

**Cameroon: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cameroon**

In the context of the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the First Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on February 9, 2006, 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 April 13, 2006. 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 Press Release summarizing the views of the Executive Board as expressed during its April 28, 2006 discussion of the staff report that completed the review.
- a statement by the Executive Director for Cameroon.

The documents listed below have been or will be separately released.

Enhanced Heavily Indebted Poor Countries Initiative (HIPC)—Completion  
Point Document and Multilateral Debt Relief  
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper  
Third Annual Progress Report  
Letter of Intent sent to the IMF by the authorities of Cameroon\*  
Addendum to Memorandum of Economic and Financial Policies by the  
authorities of Cameroon\*  
Poverty Reduction Strategy Paper Third Annual Progress Report  
Technical Memorandum of Understanding\*  
\*Also included in Staff Report

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](mailto:publicationpolicy@imf.org).**

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INTERNATIONAL MONETARY FUND

CAMEROON

**First Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF)**

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

Approved by David Nellor and Adnan Mazarei

April 13, 2006

- Discussions for the first review under the PRGF-supported program and issues related to the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative took place in Yaoundé during January 27-February 9, 2006.
- The staff team comprised Messrs. Ghura (Head), Ioannou, and Weisfeld (all AFR), Mr. Mansour (FAD), and Mr. Kireyev (PDR). They were assisted by Ms. Kabedi-Mbuyi, Resident Representative, and Mr. Tchakote (Economist) and Ms. Essia Ngang (Assistant in the Resident Representative's office). A joint Bank-Fund team, including Ms. Touré (PDR), carried out external debt data analysis during February 6-15. Mr. Menye, advisor to the Executive Director for Cameroon, participated in the discussions. The staff collaborated closely with a parallel World Bank mission.
- The mission met with Prime Minister Inoni; State Minister at the Presidency Mr. Antagana; Finance Minister Abah Abah; and National Director of the regional central bank (BEAC) Mr. Hayatou; as well as representatives of the private sector, civil society, donors, and the press.
- Following good performance under a staff-monitored program (SMP) during the first half of 2005, the Executive Board approved in October 2005 a new PRGF arrangement (in an amount equivalent to SDR 18.57 million, representing 10 percent of quota) in support of the government's economic program covering the period July 2005–June 2008. Program implementation under the new PRGF arrangement has been good; all quantitative and structural performance criteria and benchmarks through January 2006 were met.
- The Letter of Intent (LOI), the Memorandum of Economic and Financial Policies (MEFP), and an addendum to the technical memorandum of understanding (TMU) are found in Appendix I. The authorities have agreed to the publication of these documents. Appendixes II and III summarize Cameroon's relations with the Fund and the World Bank. Appendix IV provides updated statistical indicators.
- The completion point document, the government's third annual progress report on the implementation of its poverty reduction strategy in 2005, and World Bank and Fund staffs' Joint Staff Advisory Note (JSAN) are being presented to the Board together with this report.

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## EXECUTIVE SUMMARY

**Macroeconomic performance was satisfactory in 2005.** The fiscal position strengthened substantially, reflecting increases in oil and non-oil revenues and better expenditure control. The fiscal improvement helped correct the budgetary slippages of 2004 and reestablish conditions for macroeconomic stability. Inflation remained low. A rise in the terms of trade led to an improvement in the external current account balance, accompanied by strong capital inflows. Nonetheless, there was a slowdown in real GDP growth reflecting a contraction of oil, agro-industry, and forestry output.

**Program implementation under the PRGF arrangement was good.** All quantitative and structural performance criteria and benchmarks through January 2006 were met. On the structural front, steps taken to enhance transparency in budget execution and the oil sector are noteworthy. Public enterprise restructuring and privatization progressed as planned, although privatization of the national postal agency will be delayed due to factors beyond the government's control.

**The medium-term projections have been updated in anticipation of relief under the Multilateral Debt Relief Initiative (MDRI).** The fiscal program for 2006 consolidates gains made in 2005 and allows for augmentation of poverty-related spending, including from resources freed up by MDRI relief. Structural reforms planned are intended to strengthen public finance management, transparency, and governance; restructure public enterprises; and enhance the business environment.

**Despite recent steps, governance remains weak.** The staff welcomes recent actions on corruption, but urges the authorities to apply anticorruption laws systematically. Steps are needed to strengthen the judiciary, including through the provision of sufficient budget allocations and the recruitment and training of more personnel.

**The slowdown in non-oil real growth in 2005 is a cause for concern and calls for determined actions by the government.** The authorities need to stay the course on implementing fiscal policy, tackle impediments to investment project execution, accelerate structural reforms, and strengthen the business climate.

**Relief under the enhanced HIPC Initiative and MDRI would reduce Cameroon's debt to sustainable levels.** The authorities should borrow prudently, regularly analyze debt sustainability as a component of medium-term forecasts, and ensure efficient use of borrowed resources.

**The staff recommends the completion of the first review under the PRGF arrangement** in view of strong program performance in the period through January