financed investment and separation grants, including restructuring expenditure.
5/ In percent of non-oil GDP.
6/ Health and education (excluding HIPC and foreign-financed investment). The expenditure breakdown into functional spending is not comprehensive.

Table 8. Cameroon: Oil Sector Contribution to the Government Budget, 2002-2008

(In billion of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008
			Est.	Projections			
1. Production, sales, and exports							
1.a. Production and sales (in millions of barrels)							
Production	37.4	35.6	32.7	30.1	31.6	33.2	33.2
Percentage change	-5.0	-4.7	-8.3	-7.8	5.0	5.0	0.0
Sales	36.8	34.8	33.1	30.1	31.6	33.2	33.2
Exports	36.8	34.8	31.1	29.1	30.7	32.2	32.2
By SNH 1/	24.1	22.2	19.3	18.2	19.1	20.1	20.1
By petroleum companies	12.7	12.6	11.9	11.0	11.5	12.1	12.1
Sales by SNH to SONARA 2/	...	...	2.0	1.0	1.0	1.0	1.0
1.b. Value of sales	607.0	551.1	612.3	522.2	540.2	534.4	518.3
Exports	607.0	551.1	576.7	505.7	523.9	519.1	503.5
By SNH	393.9	350.6	352.4	315.3	327.0	324.3	314.5
By petroleum companies	213.0	200.5	224.3	190.4	197.0	194.9	189.0
Sales by SNH to SONARA	...	...	35.6	16.5	16.2	15.3	14.8
2. SNH and oil companies' accounts 3/							
2.a. SNH accounts							
Revenue	393.9	350.6	388.0	331.8	343.2	339.6	329.3
Expenditure	-97.1	-90.6	-113.9	-107.0	-105.7	-109.4	-110.5
Cost sharing of 50 percent with oil companies	-61.4	-59.5	-63.0	-60.6	-63.6	-66.9	-67.8
Projects	-46.4	-43.4	-44.7	-43.1	-46.1	-49.4	-50.4
Investment	-1.9	-6.6	-9.2	-9.1	-9.1	-9.1	-9.1
Financial costs	-1.6	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8
Debt amortization	-11.5	-8.6	-8.2	-7.5	-7.5	-7.5	-7.5
Other costs 3/	-22.4	-21.6	-26.9	-34.8	-29.9	-29.9	-29.9
Payments to oil companies by government to ensure minimum 13 percent profit margin	-13.2	-9.5	-23.9	-11.6	-12.1	-12.6	-12.8
Disposable income	296.8	260.0	274.2	224.8	237.5	230.2	218.8
2.b. Oil companies' accounts							
Export receipts	213.0	200.5	224.3	190.4	197.0	194.9	189.0
Expenditure	-113.6	-113.1	-114.3	-103.3	-107.1	-110.3	-104.5
Cost sharing of 50 percent with government	-61.4	-59.5	-63.0	-60.6	-63.6	-66.9	-67.8
Effective tax obligations	-52.2	-53.7	-51.3	-42.7	-43.5	-43.5	-36.7
Disposable income	99.4	87.3	110.0	87.1	89.8	84.5	84.5
3. Contribution to government budget							
3.a. Calculated on the basis of contractual arrangements 4/	352.9	312.2	327.8	276.1	280.2	273.6	258.9
SNH	296.8	260.0	274.2	224.8	237.5	230.2	218.8
Oil companies' profit tax	56.0	52.2	53.7	51.3	42.7	43.5	40.1
3.b. Actual (cash basis) 5/	368.7	324.2	325.2	...	...	...	...
SNH's contribution	295.1	272.0	275.4	...	...	...	...
Oil companies' profit tax	73.6	52.2	49.8	...	...	...	...
Memorandum items:							
Oil price (U.S. dollars per barrel)							
World Economic Outlook series	25.0	28.9	37.8	40.5	38.0	36.0	35.0
Discount for lower quality of Cameroon's crude	1.4	1.5	3.0	5.0	3.0	3.0	3.0
Price for Cameroon's crude	23.6	27.4	34.8	35.5	35.0	33.0	32.0
Exchange rate (CFA francs per U.S. dollar, average)	696.7	580.8	528.0	...	...	...	...

Sources: Cameroonian authorities; and staff estimates and projections.

1/ National oil company (Société Nationale des Hydrocarbures).
2/ National oil refinery.
3/ Other costs in 2005 amount to CFAF 32 billion in the MEFP para. 14 because a different exchange rate was used (SNH's budget is prepared in US$)
4/ Based on data provided by SNH.
5/ As reported in the government's fiscal reporting system.

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington D.C. 20431
USA

March 30, 2005

Dear Mr. de Rato:

Cameroon's economy continues to progress on a path of sustained economic growth averaging over 4 percent yearly, with an inflation rate of less than 1 percent. Yet, in the last two years, difficulties emerged in the execution of the State budget, reflected in a substantial backlog of payment arrears at end-December 2004.

After his re-election to the helm of State in October 2004, the President of the Republic, His Excellency Paul Biya, formed a new Government whose main priorities were to address the fiscal situation, consolidate economic growth and deepen the implementation of the national poverty reduction strategy. In this regard, major changes were introduced in order to boost the effectiveness of the action of the Government, vigorously committed since December 2004.

The attached Memorandum of Economic and Financial Policies (MEFP) presents the key elements of Government's program for 2005. This program seeks to consolidate the country's fiscal situation in order to preserve macro-economic stability, to strengthen investments and improve social conditions.

In particular, fiscal policy will rely on a voluntary effort to mobilize non-oil revenue to offset the secular decline in oil output, as well as on an enhanced mastery of budgetary expenditure, with priority to securing more and better public investments. In this context, the further restructuring and privatization of public corporations will also be strengthened in order to reduce the burden that they impose on public finances.

Budgetary management will be enhanced, notably as far as transparency and accountability are concerned. With particular regard to the management of oil revenue, the Government intends to adhere to the Extractive Industries Transparency Initiative (EITI) and will make every effort to enhance transparency in Cameroon's oil sector.

The program set out in the MEFP also includes measures to enhance governance and fight corruption. The implementation of these measures should especially improve the performances of public services, and enhance private sector activity and business climate. Our efforts to strengthen the supply of health and education services and the people's access to these services have brought about significant improvements and we will continue our efforts in line with the priorities of Cameroon's Poverty Reduction Strategy Paper.

The Government requests that IMF staff monitor and follow up the execution of this program over 2005. And, after a sustained period of implementation, it intends to agree on a three-year economic program that could be supported by the IMF with an arrangement under the Poverty Reduction and Growth Facility (PRGF). The Government will communicate to the IMF the information needed to monitor progress in implementing the program. We intend to review with the IMF staff the progress made during the first three months of the program (January-March 2005) in late April/early May 2005.

The Government will strive to achieve the HIPC Initiative completion point triggers as quickly as possible.

Sincerely yours,

Inoni Ephraim
Prime Minister
Head of Government
Cameroon

Attachments: Memorandum of Economic and Financial Policies for 2005 (MEFP), 2 Tables, 1 Annex; Technical Memorandum of Understanding (TMU)

CAMEROON

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2005

I. ECONOMIC SITUATION

1. In recent years, Cameroon's growth and inflation performance was solid. Real GDP growth averaged 4½ percent during 2000-2004, resulting in per capita GDP income gains of 1.7 percent per year. The electricity shortages that constrained growth through 2003 eased somewhat in 2004, but there are signs of a slowdown in growth late in the year, including a decline in the rate of growth of bank credit to the private sector to 2 percent from some 10 percent in 2003. Consumer price inflation fell below 1 percent in 2003-04, and the current account deficit narrowed to below 2 percent of GDP on account of strong exports of primary goods. External debt fell below 50 percent of GDP, mostly as a result of debt relief.

Fiscal performance and public enterprises

2. Fiscal performance weakened considerably in 2004. As a result, the non-oil primary deficit widened from 0.6 percent of GDP in 2003 to 2.4 percent in 2004.

- Non-oil revenue declined by 1 percentage points of non-oil GDP despite the start-up of revenue from the Chad-Cameroon oil pipeline. Revenue from personal income taxes, VAT and other taxes on goods and services declined, and a one-time liquidation of checks in 2003 could not be repeated in 2004. Income taxes reflected a higher-than-expected loss from the personal income tax reform introduced in 2004, and the loss of some formal employment in mid-2003 associated with the construction of the Cameroon-Chad pipeline. The decline of VAT and licensing fee revenue appears to reflect some slowdown of activity in the formal sector and shortcomings in revenue administration due in particular to the various reforms introduced in 2004.

- Oil revenue declined slightly due to lower production volumes and increasing discounts on Cameroon's heavy petroleum. Moreover, the appreciation of the CFA franc against the US dollar limited the effect of the increase in international oil prices on oil revenue.

- Combined with lower grant receipts, this left total revenue almost 1.2 percentage point of GDP below its 2003 level.

- Cash expenditure increased by 0.3 percentage point of GDP, despite a decline in budget allocations by 0.4 percentage point. This indicates substantial expenditure executed in 2004 related to previous budget years and extra-budgetary spending. Spending priorities in the budget shifted away from the social sectors and infrastructure to sovereign spending. In the event, current spending (excluding interest) increased by 1 percent of GDP, while investment was stable at a low level, and interest charges fell.

- The overall budget balance (including grants) weakened by 2 percentage points of GDP to a deficit of 0.7 percent of GDP. This was financed by higher foreign financing (project loans and debt relief), an accumulation of external arrears, and low payments on domestic arrears and debt.

3. The financial situation of some public enterprises, particularly CAMAIR and CAMPOST, continued to be very worrisome. Their difficulties reflect a number of factors, including weak management, inadequate monitoring, and growing payment arrears of the Government.

Structural reforms

4. Major structural reforms in public finances that began in 2002 were continued. The implementation of the new integrated financial management system (SIGEFI) since 2003 has made good progress at the technical level, but has yet to yield the desired improvements in the accuracy and speed of fiscal reporting. In addition, the new expenditure classification adopted in 2003 is still to be integrated in all financial reports. Tax reforms have been implemented in 2004 (i.e., personal income tax reform and setting up of a large taxpayer unit (DGE)), but their full effect remains to be seen.

5. The Government also continued to implement structural reforms in other areas.

- It achieved very good progress in port reform: at the port of Douala, the continued improved operations of the single window for imports and exports clearance (*GUCE*) reduced transaction costs and clearance time; all commercial and industrial activity was transferred to private operators, including the management of the container terminal.

- The Government also made good progress in forestry sector reform: the mandate of the forestry agency (ANAFOR) was redefined and a social plan was implemented. Furthermore, the allocation of logging rights through competitive bidding in the presence of an independent observer was strengthened.

- In the financial sector, the Douala Stock Exchange was set up and Cameroon's microfinance institutions are being licensed.

- Regarding public enterprise reform, following failed earlier attempts, the Government updated the action plans for the privatization of the telecommunication provider CAMTEL and the water supplier SNEC.

Progress in improving governance

6. A number of measures have been implemented to improve governance, but the Government recognizes that further progress is needed.

- The new public procurement code was adopted in September 2004. It aims notably at strengthening transparency and independent oversight of procurement procedures.

- A priority action plan to reform the judiciary system was approved at the end of 2003 and is in its initial stages of implementation. Also, laws specifying the responsibilities, organization and functioning of the Audit Office for state finances *(Chambre des Comptes)* and the Constitutional Court were passed in April 2003 and April 2004, respectively.

- Anti-corruption units have been established in all ministries and other government bodies, financial resources allocated for their operations, and an action plan approved for each unit.

- The President of the Republic ratified the UN convention against corruption in May 2004, making it possible to consider as corruption the misappropriation of public property, money laundering, influence peddling, abuse of power, and diversion of private sector assets.

Developments in the social sectors

7. The Government has continued to implement its poverty reduction strategy (PRSP) and its education and health sector strategies in 2004.

- In education, school districting maps were updated, part-time primary school teachers recruited, and classrooms for primary and secondary schools constructed. Substantial improvements have been made in gross enrollment rates and reducing gender disparity, however, repetition and dropout rates remain high. A medium-term expenditure plan for the education sector was updated in 2004.

- In health care, sector programs (malaria, HIV/AIDS, medication and immunization) were implemented in parallel with an awareness-raising program. Actions include: (i) reducing the price of treated mosquito nets; (ii) reducing the cost of HIV/AIDS treatment, (iii) providing free treatment of tuberculosis; and (iv) stepping up vaccination campaigns. The 2004 Demographic and Health Survey showed improved health indicators: from 1998 to 2004, the infant mortality rate fell by three percentage points to 74 per 1000, the child mortality rate declined by 8.7 points to 142 per 1000, and immunization rates increased substantially. The HIV/AIDS prevalence rate is currently estimated at 5.5 percent of the adult population.

- The 2003 survey on the monitoring of Government expenditure and the satisfaction of health sector beneficiaries revealed: (i) the lack of exhaustiveness in data provided by fund managers especially with regard to the public investment budget; (ii) the malfunctioning of local public procurement boards; and (iii) the discrepancy between service quality and the credit amounts committed. The main constraints cited by the beneficiaries were: poor quality and insufficient staffing, limited patient intake capacity and low staff salaries. A priority action plan was adopted in April 2004 on the basis of these findings, which focused on enhancing budget information tracking (production, dissemination and archiving), improving budget execution and increasing the supply of health services.

HIPC Completion point triggers

8. Good progress has been made on the HIPC completion point triggers pertaining to the social sectors, forestry and transport, but results in terms of improvements in governance were less satisfactory despite the Government's efforts (see Annex). Furthermore, the Government could not implement fully the economic program supported by a PRGF arrangement with the IMF, which further delayed reaching the HIPC completion point.

II. PROGRAM FOR 2005

9. The Government's key objectives for 2005 are consistent with the priorities set in the PRSP of 2003. The Government is determined to pursue fiscal consolidation to preserve macroeconomic stability, strengthen investment and economic growth, and improve social conditions. This will require:

- strong fiscal policies to ensure medium-term debt sustainability by mobilizing non-oil revenue to offset the secular decline in oil output; strengthening public expenditure management and public investment (to improve energy supply and basic infrastructure, thus inducing private sector growth); and enhancing transparency in Government operations (including in the oil sector) in order to increase confidence;

- the further restructuring and privatization of public enterprises to reduce the burden they impose on public finances; and

- improvements in governance and the business climate to enhance private sector activity and growth.

The key policy tools the Government intends to use are set out below.

A. Fiscal Policy

10. The Government intends to undertake strong efforts in 2005 to improve substantially the fiscal position through mobilizing additional non-oil revenues and strengthening expenditure control. The fiscal program takes into account performance up to end-December 2004. Based on this program, the non-oil primary deficit is expected to improve by 2.5 percentage points of non-oil GDP in 2005, and the overall balance (including grants) is projected at a surplus of 0.4 percent of GDP.

11. The Government intends to mobilize additional non-oil revenues through the tax policy measures in the 2005 budget law. The Government expects these measures to increase non-oil revenue by 1.2 percentage point of non-oil GDP (or 0.9 percent excluding one-time effects) to a level of 14.7 percent of non-oil GDP.

- The tax policy measures broaden the tax base and will also strengthen further compliance with CEMAC tax regulations. The 2005 budget law (i) increased the VAT rate by 0.5 percentage point from 17 to 17.5 percent; (ii) abolished VAT exemptions on computer equipment and some food items (meat, frozen fish and sugar); (iii) abolished the partial excise tax exemption for locally-produced alcoholic beverages and tobacco; (iv) increased taxation of gambling; (v) imposed a 5 percent registration fee on Government orders below CFAF5 million; and (vi) increased stamp duties and automobile registration fees *(vignettes)*.

- The central government will temporarily retain at the central level half of the VAT surcharge for local governments (*centimes additionels*).

- As regards tax and customs administration, the implementation of the two ambitious reforms introduced in 2004, i.e., the global income tax and the establishment of the Large Taxpayer Unit (DGE), will be completed and the remaining difficulties addressed. The DGE, whose material and human resources will be increased, will enhance its efforts to increase tax compliance to 100 percent and reduce substantially the tax arrears accumulated by large companies. Tax audits will be better organized and made more systematic in order to enhance taxpayer sincerity in the filing of tax returns, including for personal income taxes, VAT and excises. The Government will improve forestry taxation through new provisions in the budget law to combat tax evasion through fraudulent exports and the informal processing of timber. Customs administration will be strengthened, including through further elimination of discretionary exemptions and the shift from the PAGODE customs data system to the automated ASYCUDA system, which was developed by UNCTAD and includes a value record (*fichier de la valeur*).

- If the measures mentioned above should not be sufficient to meet its revenue targets, the Government stands ready to take further revenue measures. Possible measures will be discussed with the planned FAD technical assistance mission on tax policy and administration in April/May 2005. The Government notes the IMF staff's concern about the reintroduction of the withholding at source (*retenue à la source*) on VAT for the largest companies and will discuss this with the FAD experts during their visit. Finally, the Government is also considering to introduce a stamp tax (*vignette)* on imported tobacco in order to prevent revenue losses due to smuggling.

12. The Government will also strive to maximize oil revenue. Oil revenue is projected to decline by 0.8 percentage points of GDP (notwithstanding higher international oil prices) due to a decline in production volumes, an increase in the discount for Cameroonian petroleum, and an appreciation of the CFA franc against the US dollar. The Government will ensure the timely transfer to the Treasury of the surplus of the national oil company (SNH), in accordance with current arrangements, while ascertaining that the SNH establishes the required provisions for the decommissioning of oil fields.

13. As concerns budget expenditure, the Government is determined to keep expenditure within the 2005 budget limits, and to respect the priority given to expenditures in sectors that contribute to poverty reduction as identified in the PRSP. Program projections show that non-interest current expenditure will decline by 1.6 percentage points of GDP, while public investment will be increased by 1.1 percentage point of GDP to attain 3 percent of GDP. Current expenditure will be restrained through containing non-priority spending, in particular travel expenses, construction in non-priority sectors, and the acquisition of transport equipment. The acceleration of public investment will be funded essentially through the use of HIPC resources, which is expected to increase by 0.7 percent of GDP due to a streamlining of public investment expenditure procedures.

14. Expenditure control will be a key priority in 2005, particularly as regards goods and services spending. In particular, the Government will not resort to payments for spending that have not yet been committed within the 2005 budget law or within earlier budget laws (except for judicial costs (*frais de justice*) that will be strictly monitored). Expenditure commitments will only be made against budget allocations corresponding to the nature of the actual spending at the level of the relevant ministry. SNH's "direct interventions" (*interventions directes*) are direct payments made by SNH on behalf of the Government. These payments are retroactively registered in fiscal operations. Since early 2005 all *interventions directes*, whether for sovereign or other spending, require the prior authorization of the Minister of Economy and Finance, and can be authorized only against remaining budget allocations in the relevant ministerial budget consistent with the nature of the spending. With the exception of sovereign spending, these interventions will be discontinued as soon as possible, but no later than by July 1, 2005 to strengthen expenditure control through the Ministry of Economy and Finance. Other SNH spending (*autres charges*) of a quasi-fiscal nature will be limited to CFAF 32 billion in 2005.

15. During 2005, the Government will implement budgetary regulation measures aimed at ensuring that the level of expenditures corresponds to the Government's cash position. For this, quarterly commitment limits shall be set for the Ministries. For the first and the second quarter of the year, the ceilings have been set at CFAF 190 billion and CFAF 222 billion, respectively.

16. Despite the Government's renewed efforts to mobilize non-oil revenue and to restrain expenditure, it will face tight financing constraints in 2005. The Government will not be able to meet in full its external obligations, but intends to clear the technical arrears accumulated at end-2004, and will request a new rescheduling of Cameroon's bilateral and commercial debt obligations later in 2005 (see paragraph 32). Regarding domestic debt obligations, the Government will prepare by end-February 2005 a draft payment plan for the medium-term for domestic arrears/debt identified in previous audits and not yet paid, consistent with the quarterly fiscal program. Negotiations with some of the Government's nonbank creditors, including the social security system (*CNPS*), will be initiated by end-February 2005. In addition, an audit of domestic debt of the Government is under way and will be finalized by end-March 2005 to establish the level of arrears/debt accumulated since the previous audits; a settlement plan for 2005 will be formulated by end-April 2005 for the arrears not yet settled at

that time, consistent with the quarterly budgetary programming. A multi-year settlement plan for all domestic debt beyond 2005 will be prepared by end-June 2005.

17. To ease the Government's financial situation in 2005, the Government intends to raise additional resources by maximizing the payment of dividends by profitable public enterprises, and by selling a part of the Government's minority shares in certain companies, including through the Douala Stock Exchange. To this end, an initial list of five companies comprising SEMC (mineral water production and distribution), SOSUCAM (production and marketing of cane sugar), SOCATRAL (production of corrugated aluminum sheets), ALUBASSA (production of aluminum household articles), and SAFACAM (oil palm, rubber, forestry) has been drawn up.

18. The Government intends to improve Treasury management in 2005. The Treasury's resources will be consolidated in a single Treasury account at the BEAC before end-June 2005. To this effect, the accounts maintained by government entities in commercial banks (except for those accounts listed in paragraph 23 of the TMU) will be closed and the balance transferred to the single Treasury account at the BEAC. No new accounts will be opened in commercial banks after March 31 (except for those accounts listed in paragraph 23 of the TMU). Only the Treasury will be entitled to open sub-accounts if necessary, and only the Treasury will make transactions in these accounts at the BEAC in order to facilitate internal Treasury operations. A government entity could open a deposit account within the single Treasury account as long as this is operationally necessary.

B. Transparency in Fiscal Management

Financial management and control

19. Strengthening data management will greatly contribute to improvements in the monitoring of budgetary execution. The Government intends to use more efficiently the integrated information and management system (SIGEFI) that became operational in 2003; the missing computerized links, particularly as regards investment spending, will be established in 2005. In line with the recommendations of the December 2004 FAD technical assistance mission on fiscal data management and building on SIGEFI, the Government will accelerate the preparation of fiscal reports by compiling a preliminary version of the Treasury balances no later than 3 weeks after the reporting month. Beginning with the end-February 2005 data, a government operations table (TABORD) on a cash basis will be prepared that is consistent with the Treasury balances, as well as a preliminary expenditure table (using the same format as the TABORD on cash basis) that shows spending committed (*ordonnancements*) or paid but not yet attributed to a budget allocation. Based on the final Treasury balances, starting with the end-February data, an updated version of the TABORD on a cash basis and a TABORD on a commitment basis will be prepared within two months after the reporting month. Finally, in the interest of heightened transparency, the Government will begin publishing monthly budget execution monitoring documents by end-June.

20. The civil service payroll will be further streamlined. The Government intends to provide the results of the implementation of the civil service employment register (SIGIPES: *Système Informatique de Gestion Intégrés des Personnels de l'Etat et de la Solde)* in the four pilot ministries (public administration, economy and finance, health, and education) by end-March 2005. It intends to stabilize the system in the pilot sites and assure its full functioning by end-2005.

Oil sector

21. As regards the oil sector, which contributes significantly to economic activity and budgetary revenues, the Government intends to continue its efforts toward promoting transparency.

- The Government has announced its intention to adhere to the Extractive Industries Transparency Initiative (EITI).

- In this context, the Government intends to give more importance to the publication of information about exploration, production and sales of crude oil in Cameroon, handled by SNH and other oil companies, as well as the revenue generated and transferred to the Treasury. The Government will publish before end-June 2005 on the website of SNH and that of the Prime Minister's Office, quarterly information on total oil production, prices, and revenue of the Government for the year 2004, and the first quarter of 2005, and will update the information on a quarterly basis thereafter.

- The Government and SNH will publish on their web sites, no later than in June 2005, the main elements of the audit reports of SNH for both its own activities and those on behalf of the Government (*mandat*), the related accounts and the opinion of the financial auditor for 2000/01, 2001/02, Transitional 2002, and 2003.

- The Government will strive to obtain the agreement of the oil companies operating in Cameroon to on the publication of the main elements of the production sharing agreements.

HIPC resources

22. The Government is determined to improve the use of HIPC debt relief resources and its transparency. Consistent with plans to speed up the use of HIPC resources for approved projects, the Government intends to follow up on the 2004 audit results that covered activities in 2001-03, by end-March 2005, and the Government will clarify and prioritize the list of projects approved by the HIPC Consultative Committee (CCS). Moreover, to enhance transparency, HIPC funds will remain in treasury accounts and will no longer transit through the government debt agency (CAA), except for counterpart funds governed by bilateral agreements with external donors. All existing accounts handled by the CAA for the execution of HIPC projects except for counterpart funds will be closed and their balances transferred to the Treasury. There will be no payment of expenditure that has not been effectively committed.

The reorganization of the Government of December 8, 2004 strengthens interministerial coordination on the use of HIPC resources, and will give a new impulse to the interministerial HIPC Project Implementation Committee (CSR). Consistent with the requirement of the HIPC completion point triggers, the Government will launch an audit of the use of HIPC relief in 2004 by end-May 2005.

23. The Government will deposit into the HIPC account opened in the Bank of Central African States (BEAC) all HIPC interim assistance and related additional debt relief obtained in 2005. It will, by end-June 2005, in consultation with the staff of the IMF, establish a plan for making late payments into the HIPC account of amounts owed for earlier interim assistance; these arrears amounted to CFAF 76 billion at end-2004.

Fiscal decentralization

24. A cautious approach will be followed throughout the envisaged fiscal decentralization process. The Government will consult with the IMF staff before making any major change in the current fiscal framework. To ensure that macro-fiscal stability can be preserved in the medium-term, the Government will prepare the basis for a solid decentralization framework, assessing the financial impact of alternative decentralization schemes before adopting a specific scheme and proceeding with its implementation. The central government's ability to guide the overall fiscal policy should be preserved, and adequate controls over local borrowing introduced. Administrative capacity at the local level would also need to be built up to enable local governments properly to ensure the timely preparation, implementation, and auditing of their budgets.

25. In 2005, the Government will temporarily retain at the central level half of the surcharge on VAT for local governments; it will reconsider this as soon as the future revenue sharing to be applied to local governments is specified.

C. Public Enterprises

26. The Government is determined to reduce the public enterprises losses, which have affected budgetary resources in recent years. It will demonstrate the importance given to restoring financial discipline in the public enterprise and utilities sector through timely payments of all its utility and transport bills to the enterprises concerned (including CAMAIR, SNEC, CAMRAIL, AES-SONEL, CAMTEL).

27. For some of the largest companies (CAMAIR, CAMTEL, SNEC, CDC), the Government intends to make significant progress toward their divestiture. An amount of CFAF 45 billion has been allocated in the 2005 budget for the privatization of these companies and for the restructuring of CAMPOST. These resources will be used only when a privatization strategy and/or an action plan has been adopted, after consultation with the staffs of the IMF and the World Bank.

- As concerns CAMAIR, the Government decided in December 2004 to proceed with a privatization strategy (*scission/liquidation/privatisation*). Accordingly, it has designated

IFC as the main consultant to advise the Government on the implementation of this strategy. A detailed strategy and time-bound action plan will be prepared by end-June 2005 with the IFC, approved by the Government by end-July 2005, and implementation will start from August 2005. In this context, an interim administrator was appointed in February 2005, whose main task is the implementation of the privatization process in close collaboration with the advisor to the Government and under the supervision of the Minister of Economy and Finance and the Minister of Transport.

- The Government, in cooperation with the World Bank, has continued to implement the action plans adopted for privatization of public telecommunications and water companies (CAMTEL, SNEC). Earlier attempts to privatize these companies failed because agreement could not be reached with successful bidders in 2003/2004. To implement successfully the privatization process, the Government intends to take measures to accelerate the privatization of CAMTEL and a public/private partnership for SNEC, notably by contributing to their investment plans, which had previously been approved by the interministerial committee.

- For CAMTEL, the Government will implement the action plan, developed in cooperation with the World Bank, as follows: the privatization advisor will be hired before end-March 2005, the privatization strategy will be adopted by end-July 2005 and the search for a private majority investor will begin by December 2005 in a manner agreed with the World Bank.

- For SNEC, the Government also intends to adopt a privatization plan in May 2005 and to launch an invitation to bid for a public/private partnership (PPP) in December 2005. Furthermore, water tariffs, which have been unchanged since 1994, will be increased gradually to allow the company to reach cost recovery levels, while improving operational performance. To this effect, the Government plans to finalize the modalities to increase in the second half of 2005 the charges for water distributed by SNEC on the basis of simulations using the financial model to be prepared in the context of the bidding process for the PPP.

- The Government will implement the privatization strategy for the three remaining branches of the agro-industrial complex CDC (palm oil, rubber, and banana). To this end, (i) the privatization strategy will be validated before end-May 2005, (ii) an investment bank will be hired and complementary studies launched before end-August 2005, and (iii) the bidding documents will be approved and launched in December 2005.

- As for the Cotton Development Corporation (SODECOTON), the Government intends to recruit an independent internationally renowned firm to review the organization of the sector and international market constraints, and conduct a diagnostic study of the corporation to identify options for privatization, by end-2005.

28. More broadly, the monitoring of the overall situation of public enterprises will be enhanced. As a component of the ongoing audit on domestic debt mentioned above, the Government plans to identify by end-June 2005 the cross-liabilities between the Government and public enterprises. In this context, in the perspective of the HIPC completion point and updates of the debt sustainability analysis, the Government will establish a detailed record of external debt of public enterprises. The government will then ensure a monitoring of the external debt of public enterprises on an annual basis. Furthermore, an assessment of the consolidated position of the 20 largest public companies, on the basis of their financial accounts for 2004, will be carried out by end-June 2005 and updated regularly.

D. Monetary and Financial Sector Policies

29. Monetary policy will continue to be directed toward ensuring low inflation and securing the peg of the CFA franc to the euro. The monetary program for 2005 foresees (i) an increase in net bank claims on the central government of CFAF 35 billion at the end of 2005, reflecting mostly a large drawdown from the HIPC account partly offset by the repayment of securitized debt to the BEAC and commercial banks and of net liabilities to the IMF; (ii) an expansion of credit to the private sector by 6.1 percent; and (iii) a contribution by Cameroon to the net foreign assets of the BEAC by CFAF 15 billion by end-December 2005. Reflecting this program, money supply is expected to increase by 7.6 percent in 2005.

30. To strengthen the financial sector, the Government will step up its efforts to address the financial difficulties of government-owned financial institutions.

- For CAMPOST, the Government is aware that it holds a specific financial responsibility as the deposits are government-guaranteed. In the short term, the Government has decided to pay all the new deposits received as of January 2005 into a special account at the BEAC. The following measures will be implemented in the coming months: (i) an audit will be completed by end-June 2005 to assess the actual level of CAMPOST's liabilities and, a preliminary balance sheet will be established by end-August 2005 that presents separately the postal and financial activities; (ii) a consultant team will be hired to help the management with the restructuring of the company by end-September 2005; (iii) a social plan will be elaborated by end-July 2005 and implemented in the course of 2005; and (iv) the Government will initiate a process aimed at separating the financial and the postal activities in August 2005. Moreover, the Government has requested the COBAC to prepare an analysis of the conditions that will be required for CAMPOST to obtain a license as a financial institution. CAMPOST will initiate the process of obtaining this license from September 2005.

- As regards the housing credit organization (*Credit Foncier*), the restructuring plan formulated in 2003 under the supervision of the COBAC will be strictly implemented; the COBAC will continue to monitor its implementation on a quarterly basis. In particular, renewed efforts will be launched to recover nonperforming loans. The Government will also launch in 2005 a study on (i) the participation of the banking sector in the financing of private housing, a role that is now mostly played by the *Credit*

Foncier, and (ii) how the subsidy now allocated to the *Credit Foncier* and funded from an earmarked income tax surcharge could be directed toward the financing of social housing.

31. The Government will continue to implement at the national level the ongoing regional initiatives to reform the financial sector and promote transparency. Regarding the microfinance sector, all the microfinance institutions will be registered by the Ministry of the Economy and Finance under the supervision of COBAC by end-March 2005 latest. Licensed microfinance institutions will be subject to a basic financial and accounting supervision by COBAC in collaboration with the Ministry of Economy and Finance until an appropriate accounting framework is put in place. The Government will see to the effective closure of those microfinance institutions that are denied a license. Cooperation with the national association of Microfinance institutions (ANEMCAM) will be strengthened. Moreover, the authorities have undertaken to create a national Financial Intelligence Unit (ANIF) by end-May 2005 in accordance with CEMAC's regulation on combating money laundering and the financing of terrorism.

E. External Sector

Strengthening external debt management

32. In light of the tight budgetary constraints, the Government will not be able to fully meet the obligations due to bilateral and commercial creditors in the near future. The Government intends to request a new Paris Club rescheduling later in 2005 once a 3-year economic program that can be supported by the IMF under a new PRGF arrangement has been approved by the IMF Board. In order to reduce the stock of arrears on external debt to commercial creditors, the Government will continue to seek agreement on comparable terms with commercial creditors who did not participate in the buyback operation of August 2003.

Trade policies

33. Cameroon intends to promote the strengthening of regional integration in the CEMAC, and seek a reduction in the common external tariff and the number of tariff headings. Similarly, the Government will establish in 2005 the practical and operational modalities of the investment charter it adopted in line with the common CEMAC charter.

F. Governance and Other Structural Reforms

Governance

34. The Government plans to take decisive steps in the frame work of its program to improve transparency and governance. By end-June 2005, the Government will, with donor assistance, complete a comprehensive update of its National Governance Program. The Government will continue implementing its priority action plan for judicial reform, which is designed to fight corruption through improving the enforcement of laws, ensuring the

independence of the judiciary and improving the working conditions of judiciary employees. It will also prepare enabling legislation to apply the UN convention against corruption in Cameroon.

35. The Government intends to make the Audit Office (*Chambre des comptes*) operational by end-December 2005 and continue implementing the action plan for setting up the Constitutional Council. The 2005 budget contains allocations for the purchase and adaptation of appropriate premises for the Audit Office, staff training and the drafting of procedure manuals.

Social Policies and Poverty Reduction Strategy Follow-up and Update

36. Progress has been made in the implementation of the strategy spelled out in the PRSP of 2003. This was reviewed in the first annual progress report (covering April 2003-March 2004), which was submitted to the Fund and World Bank in July 2004. The Government will continue to prepare annual progress reports to review progress in implementation, consistent with the recommendations of the Technical Committee for the Monitoring and Evaluation of PRSP Implementation Activities, the analytical quality of the reports will be enhanced. The Government is undertaking a study to improve participatory monitoring. The terms of reference have been prepared and submitted to development partners and civil society for comments and will be finalized by end-March 2005.

37. The next annual PRSP progress report will be finalized by end-September 2005. In the meantime, the Government will revise, by end-June 2005, some of the main elements of the PRSP, in preparation, among other things, for the 2006 budget and a 3-year economic program for which the government intends to request a new PRGF arrangement with the IMF. These elements include: (i) an update of the medium-term macroeconomic framework and poverty rate projections; (ii) an update of the PRSP section on the sources of growth and the role of the private sector; (iii) outlines of the medium-term sectoral strategies (e.g., industrial and trade development; tourism; mines; energy; post and telecommunications; and decentralization); and (iv) the development of a comprehensive medium-term expenditure framework drawing on new sectoral components that will underpin the overall PRSP and budget strategy. It is currently finalizing a social development strategy paper that focuses on employment, social security and national solidarity, promotion of gender equity and equality, satisfaction of basic needs, social education and specific urban development problems.

38. To improve PRSP impact monitoring and the analysis of poverty trends, the Government is gradually putting into place a statistical framework capable of producing indicators for the monitoring of progress towards the PRSP and the Millennium Development Goals (MDG). This framework is created with the support of development partners. To ensure quick progress in the production of statistical information, the Government will make the National Statistics Institute fully functional by putting into place its governing bodies. The Government has started preparations for a new census; the data collection will be completed by end-2005.

Reform of the downstream petroleum sector

39. The Government intends to further liberalize downstream activities in the oil sector. Despite the lack of competitiveness of the national refinery SONARA (partly due to incomplete technology and limited size), the Government considers the refinery as essential for domestic energy security. To this effect, it provides market protection for SONARA's products by limiting imports to 20 percent of domestic demand and by applying a surcharge above world market prices. The Government is aware of the substantial costs that this imposes on the economy, and is determined to reduce them. One option might be to find a strategic partner willing to invest in upgrading the refinery's technology (hydrocracking) and operate the refinery on a competitive basis. In the meantime, the Government will allow SONARA to recoup the sizeable losses it incurred in 2004 as a result of the slowing and later suspension of the mechanism that adjusted domestic petroleum product prices on a monthly basis in line with international market prices. Fuel prices were raised in December 2004 and January 2005, and the adjustment mechanism will be reinstated fully as of February 2005 and a loss-recovery element will be added during 2005 to fully recoup the losses incurred in 2004. Furthermore, the Government will continue to monitor the performance contract with SONARA.

40. With respect to the national petroleum storage company (SCDP), the Government will pursue an action plan that was elaborated together with the World Bank and adopt it by May 2005 with the objective of privatizing SCDP.

Forestry Sector

41. The Government will continue to implement and deepen the reforms in the areas of forestry and protection of the environment that were introduced under the Third Structural Adjustment Credit (SACIII). In particular, by end-June 2005, the Government will (i) sign (or issue a motivated rejection of) acts that provide clarity of land ownership status in a total of 38 forest management units (*décrets de classement*), (ii) sign final concession contracts with companies that have been found in compliance with legal and regulatory requirements; and (iii) sign a new three-year contract with an Independent Observer while making uninterrupted and effective use in the field of the support provided by the present Independent Observer, until the new Independent Observer has become operational.

Energy Sector

42. Energy problems are a major concern for the Government as insufficient electricity supply has restrained economic growth. After having privatized the National Electricity Corporation (SONEL) with IFC assistance, and in view of the insufficient energy supply, which constitutes a major handicap for industrial activities, the Government is gradually putting in place, in collaboration with the World Bank and the AFD, the components of its strategy for strengthening supply in the medium and long term. In this context, the Government will work closely with the World Bank to accelerate preparations for the possible construction of a natural gas-fired plant at Kribi, and to develop a comprehensive energy sector study to determine the best strategy for ensuring Cameroon's longer-term energy security; this study

will identify the optimal sequencing of further generation plants based on such criteria as cost and environmental impact.

Transport Sector

43. The Government has made substantial progress with the implementation of the port sector, particularly regarding the port of Douala, and is committed to completing the reform in 2005, including by upgrading capacities through the introduction of information technology in port operations. In the rail transport sector, the Government will meet its obligations toward the private operator (CAMRAIL) in accordance with the concession contract, and pay on a timely basis the annual subsidy of CFAF 2.5 billion as agreed for traveler service on the basis of the audit report prepared for this purpose; it will also ensure the payment of related arrears. In return, it will require that the private concession holder equally meet commitments taken in particular with respect to investment and quality of service. As regards road transport, the Government is determined to rehabilitate the road network, which has significantly deteriorated as a result of poor maintenance. It is therefore committed to (i) applying the memorandum of understanding agreed with the European Union in May 2004; (ii) securing increase of maintenance funding; and (iii) implementing institutional reforms, including that of the Road Fund. Given the very high cost of rehabilitating and maintaining roads, the Government will do its utmost to secure available external funding, including the grants offered by the European Union.

G. Program Monitoring

44. A prior action (Table 1) that is critical for ensuring the timely implementation of the Staff Monitored Program (SMP) for 2005 will need to be in place prior to a discussion of the program by the Executive Board of the IMF.

45. In order to monitor program implementation, the Government has established a number of reform measures as structural benchmarks (Table 1) and quantitative benchmarks (Table 2). The Government will review the implementation of the program together with the staff of the IMF on a quarterly basis.

46. In view of the uncertainties surrounding oil prices, external budget support, external debt relief and privatization receipts, the program includes built-in contingency mechanisms explained in the attached Technical Memorandum of Understanding (TMU).

47. Program implementation will be regularly reviewed in the context of interministerial cabinet meetings (*Conseils de Cabinet*), chaired by the Prime Minister, Head of Government. The Minister of Economy and Finance will supervise the implementation of the program, with the assistance of the Technical Committee for the Monitoring of Economic Programs (CTS). The CTS will provide the staff of the IMF, within the time limits indicated in the TMU, with all the data necessary to monitor the supported program effectively and on a timely basis.

48. The authorities will continue their efforts to expand the coverage of data and improve data quality and timeliness, particularly in the context of the General Data Dissemination

System (GDDS). With regard to national accounts, the Government compiled a new official data series on national accounts in accordance with the new National Accounts System adopted in 1993 (SNA93). In this context, the government and the staff of the IMF will adopt the new series, after revision of some data, as soon as possible. This new series will be critical for formulating, monitoring and assessing economic policies.

Table 1. Cameroon: Prior Action and Structural Benchmarks of Staff-Monitored Program for 2005

Prior Action

1. Sign contract with advisor on the privatization (*scission/liquidation/privatisation)* of CAMAIR.

Structural Benchmarks

1. Based on SIGEFI data for end-February 2005, prepare by end-March 2005 the TABORD on a cash basis consistent with the *Balance des Comptes du Trésor,* and a preliminary TABORD on a commitment basis.

2. Prepare and adopt a detailed time-bound action plan for the privatization (*scission/liquidation/privatisation*) of CAMAIR by end-June 2005.

3. Suspend opening of government accounts in commercial banks by March 31, 2005 and close the existing ones by end-June 2005.

4. Based on the audit of domestic debt as of end-2004, prepare by end-June 2005 a timetable for the repayment of the identified amounts of domestic debt over time.

5. Prepare by end-June 2005 a plan to replenish arrears to the HIPC account at the BEAC.

6. Suspend all budgetary spending advances by SNH (*interventions directes*), except for sovereign spending, by July 1, 2005.

7. Enhance transparency in the oil sector by publishing by end-June 2005 the main elements of SNH audit reports through 2003, and, subject to agreement by the oil companies concerned, the main elements of production-sharing and concession agreements.

8. Initiate the process of separating the financial and the postal activities of CAMPOST by end-August 2005, including through the preparation of a preliminary balance sheet.

9. Update national action plan to improve governance by end-June 2005.

Table 2. Cameroon: Quantitative Benchmarks During the Staff Monitored Program

(In billions of CFA francs; cumulative from January 1, 2005, unless otherwise indicated)

	End-March	End-June	End-Sept.	End.Dec.
	Program Target	Program Target	Program Target	Program Target
Ceiling on the increase in net claims of the banking system on the central government [1]	-53	-43	-48	-20
Floor on the non-oil primary budget balance [2]	37	20	12	4
Ceiling on the accumulation of external payments arrears of the central government [3 4 5]	0	0	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government [3 5 6]	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 5 7]	0	0	0	0
Floor on non-oil revenue of the central government [8]	281	531	791	1057
Floor on reduction of domestic debts				
Structured debt [9]	23	34	69	80
Non-structured debt [9]	1	2	3	4
Floor on the replenishment of the HIPC account [10]	4	9	12	18
Floor on payments to utility companies [11]				
SNEC	2	4	6	7
AES SONEL	2	3	5	6
CAMTEL	3	6	9	12
CAMRAIL	1	2	3	4
Memorandum items:				
Oil revenue	56	129	202	276
Assumed external debt relief	35	112	147	216
External program financing	0	0	17	23
of which: IMF	0	0	11	0
Privatization proceeds	0	0	0	0
Stock of net credit to the central government [12]	230	240	235	263

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

1/ This target is defined in paragraph 12 of the TMU and is adjusted as specified in section C of the TMU.
2/ The non-oil primary budget balance is defined in paragraph 11 of the TMU.
3/ Structural benchmark applied on a continuous basis.
4/ Excluding reschedulable external payments arrears.
5/ In millions of U.S. dollars.
6/ Terms defined in paras 2 and 3 of the TMU.
7/ Excluding normal, import-related credit.
8/ Non-oil revenue is defined in paragraph 9 of the TMU.
9/ Domestic debt is defined in the TMU (paras.5 and 6) .
10/ This target is defined in para. 13 of the TMU.
11/ Defined in paragraph 14 of the TMU.
12/ Excluding HIPC account.

The Enhanced HIPC Initiative Completion Point Triggers—Progress Through 2004

This interim note takes stock of developments through end-2004 towards the HIPC completion point triggers. It provides a factual update without passing judgment on the attainment of specific triggers. Good progress has been made on the HIPC completion point triggers pertaining to the social sectors and combating HIV/AIDS, but improvements in governance have been less satisfactory and the government was unable to implement fully the PRGF arrangement that expired in December 2004. Enhancements in public expenditure management have been achieved through the establishment of an integrated financial management system, but to improve fiscal transparency these should be integrated into normal government operations and fiscal reporting. PRSP implementation since it was completed in April 2003 has been less than comprehensive.

The government has established a number of committees to oversee progress on the implementation of the poverty reduction strategy, the attainment of the HIPC completion point triggers, and use of HIPC relief for social expenditures, but the operations of these committees have suffered from inadequate coordination with normal government operations.

The progress in implementing the HIPC completion point triggers as of end-2004 was the following:

1. ***The full PRSP has been prepared and satisfactorily implemented for at least one year.***

The full PRSP was completed in April 2003, and in July 2003, the Executive Boards of the IMF and the World Bank concluded it provided a satisfactory framework for the implementation of the authorities' poverty reduction strategy. The first Annual Progress Report on the implementation of the PRSP, examining implementation of the strategy from April 2003 to March 2004, was submitted to the IMF and the World Bank in July 2004. Overall, the progress report provides a relatively non-critical evaluation of progress, which has been good in some areas but modest elsewhere. One area of particular concern has been capital expenditure falling consistently short of that needed to achieve the objectives of the PRSP. This seriously undermines Cameroon's medium-term growth prospects given the country's strong infrastructure needs, particularly in the areas of energy and water provision and roads.

2. ***There is continued maintenance of a stable macroeconomic environment and satisfactory implementation of a new three-year PRGF arrangement.***

In recent years, Cameroon's growth and inflation performance has been solid, but fiscal performance weakened considerably in 2004. Non-oil revenue fell from 14½ percent of non-oil GDP in 2003 to 13½ percent in 2004, and the non-oil primary deficit deteriorated by almost 2 percentage points of GDP to reach 2.4 percent of GDP. Also, payments on domestic public debt and utility bills continued to fall behind, and the financial situation of some large public enterprises deteriorated. As a result of these developments, the PRGF arrangement went off-track.

3. ***The budgetary savings from the debt relief have been used in accordance with the criteria set forth at the decision point.***

The decision point document stipulates that programs and projects specifically related to poverty-reduction should be identified as such to allow a separation from other budgetary spending. While this was done, overall of poverty-related expenditure cannot be easily extracted as the breakdown of expenditure by function is not comprehensive, making a determination of the additionality of the HIPC spending difficult.

The document also calls for the establishment of a special Treasury account where the budgetary savings from HIPC relief would be deposited, and for regular auditing of the account with public dissemination of the audit results. The account has been established and the mechanisms for using it have been operating. However, the government has fallen behind in transferring realized HIPC relief to it. An audit on the use of the HIPC resources from July 2001-December 2003 was conducted and presented to the HIPC Consultative Committee in September 2004. Another audit is being contracted for the use of HIPC resources in 2004.

Further, the document demands the establishment of a monitoring committee consisting of representatives of the donor community and civil society. Such a committee was established in October 2002. The committee's work in 2002-03 focused on the selection of projects eligible for the use of HIPC resources, but their actual implementation was hampered by inadequate integration of HIPC spending in the budget execution cycle, resulting in slow disbursement of project funds. This process was, however, improved substantially in 2004.

The document further requires that an inter-ministerial committee coordinate quarterly financial and technical reports on the use of HIPC relief, to be discussed with the monitoring committee and made public through the media. In addition, the reports are to be discussed in semi-annual regional seminars. Voluminous reports have been published by the inter-ministerial committee and discussed at the monitoring committee, but they remain largely descriptive and do not offer much analysis of progress made towards the poverty reduction goals. Also, the regional seminars have not been held.

Finally, the criteria require that the involvement of donors and all relevant stakeholders in the use and monitoring of the debt resources be detailed in the full PRSP. This is the case.

4. ***SAC III has been concluded and reforms have been implemented in a satisfactory manner.***

The third structural adjustment credit, which was concluded in March 2004, supported a set of politically complex and ambitious reforms in the areas of transport, financial and forestry reforms and privatization. The time it took (since 1998) to implement this broad ranging agenda has in effect led to a stronger ownership of the reforms envisioned in the program.

4.1. ***Financial Sector***

All financial sector conditions linked to SACIII were satisfactorily implemented. The banking and insurance systems were successfully restructured, which led to an improvement in the quality and availability of financial services.

4.2. ***Privatization***

Overall, tangible progress has been made under the privatization program under the World Bank's SACII and SACIII. Mixed progress was recorded since the decision point.

Regarding telecommunications, the government has opened the sector to competition by issuing two cellular licenses, leading to improved service and lower costs. Also, some agro-industrial units such as SOCAPALM, CAMSUCO and the tea component of CDC were privatized, which led to an increase in planted surface and production.

However, the electricity company (SONEL) was privatized, but encountered severe difficulties, largely due to lack of managerial competence and financial resources. No bids were received for the sale of the three remaining crops of the agro-industrial complex CDC. Also, negotiations with the bidders for the fixed telecoms (CAMTEL) and water (SNEC) companies fell through. Despite these setbacks, the Government has remained committed to the privatization of the telecoms, water and agroindustrial complex and with the assistance of IDA, has reviewed its approach to privatization and has relaunched the process.

4.3. ***Transport Sector***

Road sector: an autonomous Road Fund was established in 1998 to secure adequate funding and timely disbursement of road maintenance activities by the private sector. The amount and quality of road maintenance financed by the Road Fund have steadily increased over the last three years of its operations, although services provided continue to lag far behind needs.

Port reform: Ambitious and far-ranging institutional reforms have been completed resulting in reduced costs and clearance times, and streamlined operations significantly.

4.4. ***Forestry Sector***

Cameroon was a pioneer in the implementation of politically very complex and ambitious reforms in the forestry sector in order to improve governance. The reforms supported by SAC III have created a policy and regulatory environment and an incentive framework conducive to environmentally sustainable development for the sector.

5. ***The priority strategy and action plan for improving governance and combating corruption attached to the I-PRSP have been satisfactorily implemented, in particular:***

- ***In the area of judicial reform, (i) the Chambre des Comptes (audit office) and (ii) the Conseil Constitutionnel have been created.***

- ***The public procurement system has been reformed and, in particular, audits for the preceding fiscal year have been completed and appropriate follow-up actions implemented, in accordance with the law.***

- ***In the area of budgetary execution and service delivery, the results of the budget tracking exercises and beneficiary assessments for education and health have been published and the relevant recommendations have been implemented.***

In June 2000, the Government approved the National Governance Program (PNG) that was prepared through a participatory process involving all active forces within the Cameroonian Society. To ensure effective implementation of the PNG, the Government adopted a Priority Action Plan in August 2000, to improve governance and fight corruption.

In the area of the judicial sector reform, the government has conducted a technical diagnostic study to identify the obstacles explaining the poor performance of Cameroon Justice system and recommended institutional measures to improve the quality of the judicial system. The study serves as the basis for the operational action plan that was developed and adopted in December 2003 during a seminar involving all main stakeholders. The Government has tackled the problem of abusive attachment of bank accounts (*saisie attribution*), which was threatening the financial sector and business confidence in 2001/02.

The law specifying the responsibilities, organization, and functioning of the *audit office* for State Finances (*Chambre des Comptes*) of Cameroon's Supreme Court was adopted in 2003. The president and 2 members of the audit office were nominated in April 2004; the nomination of the remaining financial magistrates is necessary for the office to become operational.

The laws specifying the responsibilities, organization, and functioning of the *Constitutional Council* were adopted by the National Assembly in March 2004. A revised action plan, specifying next steps for making the council operational while taking into account financial constraints, is to be prepared.

The public procurement system has been satisfactorily reformed, with a new public procurement code, fully operational oversight agency and special oversight committees, and regular ex-post audits for public contracts. The focus should now be on taking sanctions against identified cases of misconduct.

The Government carried out a *budget tracking and beneficiary assessment* in the health and education sectors in 2004 in order to evaluate the quality of public expenditure and identify bottlenecks that hamper its effectiveness. The health report has been produced and an action plan adopted, while the education is being finalized.

6. ***Regulatory agencies for key sectors (including water, electricity, and telecommunications) are autonomous and are operating in an efficient and professional manner.***

Regulatory agencies have been set up in the telecoms and electricity sector. In the telecoms sector, an independent regulatory authority has been established which is separate, in a legal and functional sense, from the postal ministry and has its own sources of finance; this regulator is functioning effectively.

7. ***Education sector. The sector strategy has been satisfactorily implemented in a timely manner, and in particular: (i) 2500 new classrooms have been built; and (ii) teacher management has been effectively decentralized and new teacher statutes have been adopted and implemented.***

The Government has continued to implement the Education Sector Strategy of 2000. School enrollment rates have increased significantly as school fees in public primary schools were abolished, and instruction materials were allocated to schools. However, repetition and drop-out rates remain very high and only 60 percent of children complete primary education. A law aiming at promoting private education institutions was approved by Parliament. The government rehabilitated and constructed classrooms in public primary and secondary schools with focus on priority education zones; as of March 2004, over 2800 classrooms had been built and resources for further construction have been budgeted.

In an attempt to reduce the excessive centralization, the Government has started to take measures decentralize resource management, and this process is continuing according to a timetable agreed with IDA. School councils, including beneficiaries, local communities, parents, students and teachers, have responsibility for budget supervision, and general control and evaluation of school operations. The Education sector governance watchdog (*Observatoire de la Gouvernance*) has been created and has reported on several cases involving corruption, which led to sanctions.

8. ***Health sector. The sector strategy has been satisfactorily implemented in a timely manner, and in particular: (i) child immunization rates for DPT have been increased to 70 percent; and (ii) knowledge about protection and prevention measures against malaria will have substantially increased, i.e., 50 percent of pregnant women are using impregnated bed-nets.***

Implementation of the Government's Health Sector Strategy since October 2001 yielded a number of results. All health district teams have been put in place and provided with operating budgets; the decentralization of health services to the provincial and peripheral levels is very advanced. The Government has started sub-contracting NGOs, which often work in remote areas not served by the public sector.

A number of major public health programs (e.g., immunization, malaria, HIV/AIDS) have been revamped during the past few years with good initial results. The vigorous implementation of the Expanded Program on Immunization (EPI) increased immunization rates (for example, for DPCT3 from 43 percent in 2001 to 72 percent in 2003). Similar efforts have been made to restructure and reinforce the malaria program. HIPC resources were instrumental in the distribution of free impregnated bed nets to pregnant women, and the government has taken a number of measures to improve their availability and use.

9. ***Concrete progress has been made to prioritize the fight against HIV/AIDS in the government's overall development agenda and to curb infection rates among the population, with particular emphasis on education to promote the use of condoms by truck drivers, port workers, and soldiers to 50 percent, and by commercial sex workers to 70 percent.***

The government adopted a strategic plan for the 2000-05 period to combat HIV/AIDS, which has mobilized and funded over 3,000 communities through public-private-religious partnerships. Key accomplishments include: (i) expanded voluntary counseling and testing; (ii) reduced mother to child HIV transmission; (iii) promotion of ARV therapy through 18 designated centers nationwide and cost reduction of ARV treatment by 70 percent. Some 7,500 patients have been placed under ARV treatment, including 700 low-income patients. Communication activities to induce behavior changes have focused on a massive communication campaign through public and private media and the distribution of condoms. The HIV/AIDS infection rate estimate was revised downward to 5.5 percent of the adult population in 2004.

Technical Memorandum of Understanding on the Definitions of the Targets of the Staff-Monitored Program for 2005 and the Modalities of Their Adjustment

A. Introduction

1. This memorandum sets out the understandings between the Cameroonian authorities and the staff of the International Monetary Fund (IMF) regarding the definitions of the targets of the staff monitored program (SMP) and the contingency mechanism related thereto. It also specifies the program's exchange rate projection and the data-reporting requirements.

B. Definitions

External debt

2. "Debt" shall have the meaning set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (Decision No. 12274–00/85, dated August 24, 2000).

Concessionality of external debt

3. Debt is considered to be concessional if it includes a grant element equivalent to 35 percent or more, calculated on the basis of the commercial interest reference rate (CIRR) and following the methodology set out in staff paper on "Limits on External Debt or Borrowing in Fund Arrangement – Proposed Change in Implementation of the Revised Guidelines" approved by the IMF Executive Board on April 15, 1996.

Cash relief from external debt rescheduling

4. For the purpose of the program, the only form of debt relief that will be subject to the contingency mechanism described below is the one that leads to an effective reduction in programmed debt service. This excludes any 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 operations with commercial creditors, and for which no provision for debt service has been made in the fiscal program (except for up-front costs).

Domestic debt

Structured debt

5. Structured debt is defined as the stock of debt as of end-December 2004 resulting from the multiyear settlement plan for public domestic arrears as recorded by the *Caisse Autonome d'Amortissement (CAA)*. At end-December 2004, the stock of this debt (excluding BEAC's advances) amounted to CFAF590.1 billion. Such debt comprises two categories:

securitized debt and nonsecuritized debt. Securitized debt comprises consolidated BEAC debt and bank debt, cross debt that is supported by a formal agreement, insurance company debt, securitized public works (BTP) debt and securitized wage arrears. Nonsecuritized debt includes, nonsecuritized public works (BTP) debt, debt to the public, semipublic and private enterprises; and wage arrears (Rompus). Structured debt service consists of principal and interest.

Nonstructured debt

6. Nonstructured domestic debt was contracted by the state of Cameroon and specified in the multiyear settlement plan for public domestic arrears as recorded by the *Caisse Autonome d'Amortissement (CAA)*. As of end-December 2004, this debt amounted to CFAF179.8 billion. Nonstructured debt is defined as debt not yet subject to a formal agreement (convention), cash payment, or securitization. Nonstructured debt service consists of principal and interest.

Arrears identified in early 2005 debt audit

7. All payments that are made for expenses incurred in 2004 or earlier, including the payments of arrears that will be established in the early 2005 audit of domestic debt of the State of Cameroon, are included as budgetary expenditures and recorded within the expenditure items as described below, with the exception of the payments made under CAA's multiyear settlement plan described above.

Government financial operations table (TOFE)

8. The Treasury balance (*Balance des comptes du Trésor*) shows Government revenue and expenditure posted in Class 6 accounts (current expenditure), Class 7 accounts (current revenue), and Class 2 accounts (investment operations). Debt-related operations are recorded in Class 1 accounts (debt operations) and partly in Class 5 (financial operations).The financial operations data must be consistent with the data in the treasury account at the BEAC. Data on provisional revenue and expenditure operations and deposits of the correspondents of the treasury are recorded in Class 4 accounts of the Government's chart of accounts (*plan comptable)*. Government operations that are not carried out through the treasury need to be added to the data on operations that are directly carried out through the treasury. Revenue and expenditure operations are recorded on a cash basis. Carryover operations (*opérations de journée complémentaire)*, if any, are recorded in the final month of the fiscal year.

Non-oil revenue

9. Non-oil revenue comprises all central Government (tax and non-tax) revenue, excluding revenue from oil companies and the *redevance pétrolière*. VAT is recorded net of VAT refunds. The pipeline fee is recorded as part of non-tax revenue.

Privatization proceeds

10. For the purpose of this memorandum, privatization proceeds will be understood to mean all funds received by the central Government from the sale or concessioning of the operation of a public company or organization or publicly owned facilities to one or more private company(ies) (including companies that are fully controlled by foreign Government(s), private organization(s), or individual(s)). Privatization receipts also include all funds received from the sale of shares owned by the Government in private companies or public enterprises. All privatization proceeds should be recorded on a gross basis; if any costs are incurred in connection with the sale or concessioning, these must be recorded separately as expenditure. Privatization proceeds are recorded as a financing item in the fiscal operations table.

Non-oil primary budget balance

11. The non-oil primary budget balance (on a cash basis) is calculated as central Government non-oil revenue, excluding external grants, less all expenditure other than interest payments, foreign-financed investment expenditure, restructuring expenses, and separation grants.

Net bank credit to the Government

12. Net claims on the central Government by the banking system comprise the stock of all outstanding claims on the central Government (loans, advances, and any 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, excluding the HIPC account.

Replenishment of the HIPC account

13. The target relating to “replenishment of the HIPC account” will be considered observed if the HIPC account at the Bank of Central Africa States (BEAC) receives the quarterly transfers indicated in Table 2 of the MEFP, and transfers from this account are made solely for the purposes of paying for HIPC projects.

Payments to utility companies

14. The target relating to “payment to utility companies” will be considered observed if payments to the utility companies (water, electricity, fixed-line telephones, and railway company) are made in quarterly amounts, as indicated in Table 2 of the MEFP. These payments are understood to exclude fiscal compensation, and they are assessed on the basis of cash disbursements. They are to be registered as current expenditures in the TOFE.

Budgetary spending advances (*interventions directes)* by SNH

15. Budgetary spending advances *(interventions directes*) are defined as advance payments by the SNH on behalf of its Government mandate in oil operations (*mandat*). They are deducted from the monthly cash revenue that are transferred by the SNH to the Government. Such advance payments will be strictly limited to sovereign expenditure from July 2005 on. *Interventions directes* will continue to be imputed in the table on financial operations of the government (TOFE) on a monthly basis on the revenue and expenditure side.

Quasi-fiscal spending by SNH (*autres charges*)

16. SNH's spending to cover costs that are not shared with the other oil companies as part of the production-sharing agreements are called *autres charges* (other spending). Some of this is related to SNH's Government mandate in oil operations (*mandat*), e.g., decommissioning costs. Other elements of this spending are not related to SNH's oil sector activities and quasi-fiscal in nature (e.g., the cost of operating the Chad-Cameroon oil pipeline).

C. Modalities of the Contingency Mechanism for the Adjustment of Targets

17. The ceiling on net bank credit to the Government will be adjusted

- upward by half the amount of lower-than-programmed oil revenue;
- upward/downward by half the amount of lower/higher-than-programmed external budget support including debt relief;
- downward by the full amount of lower-than-programmed restructuring expenditure;
- downward by the full amount of lower-than-programmed payments of domestic debt (as defined above);

18. Higher-than-programmed oil revenue and all privatization proceeds will be allocated to repayments of domestic debt (as defined above) and/or the replenishment of the HIPC account above the program targets.

19. In case the shortfall/excess in oil revenue, external budget support (including debt relief), privatization revenue, and/or adjustments in the ceiling on net bank credit to the Government exceed a cumulative 0.2 percent of GDP, the Government will consult with the staff of the IMF to formulate corrective policies and to adjust the targets of the program.

D. Program Exchange Rates

20. Exchange rates to be applied for the conversion of amounts in SDR or U.S. dollars are US$1.5403 per SDR and CFAF 488.46 per U.S. dollar for the first quarter 2005,

US$1.5403 per SDR and CFAF 488.38 per U.S. dollar for the second quarter 2005, US$1.5404 per SDR and CFAF 488.34 per U.S. dollar for the third quarter 2005, and US$1.5407 per SDR and CFAF 488.34 per U.S. dollar for the fourth quarter 2005. IMF liabilities, which are included in the definition of net claims on the central Government by the banking system, will be valued at the same exchange rates. Any deviation from the exchange rate will lead to a full upward or downward adjustment, as appropriate, of the value of the stock of IMF liabilities at the central bank, and to a similar adjustment of the ceiling on net bank claims on the Government by the banking system.

E. Prior Action

21. The prior action on the signing of a contract on privatization (*scission-liquidation-privatisation)* of CAMAIR will be considered observed when the contract between the Government and the advisor will be formally signed by both relevant parties. The contract will include the terms of reference of the advisor and the length of the mandate (which will not exceed 18 months altogether). The terms of reference will indicate that the advisor will be guided by the following principles: (i) the existing company CAMAIR will be liquidated; (ii) if a new airline company is established with the viable assets of CAMAIR, the Government will hold a minority share in this company; and (iii) the Government will not inject in 2005 any other budgetary support beyond (a) covering the costs related to liquidation of the existing company, and (b) transferring the viable assets to the new airline company if it is established. The terms of reference will be submitted for consideration to the staffs of the IMF and the World Bank prior to the signing of the contract.

F. Structural Benchmarks

Suspension of budgetary spending advances by SNH (*interventions directes*) except for sovereign spending

22. The structural benchmark (continuous basis) on the suspension of budgetary spending advances by SNH except for sovereign spending will be considered to be observed if, as of July 1, 2005, SNH no longer makes advance payments on behalf of the Government (*interventions directes*), other than sovereign spending, on account of its Government mandate in oil operations (*mandat*). From July 2005, the monthly cash transfer to the Treasury by SNH on account of its Government oil operations during the month should be equal to the transferable balance less sovereign expenditure as calculated by the SNH and agreed with the Ministry of Economy and Finance.

Consolidation of Government accounts in commercial banks into single Treasury account at the BEAC

23. The structural benchmark (continuous basis) on the consolidation of all Government accounts into the single Treasury account at the BEAC will be considered met if no new government accounts at commercial banks are opened from March 31, 2005 and if all government accounts are closed by end-June 2005. This excludes accounts managed by a

public legal management committee (e.g., management committee of schools), and those required to manage externally-funded projects. A report prepared by the Treasury that documents the effective closure of the government accounts and the transfer of the remaining balances to the single Treasury account of the BEAC will be submitted to the staff of the IMF.

Domestic arrears payment plan

24. The structural benchmark on the preparation of a plan to repay domestic arrears will be considered observed upon receipt by the staff of the IMF of a detailed plan specifying the arrears repayment schedule over time. The plan will be based on the audit undertaken in early 2005 of domestic debt, which will compile all Government arrears and debt as of end-2004 that have not yet been established by previous audits. The plan will specify the repayment schedule by main categories of creditors, including public enterprises and autonomous Government agencies. The schedule will be specified on a quarterly basis in 2005, consistent with the Government's quarterly financial program, and on an annual basis beyond 2005.

Preparation of consistent fiscal reports

25. The structural benchmark on the preparation by end-March 2005 of a fiscal operations table (TABORD) consistent with the Treasury balances (*Balance des Comptes du Trésor*) and the data provided by the information and financial management system (SIGEFI) will be considered observed following the receipt by the staff of the IMF of a table tracking the consistency of data provided by the SIGEFI. In particular, this refers to the consistency between (i) the data of the preliminary Treasury balances, from the end-February 2005 data, and the TABORD on a cash basis using the new chart of accounts; (ii) the preliminary data reported by the Budget Directorate, which will include budgetary commitments (*ordonnancement*)—using the same presentation as in the TABORD—and operations outside normal budgetary procedures, and the payments on account of fiscal year 2005 only as reported by the preliminary Treasury balances; (iii) the data reported by the Budget Directorate on budgetary commitments (*ordonnancement*) in the fiscal year 2005 and the payments on account of fiscal year 2005 only as reported by the preliminary Treasury balances; and (iv) the data from the CAA and the preliminary Treasury balances.

Replenishment of HIPC account

26. The structural benchmark on a plan to replenish the HIPC account by end-June 2005 will be considered observed following completion of a plan specifying the repayment schedule of the counterpart of the debt relief under the enhanced HIPC Initiative that has not been transferred to the HIPC account at the BEAC at end-December 2004; this amounted to CFAF76 billion. The repayment schedule will take into account the quarterly financial programming of the budget for 2005, including the quantitative targets on the replenishment of the HIPC account at the BEAC (as indicated above), and medium-term budget projections.

Action plan on privatization (scission-liquidation-privatisation) of CAMAIR

27. The structural benchmark on the preparation and adoption by end-June 2005 of a detailed time-bound action plan for the privatization (*scission-liquidation-privatisation)* of CAMAIR will be considered observed upon receipt by the staff of the IMF of a detailed action plan formally adopted by the Government, drawn up in coordination with the advisor, and that specifies a timeline allowing for the completion of the privatization (*scission-liquidation-privatisation)*. The action plan will comply with the guiding principles described in the prior action above. It will be submitted to the staffs of the IMF and the World Bank for their consideration prior to its approval by the Government.

Separation of postal and financial activities of CAMPOST

28. The structural benchmark on the separation of the financial and postal activities of CAMPOST by end-August 2005 will be considered observed following (i) the establishment of two separate preliminary balance sheets for the postal and the financial activities, which will be based on the results of the audit of the savings accounts of CAMPOST undertaken by June 2005 that ascertains the level of savings deposits held at CAMPOST; (ii) a government decision instructing the Board of CAMPOST to initiate the separation of CAMPOST's financial and postal services into two legally and financially autonomous agencies. The World Bank will be consulted in preparing the actions mentioned above.

Publication of SNH audits and production sharing agreements

29. The structural benchmark on the publication of SNH's audit reports and the production sharing agreements by end-June 2005 will be considered observed following the publication by the Government or the SNH on a website of: (i) the main elements of existing audits covering SNH's activities, both for the operations on behalf of the Government (*mandat*) and its own activities (*operations*), including the respective audits covering fiscal years 2000/01, 2001/02, transitory 2002, and 2003 (the main elements include the financial and management accounts, including the related attachments); and (ii) after having sought and obtained the agreement of the oil companies concerned, of the main elements of all production sharing and similar contracts concluded between SNH and other oil companies that are currently in place in Cameroon (the main elements include the provisions on production, cost sharing, and the tax regime).

Update National Governance Action Plan

30. The structural benchmark on the update of the national action plan to improve governance by end-June 2005 will be considered observed upon receipt by the staff of the IMF of an updated national action plan on governance that will be prepared in collaboration with the UNDP under its new governance project with Cameroon.

G. Reporting Requirements

31. The Cameroonian authorities will send data, as per the attached Table 1, to the Fund within the time limits set out in that table. Unless otherwise specified, the data are to be provided in the form mutually agreed by the authorities and the Fund. The authorities will supply the Fund, on a timely basis, with any additional information that the Fund requests for the purpose of monitoring implementation of the program.

Table 1. Cameroon: 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	25th of the month for the previous month's data
	Net credit by the banking system to the central government	Monthly	10th of the month for the previous month's data for the preliminary series 25th of the month for the previous month's data for the final series
	Interest rates	Irregular	One week after new rates announced
	Transactions through the HIPC Initiative account opened at the BEAC, including credit and debit	Monthly	10th of the month for the previous month's data
	Status report on all government deposits at the BEAC	Monthly	10th of the month for the previous month's data
Fiscal data	Government financial operations table (TOFE), including revenues, expenditure, financing, and domestic debt payments (including settlement of domestic arrears)	Monthly	Three weeks after the end of the month concerned for the preliminary series. Eight weeks after the end of the month for the final series.
	Treasury balances of a given month	Monthly	Three weeks after the end of the month concerned for the preliminary series. Eight weeks after the end of the month concerned for the final series
	Report on the implementation of the domestic debt settlement plan	Monthly	25th of the month for the previous month's data
	VAT refunds' balances (both refunds requested and refunds paid)	Monthly	25th of the month for the previous month's data
	Investment budget execution report	Quarterly	Two months after the end of month concerned

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	Expenditure reports by selected ministries	Quarterly	Two months after the end of quarter concerned
	SNH operations, including export volumes, exchange rates, prices, values, operating costs (including a detailed list of *autres charges*), *autres engagements*, transferable balance, *interventions directs*, and balance transferred (cash basis).	Monthly	25th of the month for the previous month's data
	HIPC spending in the budget execution (*engagements, ordonnancement, paiements)*	Monthly	25th of the month for the previous month's data
Public companies	Payments of bills to public enterprises (SNEC, CAMTEL, AES SONEL, CAMRAIL)	Monthly	20th of the month for the previous month's data
	Payments made to or on account of CAMAIR (for bills, subsidies, loans, arrears …)	Monthly	20th of the month for the previous month's data
Real sector data	Consumer price index, Yaoundé and Douala	Monthly	20th of the month for previous month's data
	National consumer price index	Quarterly	Six weeks after the end of the quarter concerned
	Index of industrial production	Quarterly	Two months after the end of the preceding quarter
	National accounts		
	• Flash series	Annual	Twelve months after the end of the year
	• Provisional series	Annual	Eighteen months after the end of the year
	• Final series	Annual	Twenty four months after the end of the year

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
Balance of payments data	Imports by use and major export products, trade balance	Monthly	25th of the month for the previous month
	Price and volume indices of imports and of exports	Quarterly	One month after the end of the quarter concerned
	Consolidated balance of payments summary estimates	Annual	Six months after the end of the year
External debt	Debt-service due before and after debt relief		At the beginning of the year; updates as needed
	Debt service paid cash	Monthly	25^{th} of the month for the previous month's data
	Debt service table by loans ("access table")	Monthly	25^{th} of the month for the previous quarter's data
	Stock of outstanding debt and arrears	Monthly	25^{th} of the month for the previous quarter's data
	New loans, specified by creditor and project, with quarterly projection of disbursements for the next eight quarters.	Monthly	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: Public Sector Debt Sustainability Analysis[14]

A preliminary debt sustainability analysis (DSA) suggests that Cameroon's debt situation is manageable, and is not highly vulnerable to shocks. However, the available debt data is not fully comprehensive as external debt data for public enterprises is not available and data on domestic arrears are incomplete. Efforts are underway to develop a comprehensive debt data.

A. Introduction

32. **The Cameroonian authorities felt the low-income debt sustainability framework would be a useful tool for their debt management efforts because of its capability for stress testing and for cross-country comparisons**.[15] However, this debt sustainability framework can produce different results from the calculations under the HIPC Initiative because the methodologies used for computing net present values (NPV) differ. Thus, caution is needed in interpreting the results from this framework for HIPCs in their interim period between the decision and completion points.

33. **The DSA involved four steps, using separate templates to analyze external debt and total public sector debt.** First, a medium- and long-term baseline scenario for the balance of payments and fiscal positions was developed. Debt ratios were computed for the baseline scenarios, assuming no HIPC completion point relief.[16] Then, standardized stress tests were applied to assess the country's vulnerability to alternative macroeconomic assumptions and exogenous shocks. Finally, alternative scenarios assuming slightly different underlying assumptions were devised, including one where Cameroon reaches the HIPC completion point in early 2006. There were three important missing pieces of data for carrying out the analysis: the external debt of public enterprises, data on private sector external debt, and complete data on domestic arrears. The analysis therefore only reflects government and government-guaranteed external and domestic debt.

B. Size and Origins of the Public Sector Debt

External debt

34. **External debt increased sharply between 1985 and 2004, mainly reflecting severe terms of trade shocks in the mid-1980s, a long economic depression and a fiscal crisis in the early 1990s.** As a result, the country had six rescheduling agreements with the Paris Club

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[14] For an earlier detailed analysis of debt sustainability, see Country Report No. 03/401, Appendix II.

[15] That framework is described in "Debt Sustainability in Low-Income Countries – Further Considerations on an Operational Framwork and Policy Implications"(www.imf.org).

[16] All projections of debt service from existing debt were provided by the Cameroonian debt management agency (Caisse Autonome d'Amortissement).

between 1989 and 2001. The Paris Club treatments were on debt service flows only. Cameroon's debt stock exceeded the relevant enhanced HIPC Initiative thresholds and in December 2000, Cameroon reached its HIPC decision point. At end-1999, the nominal stock of public external debt was US$7.6 billion (about 85 percent of GDP) and has remained around the same nominal level through end-2004, though it dropped to around 52 percent of GDP owing to strong GDP growth and valuation changes. Average relief provided on debt service payments has been substantial, averaging about 4.2 percent of GDP in 2003-2004. This includes provision of interim debt relief under the HIPC Initiative and additional debt relief by key bilateral creditors (together some US$49 million in 2004). As a result of its extremely tight fiscal position in 2005, Cameroon is expected to accrue arrears on all debt service resulting from pre-cut off date debt. Assuming a PRGF arrangement could be agreed in 2005, the authorities intend to seek a seventh Paris Club rescheduling, which could render around 2.7 percent of GDP in debt relief for 2005.

35. **The country's main creditors are Paris Club members, accounting for 70 percent of the stock of nominal debt.** Multilaterals account for around 30 percent, and commercial creditors account for around 3 percent. All debt to commercial creditors (about US$200 million) is in arrears and owed to creditors who did not participate in the 2003 London Club agreement. The Cameroonian authorities are still seeking agreements with the remaining creditors, but one creditor successfully sued and seized some US$43 million in 2004.

Domestic debt

36. **The total domestic debt is estimated at 12.2 percent of GDP at end-2004** (Table 9). Similarly to external debt, a large part of domestic debt was accumulated prior to and during the crisis of the early 1990s. An estimated 60–65 percent of this debt was contracted prior to 1994. The total domestic debt includes arrears of CFAF 179.8 billion (2.3 percent of GDP) identified in previous audits. About 41 percent of the total debt was securitized, all prior to 2000. Securitized debt includes debt to commercial banks, a part of the debt to insurance companies, and a large part of civil service wage debt. The non-securitized debt of the non-bank sector comprises major public creditors like the social security fund (*Caisse nationale de prévoyance sociale*, CNPS) and the national office for the sale of basic goods (*Office national de commercialisation des produits de base*, ONCPB).

37. **The government is undertaking a new audit to improve the transparency and effective management of domestic debt.** Based on the audit results, the authorities will prepare a payment plan to clear domestic arrears. In a second step, the audit will identify the cross liabilities between public enterprises and the government, as well as public enterprises' external debt obligations.

Table 9. Cameroon: Domestic Debt, 2004

	In CFAF billions	In percent of total	In percent of GDP
Structured debt	763.9	80.9	9.9
Banking system	323.6	34.3	4.2
Non-banking sector	440.3	46.7	5.7
Securitized	376.0	40.0	4.9
Non- securitized	64.3	6.8	0.8
Arrears	179.9	19.1	2.3
Total	943.7	100.0	12.2

Source: Cameroonian authorities.

C. Underlying DSA Assumptions

38. **The baseline scenario (Figure 5, Tables 10–11) for the analysis assumes:**

- Real annual growth of 3.9 percent in 2005, gradually accelerating to just over 5 percent through 2020, and inflation (GDP deflator) of around 1.5 percent and a current account deficit of around 2 percent of GDP.

- A gradual strengthening of the fiscal position, with the non-oil primary balance[17] increasing from a surplus of 0.1 percent of non-oil GDP in 2005 to 1.0 percent in 2020. A decline in oil revenue from 3.5 percent of GDP to 0.6 percent is partially offset by an increase in non-oil revenue from 13.5 to 17.4 percent of GDP from 2005 to 2020. Non-interest expenditure is projected to increase gradually from 13.4 percent to 16.4 percent of GDP.

- Scheduled debt service on existing external debt decreases from around US$860 million in 2005 to US$275 million in 2020. New financing is assumed to remain just under 1 percent of GDP per year through 2025, with a grant element of 35 percent.

39. **The HIPC completion point scenario is based on the same assumptions for the balance of payments and fiscal frameworks and the level of new financing**. The key

[17] Defined as total revenue including grants minus total noninterest expenditure.

difference is that projected debt service from existing debt is reduced sharply from 2006 onward due to HIPC completion point relief, with scheduled debt service payments declining to US$315 million in 2006 and to US$150 million in 2020. The other alternative scenarios assume key variables at historical averages, rather than using projections, and less favorable terms for new financing. The alternative scenarios and stress testing for total public sector debt were slightly different, but were based on the same basic assumptions.

D. Results

External Debt

40. **Based on the baseline scenario of the DSA, the external debt situation appears manageable**. The NPV of debt to exports[18] falls from 165 percent in 2004 to 130 percent in 2006, continuing down to 89 percent by 2010 (Table 10). The table shows the change in external debt each year, disaggregated by a variety of net debt-creating flows: strong GDP growth, for example, is relatively significant in reducing net debt-creating flows. Exceptional financing, which includes debt relief and arrears, is also shown as a strong factor in reducing external debt. The debt service-to-exports ratio is 22.5 percent in 2005 and is reduced to around 10 percent in 2010. The debt service ratio reflects scheduled debt service rather than expected actual payments, that is, it does not reflect debt relief received as a result of Paris Club flow rescheduling or HIPC interim assistance. The debt service ratio payable after debt relief is in the single digits in all years.

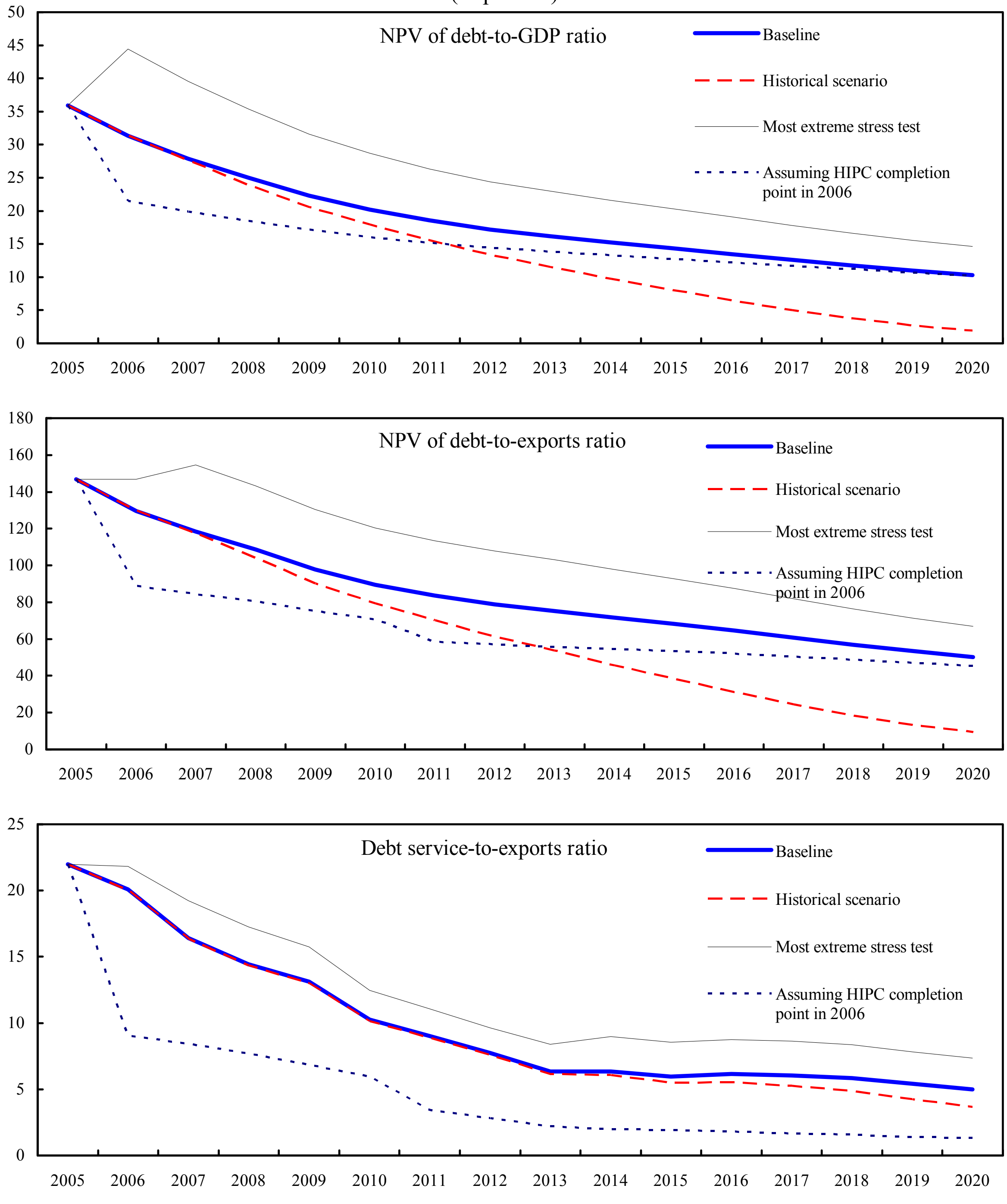
41. **The stress testing on the baseline suggests that Cameroon's external debt situation should remain sustainable through 2010, even under a variety of shocks.**[19] Table 11 and Figure 5 summarize the results of the stress testing and the alternative scenarios. The tests assume a shock of one standard deviation below the average in 2004-2005[20] in terms of GDP growth, export value growth, the GDP deflator, other balance of payments inflows, and a combination of these effects. It also assumes a one-time 30 percent nominal depreciation of the currency in 2004. Under virtually all of the tests, the debt ratios remain manageable through the medium-term. The NPV of debt to exports does exceed 150 percent very slightly two years after the end of the export shock. This particular stress test is significant in the sense that it simulates a drop in oil prices or production in any given year, which would also affect government revenues. Similarly, the alternative scenarios

[18] Using current year exports, not a backward-looking three year average as under HIPC Initiative calculations.

[19] The actual analysis was carried out through 2025 and all ratios continue to improve from 2010 through 2025.

[20] The simulated shock happens in 2004, a year that is already past, but this is not relevant from the perspective of evaluating the medium-term impact of the shock.

Figure 5. Cameroon: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2005-2020
(In percent)



Source: Staff projections and simulations.

Table 10: Cameroon: External Debt Sustainability Framework, Baseline Scenario, 2004-2020 1/
(In percent of GDP, unless otherwise indicated)

	Actual	Historical Average 5/	**Projections**						
	2004		2005	2006	2007	2008	2009	2010	2020
External debt (nominal) 1/	**49.6**		**45.3**	**43.9**	**42.6**	**41.3**	**39.9**	**38.5**	**26.6**
o/w public and publicly guaranteed (PPG)	49.6		45.3	43.9	42.6	41.3	39.9	38.5	26.6
Change in external debt	-9.9		-4.3	-1.5	-1.3	-1.3	-1.4	-1.4	-1.1
Identified net debt-creating flows	-6.6		0.0	-0.1	0.2	0.8	0.6	0.4	0.5
Non-interest current account deficit	**-0.2**	**0.9**	**0.3**	**0.8**	**1.2**	**2.0**	**2.0**	**1.9**	**1.6**
Deficit in balance of goods and services	2.5		2.9	3.1	3.3	3.9	3.7	3.5	2.6
Exports	26.2		24.5	24.2	23.5	23.0	22.8	22.6	20.6
Imports	28.7		27.4	27.3	26.9	26.8	26.5	26.1	23.2
Net current transfers (negative = inflow)	-0.9	-1.2	-1.0	-0.9	-1.0	-0.9	-0.9	-0.9	-0.7
Other current account flows (negative = net inflow)	-1.8		-1.6	-1.3	-1.1	-0.9	-0.8	-0.7	-0.3
Net FDI (negative = inflow)	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.1**
Endogenous debt dynamics 2/	**-6.2**		**-0.2**	**-0.6**	**-0.9**	**-1.0**	**-1.2**	**-1.3**	**-1.1**
Contribution from nominal interest rate	1.8		1.6	1.3	1.1	0.9	0.8	0.7	0.3
Contribution from real GDP growth	-2.2		-1.8	-2.0	-2.0	-2.0	-2.0	-2.0	-1.3
Residual 3/	**-3.3**		**-4.2**	**-1.4**	**-1.5**	**-2.0**	**-2.0**	**-1.9**	**-1.6**
o/w exceptional financing	-4.1		-2.6	-2.7	-1.7	-1.5	-1.4	-1.0	-0.2
NPV of PPG external debt	**43.4**		**35.9**	**31.4**	**27.9**	**25.0**	**22.3**	**20.2**	**10.3**
In percent of exports	165.6		146.8	129.5	118.5	108.7	97.7	89.4	50.1
PPG debt service-to-exports ratio (in percent)	22.5		22.0	20.1	16.4	14.5	13.2	10.4	5.6
Key macroeconomic assumptions									
Real GDP growth in US dollars terms(in percent)	4.3	4.2	3.9	4.6	4.8	4.9	5.1	5.3	5.2
GDP deflator in US dollar terms (change in percent)	10.7	2.3	7.3	1.8	1.4	1.3	1.5	1.5	1.9
Effective interest rate (percent) 4/	3.5	4.8	3.6	3.1	2.7	2.4	2.1	1.9	1.0
Growth of exports of G&S (US dollar terms, in percent)	16.6	6.7	4.2	5.3	3.2	3.8	5.8	6.1	7.1
Growth of imports of G&S (US dollar terms, in percent)	10.8	6.7	6.4	5.9	4.6	6.2	5.4	5.4	6.0
Grant element of new public sector borrowing (in percent)	...	...	35.1	35.1	35.1	35.1	35.1	35.1	35.1
Memorandum item:									
Nominal GDP (billions of US dollars)	14.4		16.1	17.1	18.2	19.3	20.6	22.1	43.5

Source: Staff simulations.

1/ Includes only public and publicly-guaranteed external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Current-year interest payments devided by previous period debt stock.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 11: Cameroon: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-10
(In percent)

	Projections					
	2005	2006	2007	2008	2009	2010
	NPV of debt-to-GDP ratio					
Baseline	36	31	28	25	22	20
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2004-20 1/	36	31	28	24	21	18
A2. New public sector loans on less favorable terms in 2004-20 2/	36	32	28	26	23	22
A3. Assuming HIPC completion point in 2006	**36**	**21**	**20**	**18**	**17**	**16**
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	36	32	29	26	23	21
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	36	33	31	28	26	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	36	35	34	30	27	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	36	32	28	25	23	21
B5. Combination of B1-B4 using one-half standard deviation shocks	36	34	33	29	26	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	36	44	40	35	32	29
	NPV of debt-to-exports ratio					
Baseline	147	130	119	109	98	89
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2004-20 1/	147	130	118	104	91	80
A2. New public sector loans on less favorable terms in 2004-20 2/	147	131	121	113	103	96
A3. Assuming HIPC completion point in 2006	**147**	**89**	**84**	**80**	**75**	**71**
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	147	130	119	109	98	89
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	147	147	155	143	130	120
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	147	130	119	109	98	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	147	130	120	111	99	91
B5. Combination of B1-B4 using one-half standard deviation shocks	147	136	131	120	109	100
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	147	130	119	109	98	89
	Debt service ratio					
Baseline	22	20	16	14	13	10
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2004-20 1/	22	20	16	14	13	10
A2. New public sector loans on less favorable terms in 2004-20 2/	22	20	16	15	13	11
A3. Assuming HIPC completion point in 2006	**22**	**9**	**8**	**8**	**7**	**6**
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	22	20	16	14	13	10
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	22	22	19	17	16	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	22	20	16	14	13	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	22	20	16	15	13	10
B5. Combination of B1-B4 using one-half standard deviation shocks	22	21	17	15	14	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	22	20	16	14	13	10
Memorandum item:						
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	35	35	35	35	35	35

Source: Staff projections and simulations.

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

suggest that the analysis is not highly sensitive to the underlying assumptions of the macroeconomic framework and the terms of new financing. As mentioned, however, the threshold calculations are very sensitive to assumptions in the discount rate, which is a uniform 5 percent in this analysis.

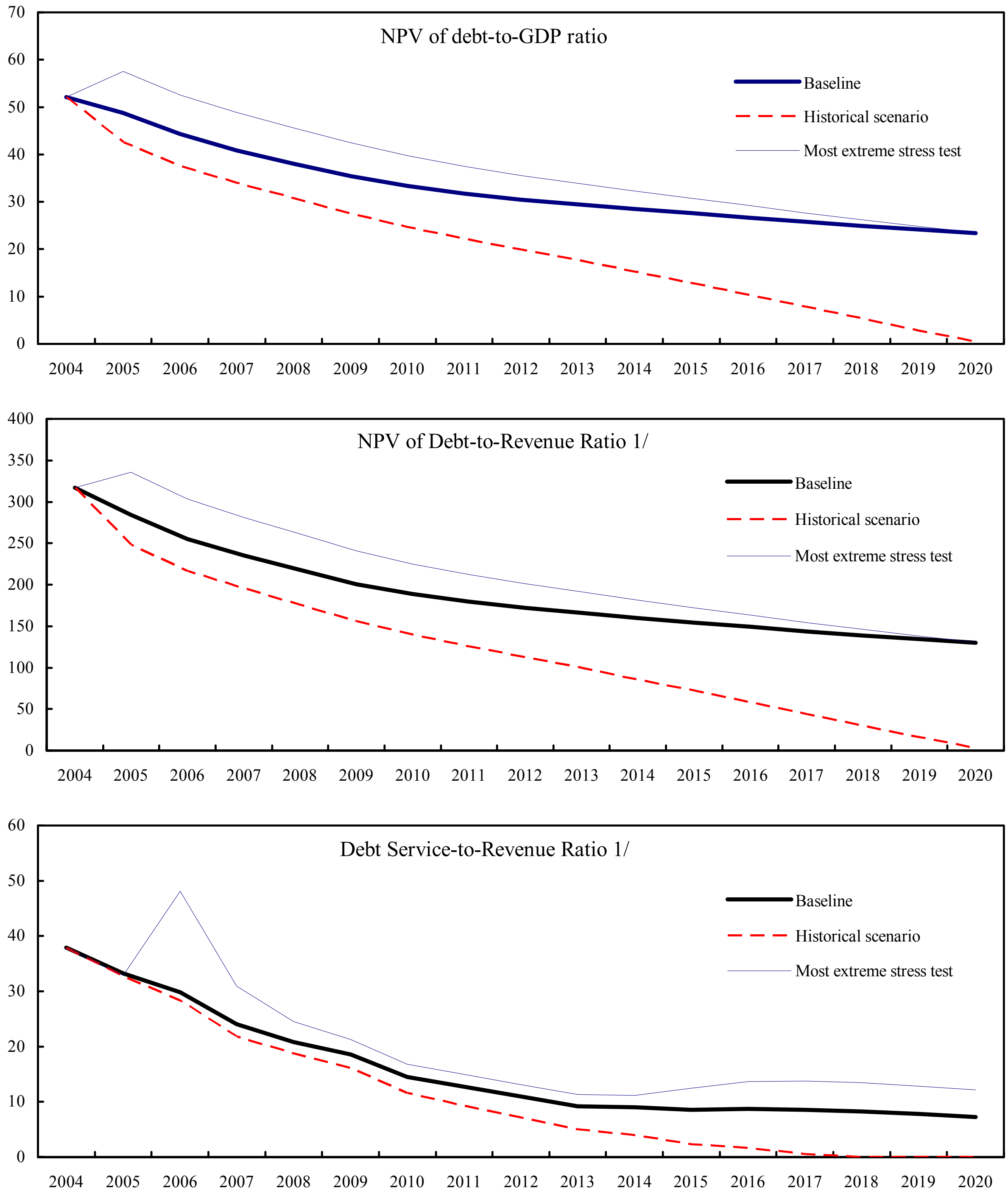
42. **The alternative scenario assuming the HIPC completion point is reached in 2006 suggests a more robust result still.** In this case, already in 2006, the NPV of debt-to-GDP drops to 21 percent, the NPV of debt-to-exports drops to 89 percent, and debt service ratio drops to well below 10 percent.

Total debt

43. **An analysis of total debt yields results very similar to that to external debt given the relatively modest size of domestic debt.** (Figure 6 and Table 12) Under the baseline scenario, Cameroon's total debt-to-GDP ratio is expected to decline from 56 percent of GDP in 2004 to 33 percent of GDP in 2010. Stress tests on the baseline indicate that an exploding debt path is not expected to emerge under a variety of shocks and the analysis is not strongly sensitive to underlying assumptions. The stress tests simulate: a shock to real GDP growth and the fiscal primary balance, by applying historical averages minus one standard deviation; a combination of these; and a real exchange rate depreciation of 30 percent. The largest impact is felt with the exchange rate depreciation, simulation, where debt to GDP and debt to revenues are affected. Similarly, altering the assumptions underlying the baseline to reflect GDP and primary balance historical averages over the medium term (rather than policy-influenced projections) renders ratios that are almost identical to the baseline. Debt service-to-revenue ratios are not significantly affected by alternative assumptions, but are strongly affected in a single year by a sharp increase in debt-creating flows.

44. **Based on this preliminary debt sustainability exercise, the debt profile of Cameroon appears manageable and relatively robust to a variety of shocks.** However, debt coverage is not comprehensive and a combination of negative shocks, if sustained, could have a more serious impact.

Figure 6. Cameroon: Indicators of Public Sector Debt Under Alternative Scenarios, 2005-2020
(In percent)



Source: Staff projections and simulations.
1/ Revenue including grants.

Table 12: Cameroon Sensitivity Analysis for Total -- External and Domestic-- Public Sector Debt 2004-2010

	Actual	Projections					
	2004	2005	2006	2007	2008	2009	2010
NPV of Debt-to-GDP Ratio							
Baseline	56	49	44	41	38	35	33
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	52	43	38	34	31	27	25
A2. Primary balance is unchanged from 2004	52	44	40	38	35	33	31
A3. Permanently lower GDP growth 1/	52	43	39	36	33	31	29
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2005-2006	52	44	40	37	34	32	30
B2. Primary balance is at historical average minus one standard deviations in 2005-2006	52	44	41	37	35	32	30
B3. Combination of B1-B2 using one half standard deviation shocks	52	44	40	36	33	31	29
B4. One-time 30 percent real depreciation in 2005	52	58	53	49	46	42	40
B5. 10 percent of GDP increase in other debt-creating flows in 2005	52	53	48	44	41	38	36
NPV of Debt-to-Revenue Ratio 2/							
Baseline	339	285	255	235	218	201	189
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	317	248	217	195	176	156	140
A2. Primary balance is unchanged from 2004	317	257	232	217	203	188	177
A3. Permanently lower GDP growth 1/	317	253	225	206	191	175	164
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2005-2006	317	254	229	211	196	180	169
B2. Primary balance is at historical average minus one standard deviations in 2005-2006	317	259	235	215	198	181	168
B3. Combination of B1-B2 using one half standard deviation shocks	317	254	228	208	192	174	162
B4. One-time 30 percent real depreciation in 2005	317	336	303	281	261	241	225
B5. 10 percent of GDP increase in other debt-creating flows in 2005	317	306	275	254	237	218	205
Debt Service-to-Revenue Ratio 2/							
Baseline	38	33	30	24	21	19	15
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	38	33	28	22	19	16	12
A2. Primary balance is unchanged from 2004	38	33	31	25	23	21	16
A3. Permanently lower GDP growth 1/	38	33	30	24	21	19	15
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2005-2006	38	33	30	25	22	19	15
B2. Primary balance is at historical average minus one standard deviations in 2005-2006	38	33	32	26	22	19	15
B3. Combination of B1-B2 using one half standard deviation shocks	38	33	30	24	21	18	14
B4. One-time 30 percent real depreciation in 2005	38	35	33	27	24	21	17
B5. 10 percent of GDP increase in other debt-creating flows in 2005	38	33	48	31	24	21	17

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Cameroon: Relations with the Fund

(As of January 31, 2005)

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

II. **General Resources Account**:

	SDR million	%Quota
Quota	185.70	100.00
Fund holdings of currency	185.05	99.65
Reserve position in Fund	0.65	0.35

III. **SDR Department**:

	SDR million	%Allocation
Net cumulative allocation	24.46	100.00
Holdings	0.43	1.77

IV. **Outstanding Purchases and Loans**:

	SDR million	%Quota
PRGF arrangements	214.69	115.61

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Poverty Reduction and Growth Facility (PRGF)	12/21/2000	12/20/2004	111.42	79.59
Enhanced Structural Adjustment Facility (ESAF)/PRGF	08/20/1997	12/20/2000	162.12	162.12
Stand-By Arrangement	09/27/1995	09/26/1996	67.60	28.20

VI. **Projected Payments to Fund (SDR million; based on existing use of resources and present holding of SDRs, with Board-approved HIPC assistance)**

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	26.99	35.61	40.38	37.05	29.34
Charges/interest	1.56	1.41	1.22	1.02	0.86
Total	28.55	37.02	41.60	38.08	30.29

VII. **Implementation of the HIPC Initiative**:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	10/11/2000
Assistance committed (NPV terms)	
Total assistance (US$ million)	1,260
Of which: Fund assistance (US$ million)	36.90
(SDR equivalent in millions)	28.51
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	5.55
Interim assistance	5.55

VIII. **Safeguards Assessments:**

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Cameroon is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries;

(iv) annual review by the BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by the internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states should establish a mechanism to prevent arrears to the IMF through advance acquisitions of SDRs and an authorization to debit an SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm their Treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

IX. **Exchange Arrangements**:

Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro.

Local currency equivalent: CFAF 761.59 = SDR 1, as of February 4, 2005.

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 September 18, 2002.

XI. **FSAP Participation and ROSCs**:

The Financial System Stability Assessment (FSSA) report of May 24, 2000 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.

The Report on the Observance of Standards and Codes (ROSC) on fiscal transparency and transparency of monetary and financial policies was issued on June 16, 2000.

The data module of the ROSC was issued on August 24, 2001 (CR/01/150).

XII. **Technical Assistance**:

December 2004: STA mission on the compilation of national accounts and follow-up by FAD expert on public expenditure management.

October 2003: STA mission on the compilation of national accounts.

September 2003: FAD mission on non-oil revenue mobilization and follow-up by FAD expert on public expenditure management.

June 2003: FAD mission on public expenditure management.

March 2003: FAD mission on public expenditure management.

November 2002: FAD mission on public expenditure management.

May 2002: FAD mission on public expenditure management.

April 2002: FAD mission follow-up on the personal income tax system.

March 2002: FAD mission on the implementation of the action plan for government revenue and expenditure.

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

September 2001: FAD missions on the audit of the treasury 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 metadata project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on preparation of a VAT.

February 1998: FAD technical assistance mission on 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 Banque de France, on the system of fiscal reporting and monitoring.

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

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

XIII. **Resident Representatives**:

The post of resident representative has been maintained in Yaoundé continuously since early 1989. Mr. Keller’s assignment as IMF Resident Representative ended on October 1, 2004 and he returned to headquarters. The recruitment of a successor is ongoing.

Cameroon: Relations with the World Bank

(As of March 2005)

Government's strategy supported by the World Bank

1. The government's strategy for economic growth and poverty reduction, as described in the poverty reduction strategy paper (PRSP) communicated to the World Bank and the IMF in April 2003, is articulated along seven pillars, as detailed in IDA/SecM2003–0434.

World Bank lending and strategy

2. The joint IDA-IFC Country Assistance Strategy (CAS) was presented to the Board on September 11, 2003. The strategy, which covers the period fiscal year (FY) 04–06, has two main axes: (i) strengthen the institutional framework for improved pro-poor economic management and service delivery; and (ii) support private sector development, leading to the diversification of the economy and growth. The proposed strategy will follow a "results-based" framework. In this context, the following outcomes are expected to be achieved during the next CAS period: (i) improvement in the transparency and accountability in the mobilization and use of public resources; (ii) improvement in the use of public resources in education, health, and forestry; (iii) improvement in service delivery in key sectors; (iv) enhancement of the response of vulnerable groups in over 300 communities to the threat of HIV/AIDS through preventative, curative, or mitigating measures, while the national capacity to respond to the epidemic is strengthened; and (v) reduced burden (cost, time, etc.) on private sector companies arising from regulatory, administrative, and infrastructure constraints. Specific indicators (such as an increase in the percentage of rural communities in targeted provinces with access to basic socioeconomic services, or a decrease in the percentage of private firms rating the specific constraints as major or severe) are being identified to measure progress toward achieving these outcomes.

3. SACIII, which supported a set of politically complex and ambitious reforms in the areas of transport, financial and forestry reforms and privatization, was closed by end March 2004. Following Board approval on a no objection basis on March 16, 2004, the two remaining privatization and transport tranches were released. The outcome of SACIII was rated satisfactory as part of an ex-post assessment, which was confirmed by an independent evaluation of the Operations Evaluation Department of the World Bank (OED).

4. The World Bank is planning to further support the government with analytical work and policy dialogue in several areas, focusing, inter alia, on (i) monitoring socioeconomic developments, including through the HIPC Initiative process and the PRSP implementation, reviews of trade prospects (especially with the Central African Economic and Monetary Community (CEMAC) countries and Nigeria), and action plans developed for the Millennium Development Goals (MDGs) in health and education; (ii) conducting a climate investment survey to support the PRSP pillar aimed at diversifying the economy; (iii) strengthening dialogue and action on the governance agenda by undertaking institutional governance reviews and public expenditure reviews (PERs) in key sectors (health, education,

infrastructure, and agriculture); and (iv) supporting key reforms in public procurement and public finance through a Country Procurement Assessment Review and the monitoring of the action plan defined during the recent Country Financial Accountability Assessment. Finally, a Poverty Assessment will serve to measure progress.

5. The Bank's portfolio consists of 7 projects with total commitments of around US$228 million, of which about US$53.4 million is the IBRD's. A total amount of US$125 million was disbursed as of March 4, 2005. Implementation of all projects but one was rated satisfactory. The World Bank Country Office organizes regular meetings with the authorities to review progress made on portfolio implementation, in order to improve the execution rate of current projects.

Bank Group Portfolio
(As of March 4th, 2005)

IDA Total (US$ m)	**174.4**
Sectoral Composition (%):	
Transport	45
Community Dev	11
Public Private Partnership	12
Environment Capacity Building	3
HIV/AIDS Multi-Sector	29
Undisbursed IDA amount (US$ mil)	102.7
IBRD (US$ mil)	
Chad-Cameroon Pipeline	53.4
IFC Total (US$ mil)	**150.9**
Energy	86.8
Information	6.4
Textiles	2.7
Wholesale & Retail	2.4
Other	1.7
MIGA: No investment guarantees issued.	

IMF-World Bank collaboration in specific areas

6. The IMF and World Bank staffs collaborate with respect to (i) the monitoring of HIPC Initiative completion point triggers and the PRSP process; (ii) analyses and reforms in public financial management; and (iii) other governance reforms, including the customs, legal, and judicial systems. Table 2 includes a short description of each of the areas and specific support provided by the two institutions with respect to policy advice.

Table 13. Cameroon: Bank/Fund Collaboration

Area	Description	Specialized Advice/ Reforms Supported by Fund	Specialized Advice/ Reforms Supported by Bank
HIPC completion point reforms	Regular Bank supervision missions Joint preparation of HIPC "Tracking Poverty-Related Spending" assessment and action plan	Reforms linked to budgetary accounting and controls	Reforms in education, health, transport, rural infrastructure sector, and forestry Judicial sector reform Public procurement reform Budget tracking in social sectors
Public financial management	Bank and Fund missions analyzing various aspects of fiscal management	Tax analysis and reform, strengthening of control organs; expenditure management	Expenditure monitoring and analysis, especially in sectors important for poverty reduction
Other governance reforms	Coordination of Bank/Fund staff work with UNDP on development of implementation plans	Customs reform	Anticorruption agenda and decentralization

7. Areas where the Fund takes the lead role relate to policy advice and reforms with respect to (i) overall macroeconomic policy and short- and medium-term financial programming; (ii) tax policy and administration; (iii) information and financial management systems for government revenue and expenditure; (iv) budgetary accounting; and (v) treasury procedures. Bank staff participate in some meetings of Fund missions with the authorities in these areas.

8. Areas in which the World Bank takes the lead are related to (i) institutional and human capacity building for economic management, including the formulation of sectoral strategies and medium-term expenditure frameworks, the analysis of poverty and the sources of growth to support the PRSP process, and the development of a macroeconomic model for the preparation of the short- and medium-term macroeconomic framework; (ii) specific sector advice in the areas in which the Bank has active lending operations (especially in the social sectors, infrastructure, agriculture, and forestry); and (iii) support and monitoring of the implementation of the privatization program. The Bank has jointly produced with the GOC and the AFD an Education Status Report. The World Bank has produced an Urban Sector Review and a Development Policy Review in June 2004 and plan to hold discussion on the latter document with the Government in the fourth quarter of 2004. Furthermore, in

FY04, the Bank has started work on a Poverty Assessment, and a Public Expenditure Review.

9. Both Bank and Fund have responsibility for policy advice on (i) budgetary procedures, government expenditure management systems, and expenditure execution, including tracking of poverty-reducing expenditures; (ii) the functioning of internal and external budget control institutions; (iii) reform of the customs; (iv) trade policy; (v) financial system reform; and (vi) governance issues. The two institutions jointly support and monitor the HIPC Initiative and PRSP process.

Cameroon: Statistical Issues

In recent years, the Cameroonian authorities took a number of initiatives to improve their statistical data, particularly on national accounts. Data provision to the Fund remains adequate for surveillance purposes, but there is significant room for improvement in data quality, coverage, and timeliness.

Cameroon participates in the General Data Dissemination System (GDDS). The metadata, which include a description of the current statistical practices and an action plan to improve statistical systems, are available on the Internet at the Fund's Dissemination Standards Bulletin Board (DSBB).

The National Institute of Statistics (INS), an autonomous institution under the aegis of the Ministry of Economic Affairs, Programming, and Regional Development, is the most important data provider. A lack of clarity concerning the role and coordinating function of the INS, however, has hampered the implementation of statistical standards and classifications across government departments and agencies. Also, in recent years the production of standard economic statistics may have suffered from a focus on social statistics.

National accounts

The INS has been compiling and publishing the national accounts using the concepts and definitions of the *1968 System of National Accounts (1968 SNA).* In recent years, the INS has also compiled a revised and updated set of national accounts estimates based on the *1993 System of National Accounts (1993 SNA)*. (The GDDS metadata submitted in 2001/02 pertain to the revised estimates, not to the data currently in the public domain.)

STA missions visited Cameroon in October 2003 and December 2004 to assist the authorities in compiling the new series of national accounts and to assess the result. The missions judged the general methodology, the analytical tools used, and the adjustments made to be generally appropriate and in accordance with the *1993 SNA* methodology. The missions also found the national accounts staff to be of high caliber. However, the STA expert and the recent article IV mission identified some remaining weaknesses in some national accounts series, particularly for oil GDP. The staff decided to not switch to the new series before these weaknesses have been addressed.

The STA missions also reviewed the data sources and found shortcomings concerning coverage, quality and timeliness. In particular, the framework for the production and collection of statistics originating from enterprises was found to be weak. This creates difficulties for gauging the current industrial and the activity structure of the economy. Data problems are also serious in major sectors of the economy, such as agriculture, manufacturing, retail and wholesale trade, local government, and services. In addition, the Production Index needs to be thoroughly overhauled, updated and integrated with the corresponding components of the annual national accounts. Further major concerns are a lack of information on employment and representative price indices for deflation.

In light of the remaining deficiencies in the national economic and social data system, technical assistance will remain essential in the coming years.

Consumer prices

The authorities intend to revise the monthly consumer price index (CPI) by extending the underlying survey to rural areas. So far, the CPI has been calculated on the basis of surveys carried out in the five main cities of the country (Yaoundé, Douala, Bafoussam, Bamenda and Garoua). In addition, the authorities intend to contribute to the production of a regional CPI in the CEMAC area. The basket used in this context will be larger than the one currently used for the compilation of the national CPI, but will be geographically limited to the two larger cities, Yaoundé and Douala.

Sociodemographic indicators

Some progress has been made in recent years in the production of sociodemographic statistics. The most recent household survey (ECAM II) carried out in 2001 provides comprehensive data that have been used to update Cameroon's poverty profile. In the education and health sectors, the authorities have begun an update of two main social indicators, the education map (*carte scolaire*) and the healthcare map (*carte sanitaire*) that had been elaborated in 2000 and 2001, respectively. Preparatory work for a new household survey has been initiated, and data will be collected in 2005.

Public finances

Despite some efforts to address deficiencies, data on the public finances are still in critical need of improvements in quality, coverage and timeliness. Weaknesses in the fiscal data include: (i) incomplete compilation of budget implementation data on a commitment and, to some extent, on a cash basis; (ii) a lack of information on the financial information of local governments; (iii) poor monitoring of cross-liabilities in the public sector and of public enterprise debt; (iv) a lack of transparency of financial operations by the national oil company; and (v) a lack of information on the financial information of public enterprises more generally.

Key reforms have been introduced in 2003-04 to address some of these deficiencies, but have not yet been drawn upon fully. The introduction of a new accounting system should allow to identify expenditures by function (i.e., not only by spending ministries), and to evaluate the "float" (i.e., spending committed but not yet paid). The integrated financial management system (SIGEFI) should substantially improve the accuracy and timeliness of fiscal data both on a commitment and on a cash basis.

In 2005, the authorities intend to further address the existing weaknesses. Based on the SIGEFI, the authorities have started in January 2005 to prepare preliminary fiscal accounts 3 weeks after the end of the reported month (they prepared only final data after 2 months in 2004). They plan to elaborate comprehensive fiscal accounts on a commitment basis and will strive to monitor the float. Moreover, the ongoing audit of government domestic debt, which will cover cross-liabilities in the public sector and public enterprise external debt, is expected to strengthen debt data. Efforts to enhance transparency of financial operations in the oil sector should also improve overall fiscal reporting. Finally, some efforts are underway to collect data on the operations of the largest 20 public enterprises.

Monetary accounts

Monetary statistics for Cameroon are reported to the Fund by the BEAC on a monthly basis. The lag in data reporting varies and can reach two months. Although the coverage of the date is comprehensive, the quality of the data may be affected by large cross-border movements of currency among member countries in the CEMAC. About three quarters of the currency circulating in Cameroon is issued nationally) and almost 90 percent of the currency issued by Cameroon remain within the national territory.

Balance of payments

The balance of payments statistics produced by the Cameroonian authorities are so weak that they have been used only very little by Fund staff. The services charged with the production of these statistics (a unit in the Ministry of the Economy and of Finance) has been unable to improve the quality of their output in recent years, due in part to a lack of qualified staff and equipment. The authorities should consider having the balance of payments statistics prepared by the BEAC, as is the case in the other CEMAC countries.

CAMEROON: COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items[8]: Data Quality – Methodological soundness[9]	Memo Items[8]: Data Quality – Accuracy and reliability[10]
Exchange Rates (based on reporting by the regional central bank BEAC; however, thanks to peg of the CFA franc to the euro, the exchange rate can be observed continuously and independently from BEAC reporting)	Dec 31, 2004	Feb 28, 2005	M	M	M	O	O
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec 31, 2004	Feb 10, 2005	M	M	M	LO	LO
Reserve/Base Money	Dec 31, 2004	Feb 10, 2005	M	M	M	LO	LO
Broad Money	Dec 31, 2004	Feb 10, 2005	M	M	M	LO	LO
Central Bank Balance Sheet	Dec 31, 2004	Feb 10, 2005	M	M	M	LO	LO
Consolidated Balance Sheet of the Banking System	Dec 31, 2004	Feb 10, 2005	M	M	M	LO	LO
Interest Rates[2]	Dec 31, 2004	Feb 28, 2005	M	M	M	O	O
Consumer Price Index	Dec 31, 2004	Jan 31, 2005	Q	Q	Q	LO	LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA	NO	NO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Dec 31, 2004	Jan 31, 2005	M	M	Not published	LNO	LNO
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 31,2004	Jan 31, 2005	M	M	M	LO	LO
External Current Account Balance	Dec 31, 2002	Jan 31, 2005	A	A	NA	NO	NO
Exports and Imports of Goods and Services[6]	Dec 31, 2004	Jan 31, 2005	M	M	NA	O	O
GDP/GNP	Dec 31, 2003	Jan 31, 2005	A	A	NA	O	LO
Gross External Debt	NA	NA	NA	NA	NA	NO	NO

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Goods only, data on trade in services are not available.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[8] These columns should only be included for countries for which a Data ROSC (or a Substantive Update) has been prepared.
[9] Reflects the assessment provided in the data ROSC (published in August 2001, and based on the findings of the mission that took place during May 2000) for the dataset corresponding to the variable in each row. Also reflects the assessments of a 2004 STA technical assistance mission and the current AFR mission. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[10] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the IMF Staff Representative
April 22, 2005

This statement provides information that has become available since the issuance of the staff report for the 2005 Article IV consultation and staff monitored program on March 31, 2005. This information does not alter the thrust of the staff appraisal.

- **The authorities have observed the prior action for the Staff Monitored Program (SMP)** by hiring an advisor (the International Finance Corporation) for the restructuring/privatization of the national airline (CAMAIR).

- **The authorities have met the two structural benchmarks for end-March 2005** (page 53 of the staff report for the 2005 Article IV consultation and SMP). (i) They have provided preliminary budget execution tables (TABORD) for end-February 2005 on a cash and a commitment basis. (ii) The authorities have notified commercial banks that no new government accounts should be opened.

- **The authorities have also provided final data for budget execution in 2004 that are broadly in line with the preliminary data received earlier**. Staff will discuss these data with the authorities during a forthcoming staff visit.

- **Oil prices projected for the remainder of the year have increased relative to the program**, pushing up oil exports earnings and fiscal revenue from oil. It is estimated that fiscal revenue in 2005 would be at least 0.7 percentage points of GDP higher than previously envisaged.

- **The adjustment of domestic fuel prices in line with world market developments has not been fully reinstated.** Fuel prices were adjusted marginally from the beginning of March and prices for some products are below import cost. Also, the authorities have suspended the additional fuel price component introduced in January 2005 that was to allow the domestic refinery to recoup the losses it incurred in 2004.

- **Early indications present a mixed picture on budgetary execution in January-February.** Nonoil revenue grew somewhat but remained weaker than programmed, while expenditure was strongly compressed. The end-March quantitative benchmark on non-oil revenue may be missed unless annual corporate profit tax payments (due in March and April) perform particularly well. All other quantitative benchmarks seem to be within reach.

- **Progress was made in improving financial management** by relying more fully on the Financial Management and Information System in the preparation of budget execution reports and by speeding up the preparation of the reports.

- **The authorities announced their intention to adhere to the Extractive Industries' Transparency Initiative (EITI).** At the EITI Conference held in London in March, the Minister of the Economy and Finance pledged that Cameroon would meet one element of the requirements of EITI before the end of June of this year, namely that the authorities would begin publishing on a quarterly basis information on total oil production, prices and revenue. These commitments are consistent with the SMP.

- **The authorities have recently discussed with World Bank and Fund staffs the steps that need to be taken to meet the HIPC completion point triggers** (Box 7 of the "HIPC Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative" (www.imf.org)).

- The authorities have given their consent to the publication of the staff papers for the 2005 Article IV consultation and the SMP.

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April 29, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with Cameroon

On April 22, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cameroon.[1] The Executive Board also approved the monitoring by Fund staff of Cameroon's economic program for 2005.

Background

In recent years, Cameroon has continued to enjoy political stability and solid economic growth, resulting in gradual per capita income gains. However, income levels remain far below those enjoyed prior to the economic crisis that led to the devaluation of 1994, and Cameroon continues to rank just above the first quintile (place 141 out of 177 countries) of the U.N.'s Human Development Index, an assessment combining life expectancy, adult literacy, primary school enrollment, and per capita income.

Despite its solid GDP growth performance, Cameroon has seen a deterioration of its fiscal position in 2003-04 that, if continued, could undermine prospects for macroeconomic stability, growth and poverty reduction. Also, the authorities have made only limited progress in recent years in removing long-standing impediments to private sector growth, such as inadequate investment into infrastructure and human capital, poor service delivery from troubled state enterprises, and an investment climate overshadowed by weak governance. As a result of these developments, the PRGF-arrangement with Cameroon of 2000 went off-track in early 2004 and lapsed later that year.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The authorities intend to build a track record of policy implementation through a staff-monitored program (SMP) for 2005. Initial steps by the government formed in December 2004 have been encouraging. Successful implementation of the SMP and a successor PRGF arrangement would strengthen prospects for growth and poverty reduction, and allow for the possibility of reaching the Heavily Indebted Poor Countries (HIPC) Initiative completion point in 2006. A track-record SMP is an informal monitoring arrangement that does not entail Executive Board endorsement of Cameroon's policy program.

Executive Board Assessment

Directors welcomed Cameroon's good economic performance, with solid growth, low inflation, and a narrowing external current account deficit, as well as the progress achieved on structural reforms. Tangible progress has been made in health and education sector reforms, which—along with increased per capita income—helped improve social indicators. At the same time, Directors observed that serious challenges remain, in particular in strengthening fiscal performance to ensure debt sustainability, and removing impediments to private sector growth, which will be key to strong growth and poverty reduction over the medium term.

Directors welcomed the authorities' decision to embark on an ambitious reform program that would be monitored by Fund staff. A track record of convincing performance under the program would help maintain a stable macroeconomic environment and pave the way for a medium-term reform program that could be supported by the Fund's Poverty Reduction and Growth Facility. Directors strongly supported the authorities' intention to redouble their reform efforts to allow them to reach the completion point under the HIPC Initiative.

Directors noted that fiscal performance had weakened considerably in 2003-04, particularly with respect to non-oil revenue, and that only limited progress had been made in strengthening financial management. They also expressed concern that the financial situation of large public enterprises had worsened considerably, adding to actual and contingent fiscal liabilities of the central government. Given these developments, Directors were encouraged by the authorities' commitment to improve fiscal performance and financial management, in particular through the ambitious fiscal program for 2005 that seeks to mobilize non-oil revenue and contain non-priority expenditure while increasing investment spending.

Directors emphasized that increased revenue mobilization will require continued tax reforms aimed at broadening the tax base by reducing exemptions and enhancing tax collection in the informal sector. Technical assistance, if effectively used, will provide useful support to these efforts. In addition, Directors urged the establishment of a transparent fiscal rule for the use of windfall oil revenue.

On the expenditure side, Directors noted that restraining non-interest expenditures and improving their composition, by focusing on infrastructure and social sectors, will be critical for improving the business climate and poverty reduction. They called for prompt actions on restructuring and privatization of state-owned enterprises, which would help limit the quasi-fiscal losses and improve service delivery. In this regard, Directors expressed concern about the suspension of the adjustment of fuel prices in line with world market prices. They also highlighted the importance of continued progress on the streamlining of payrolls and improving personnel management.

Directors encouraged the authorities to build on the progress achieved in operationalizing the financial management system. They stressed the need to improve further the timeliness, comprehensiveness and accuracy of fiscal reporting, including in the receipt and use of the HIPC relief. Directors also stressed the importance of strengthening debt management, avoiding domestic arrears and external arrears on non-reschedulable debt, settling arrears to the HIPC-account, and developing and fully implementing a realistic debt-servicing plan. They urged the authorities to clarify the external debt position of public enterprises to allow for a comprehensive debt sustainability assessment.

Directors observed that reaching most of the Millennium Development Goals (MDGs) will be a challenge for the authorities. They emphasized the importance of strictly prioritizing expenditures, enhancing their efficiency, and implementing the medium-term sectoral strategies developed in cooperation with the World Bank. Directors welcomed the authorities' intention to review key elements of the Poverty Reduction Strategy Paper (PRSP), to start working on a comprehensive medium-term framework, and to strengthen the implementation and monitoring of poverty reducing projects, including those funded from HIPC-debt relief.

Directors underscored the high priority that the authorities should accord to removing impediments to private sector growth. In particular, infrastructure investments and a strengthening of the legal system, and governance more generally, will be key to enhancing the business climate and investor confidence. Directors urged the authorities to redouble their efforts to improve governance and fight corruption. They underscored the need to pursue decisively the implementation of the National Governance Program, by focusing on results rather than broad policy intentions. Welcoming the adoption of laws for the Audit Office and Constitutional Council, they stressed the importance of making these institutions operational and intensifying efforts to achieve tangible results. Directors welcomed the authorities' plans to strengthen financial management and enhance transparency, particularly in the oil sector by phasing out extra-budgetary spending and adhering to the Extractive Industries Transparency Initiative.
While welcoming the assessment that the commercial banking sector is sound, they urged the authorities to address weaknesses in state-owned financial institutions.

Directors considered that the regional currency union has served Cameroon well in helping maintain low inflation and macroeconomic stability. They called on the authorities to monitor competitiveness closely and accelerate structural reforms to improve overall economic efficiency.

Directors welcomed the progress made in enhancing national accounts and fiscal data, and the plans for improving data on poverty and social indicators. They underscored the importance of strengthening other real sector data and, in particular, the production of balance of payments data.

Directors welcomed the ex-post assessment (EPA) report and generally agreed with its main findings. Among lessons to be learned for future program design, they highlighted the importance of structuring conditionality so as to reinforce ownership, of focusing—where possible—on outcomes rather than process, and of effective Fund-Bank coordination and collaboration. Several Directors supported the view that, beyond the near term, a close non-financial engagement would be the most effective way for the Fund to continue to assist Cameroon in meeting its economic challenges.

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

Cameroon: Selected Economic and Financial Indicators, 2002-04

	2002	2003 Est.	2004 Est.
	(Annual percentage changes; unless otherwise indicated)		
National income and prices			
GDP at constant prices	4.2	4.5	4.3
Of which: non- oil GDP	4.6	4.8	4.7
GDP deflator	1.9	1.1	0.7
Consumer prices	2.8	0.6	0.3
Nominal GDP (in billions of CFA francs)	6,869	7,260	7,620
Oil output (in thousands of barrels a day)	102	98	89
External trade			
Export volume	-7.0	6.9	6.1
Of which: non-oil sector	-6.6	12.3	12.2
Import volume	1.9	-0.6	7.4
Average oil export price (U.S. dollars per barrel)	23.6	27.3	35.0
Real effective exchange rate	5.9	2.9	0.4
Terms of trade	0.0	-0.8	0.2
Money and credit (end of period)			
Broad money (M2)	18.3	-0.9	7.3
Velocity (GDP/average M2)	5.4	5.3	5.3
Discount rate (end of period; in percent)	6.5	6.0	6.0
	(In percent of GDP; unless otherwise indicated)		
Gross national savings	11.3	14.5	14.9
Gross domestic investment	18.3	16.9	16.6
Central government operations			
Total revenue (excl. grants)	17.9	17.5	16.3
Oil revenue	5.4	4.5	4.3
Non-oil revenue	12.5	13.1	12.0
Non-oil revenue (in percent of non-oil GDP)	14.2	14.5	13.5
Total expenditure	17.3	16.8	17.1
Noninterest total expenditure[1]	13.7	13.6	14.1
Capital expenditure[2]	2.2	2.1	1.8
Overall fiscal balance (excl. net changes in arrears)			
Excluding grants	0.5	0.7	-0.9
Including grants	0.8	1.3	-0.7
Primary balance[1, 3]	4.2	4.0	2.1
Non-oil primary balance (in percent of non-oil GDP)	-1.3	-0.6	-2.4
External sector			
Current account balance (including grants)	-7.0	-2.4	-1.6
NPV of external debt	54.8	42.5	43.4
	(In percent of exports of goods and services)		
External debt service (before debt relief)	27.9	26.1	22.5
External debt service (after debt relief)	10.0	8.8	6.9

Sources: Cameroonian authorities; and IMF staff estimates and projections

1/ Excluding foreign-financed investment, restructuring expenditure and separation grants.
2/ Excluding restructuring expenditure.
3/ Excluding external grants and privatization proceeds.

Statement by Damian Ondo Mañe, Executive Director for Cameroon
April 22, 2005

I. Introduction

My Cameroonian authorities are grateful to Management and staff for the continued fruitful discussions on the ongoing reform efforts to improve economic conditions and fight poverty. In this regard, they are determined to enhance their dialogue with Cameroon's development partners, including the IMF.

After the presidential election that took place early October last year, a new cabinet was appointed in December 2004 with the mandate to address the challenges the country faces, including weak fiscal performance, high level of public debt, inadequate infrastructure, low competitiveness of the economy, and governance issues. As a first step, my authorities are determined to reestablish Cameroon's macroeconomic fundamentals and to deepen structural reforms including governance, as demonstrated by measures already taken during the last months. Maintaining this concerted effort, they are strongly implementing the SMP with the aim of rapidly reaching a new PRGF agreement.

II. Recent developments

Cameroon's growth and inflation performance was solid in 2003 and 2004. This growth was broadly distributed across different sectors. Real GDP growth remained strong as non-oil growth averaged more than 4½ percent, consumer price inflation was reduced to about ½ percent, and the current account deficit narrowed to below 2 percent of GDP owing to strong exports of primary goods. Moreover, there was an improvement in electricity production and distribution, transport and communication, thus easing infrastructure constraints on private sector activity. My authorities have also made progress in implementing the PRSP and in completing HIPC Initiative completion point triggers, and they have prepared the first annual report on the implementation of the full PRSP. Although the use of HIPC resources was low, social sector indicators improved. In the education sector, more than 2800 classrooms for primary and secondary schools were constructed and part-time primary school teachers recruited. In the health sector, vaccination campaigns were intensified; the cost of HIV/AIDS treatment was reduced significantly while treatment of tuberculosis became free of charge.

My Cameroonian authorities have continued the implementation of major structural reforms in public finances, including the integrated financial management system (SIGEFI), the reform of the personal income tax and the large taxpayer unit (DGE). On civil service reform, the pilot phase of the implementation of the civil service employment register (SIGIPES) proved to be conclusive. A recent assessment of the implementation of SIGIPES indicates that the system is efficient, and ghost-employees were identified and removed from the payroll.

Structural reforms in other areas have also been made. In the transportation sector, the reform of the Douala Port was implemented successfully, including the management of the container terminal and computerization of the single window for imports and exports clearance

(*GUCE*). Hence, transaction costs and clearance time were reduced significantly. In the forestry sector, the redefinition of the mandate of the forestry agency (ANAFOR), and the allocation of logging rights through competitive bidding in the presence of an independent observer were completed.

On governance, measures implemented include the adoption of the new public procurement code aimed at strengthening the transparency of procedures, and the action plan for the reform of the judiciary system. Moreover, laws establishing the Audit Office for state finances *(Chambre des Comptes)* and the Constitutional Court were enacted, and the anti-corruption units were established in all ministries and other government bodies.

III. Program for 2005

The Government's key objectives for 2005 are in line with priorities set forth in the PRSP endorsed by the Board in July 2003. My authorities have asked staff to monitor their 2005 program and they are determined to pursue fiscal consolidation to preserve macroeconomic stability, strengthen investment and economic growth, and improve social conditions of the population. This will include improving fiscal revenue and enhancing transparency in government operations, further restructuring and privatization of public enterprises, and improving governance and the business climate to enhance private sector activity and growth.

Fiscal Policy

The 2005 budget framework aims at reestablishing macroeconomic stability through a stricter adherence to fiscal discipline. In this context, my authorities are committed to undertake strong efforts in 2005 to improve substantially the fiscal position by strengthening tax administration, enhancing revenue performance, curtailing and controlling expenditure. My authorities will address contingent fiscal liabilities, including domestic public debt. The non-oil primary deficit is expected to improve by 2.5 percentage points of non-oil GDP, and the overall balance, including grants is projected at a surplus of 0.4 percent of GDP.

As regards tax and customs administration, my authorities will continue to enhance the functioning of the Large Taxpayer Unit (DGE). They will increase material and human resources to the DGE in order to enlarge tax compliance, VAT and excises. Also, the taxation of the forestry sector will be improved by combating fraudulent exports and the informal processing of timber. Furthermore, customs administration will be enhanced, including through the installation of the new automated custom data system (ASYCUD).

My authorities intend to boost the mobilization of additional non-oil revenues through new tax policy measures. The 2005 tax measures include increasing the VAT rate from 17 to 17.5 percent; abolishing further VAT exemptions, and the excise tax exemption for locally produced alcoholic beverages and tobacco; increasing taxation on gambling and increasing stamp duties and automobile registration fees. Concerning the monthly adjustment mechanism of domestic fuel prices in line with the international oil market prices, my Cameroonian authorities are aware of the budgetary implications of any partial cost recovery.

However, they intend to implement this mechanism with caution, in order to avoid igniting social pressure that might undermine the public consensus on the program.

On expenditure, the authorities have adopted a cash-basis management of the budget, thus ensuring that the level of expenditures corresponds to the Government's cash position. Hence, expenditure control will be a key priority in 2005. It is also important to note that all SNH's *interventions directes* will now require the prior authorization of the Minister of Finance, and only against available budget allocations in the relevant ministerial budget. The authorities are committed to discontinue these interventions by July 1, 2005.

Structural reforms

My authorities intend to deepen structural reforms envisioned in the PRSP while focusing on tasks critical to macroeconomic stability. They are strongly determined to implement the ambitious fiscal and structural reforms outlined in the SMP. In this regard, actions already taken include firmly establishing fiscal discipline through strengthening public expenditure management and revenue collection, auditing domestic debt with the aim of establishing a settlement plan, speeding up the privatization of publicly owned enterprises, and improving the production and distribution of electricity.

On **fiscal management and control**, my authorities will pursue the streamlining of the civil service payroll. They intend to expand progressively the use of SIGIPES to other government entities and they are determined to use SIGEFI more efficiently, thus enhancing the accuracy and the timeliness of fiscal data. Moreover, they will begin publishing monthly budget execution monitoring documents by end-June 2005. Another key component of the fiscal program is the consolidation of the single Treasury account at the regional central bank (BEAC). To this effect, most accounts maintained by government entities in commercial banks will be closed to improve the management of public finances. No new account will be opened in commercial banks as of March 31, 2005.

Regarding the **oil sector**, which contributes significantly to economic activity and budgetary revenues, the authorities will continue to take steps to improve transparency. They will ensure the timely transfer to the Treasury of the surplus of the national oil company (SNH). However, Cameroon remains a modest oil producer and the production is projected to decline further.

My authorities are determined to take vigorous measures aimed at restoring financial discipline in the **public enterprise and utilities sector**. Therefore, the government's utility and transport bills will be paid on time. Moreover, the ongoing audit on domestic debt will be used to identify by end-June 2005 the cross-liabilities between the government and public enterprises. On the privatization process, although past negotiations with the bidders for the fixed telecoms (CAMTEL) and water (SNEC) companies fell through, the authorities are committed to make significant progress toward the restructuring and the divestiture of most of the largest companies. In this connection, they have reviewed their approach to privatization and have reinitiated the process with the support of the World Bank. Concerning the airline company (CAMAIR), the authorities will expedite the privatization process. Measures already taken include the selection of the International Financial

Corporation (IFC) - a prior action of the SMP- as the main consultant to advise the government.

Financial sector

While efforts will be made to deepen financial intermediation, the authorities will complete the licensing of microfinance institutions. Although the banking sector is in good health, the authorities intend to further strengthen the financial sector. They will step up their efforts to address the financial situation of government-owned financial institutions including the postal savings bank (CAMPOST) and the housing credit organization (*Crédit Foncier*). Regarding the microfinance sector, the registration of microfinance institutions will be completed under the supervision of the regional banking commission, COBAC.

Governance and transparency

The Government is committed to adhere to the Extractive Industries Transparency Initiative (EITI). In this context, priority will be to publish information about exploration, production and sales of crude oil in Cameroon, as well as the revenue generated and transferred to the Treasury, the main elements of the audit reports of SNH. Moreover, quarterly information on total oil production, prices, and revenue of the Government will be published on the website of SNH and that of the Prime Minister's Office. In addition, the authorities will make every effort to obtain the agreement of the oil companies operating in Cameroon for the publication of the main elements of the production sharing agreements. In order to enhance accountability in the management of public resources, my authorities will make the Audit Office (*Chambre des comptes*) operational by end-December 2005 while pressing ahead with the implementation of the action plan of the judicial reform.

Debt issue

Although the DSA exercise suggests that Cameroon's external debt should be manageable in the medium-term after the completion point, the authorities believe that the tight budgetary situation will limit their ability to fully meet the financial obligations due to bilateral and commercial creditors in 2005. They see the negotiation of a new PRGF arrangement as a decisive step towards a new Paris Club debt rescheduling. Turning to the domestic public debt, which is hampering the development of the private sector, the authorities will establish a settlement plan with its creditors as soon as the ongoing audit is completed.

Ex Post Assessment (EPA)

My Cameroonian authorities welcome the EPA discussions and broadly concur with the assessment of Cameroon's relationship with the Fund and the implementation of Fund-supported policies. The report acknowledges significant progress that the authorities have made during the period 1997 to 2004 in the area of fiscal and structural reforms. These reforms have contributed to the stabilization of the macroeconomic environment and to the improvement of the external debt profile, thus laying the ground for enhanced growth and poverty reduction. Moreover, my authorities agree that higher investment is needed to lift Cameroon's growth rate and make substantial progress toward the MDGs. In this regard, they will promote an environment conducive to the private sector-led growth through streamlining administrative regulations, enhancing the rule of law, and improving infrastructure, including electricity and roads.

My authorities recognize that the slippages that occurred in 2003 and 2004 were partly due to weaknesses in program coordination and fiscal management. However, they do not agree that it lacked ownership; instead, burgeoning conditionality and the threat of program suspension caused the authorities to agree to targets that proved to be above the capacity of Cameroon's economy.

PRSP

My authorities are preparing the second annual report. They are aware of the importance of improving the implementation, and the monitoring and evaluation of PRSP activities. In this connection, they will ensure that HIPC resources are adequately disbursed, that the analytical quality of the reports is enhanced, and the participatory monitoring improved. My authorities are committed to replenishing the HIPC account. Additionally, they recognize the need to improve the linkage between the PRSP, the medium-term strategy and the annual budget process. Thus, key elements of the PRSP will be revised, including the medium-term macroeconomic framework in the context of the 2006 budget preparation, and a 3-year economic program for which they intend top request a new PRGF arrangement as soon as possible.

IV. Conclusion

My Cameroonian authorities concur with the assessment that program conditionality should target outcomes, rather than process as this reinforces program ownership. The staff report underscores successful implementation of Fund supported programs during the period under review by the Cameroonian authorities. Besides, Cameroon has already completed most of completion point triggers. My authorities are fully determined to implementing the current SMP and satisfying the conditions. In this context, they appreciate the consideration by Management that a satisfactory implementation of the SMP during the first 6 months could pave the way for reaching rapidly an agreement with the Fund on a new PRGF supported program, and proceeding to the completion point.

It is noteworthy that the newly appointed government has brought management changes and has confirmed over the last few months its strong determination to address immediate challenges, including further diversifying the economy. My Cameroonian authorities are committed to improve further the business climate and competitiveness, and all necessary measures contributing to lay the ground for a sustainable growth, which is paramount for accelerating progress towards the MDGs. They see the SMP as a starting point in the setting up of an ambitious economic program that will help realize the large potentialities of Cameroon's economy.

Finally, I would appreciate my colleagues' support for the authorities' program, as well as for an early transition to a program supported by a PRGF arrangement.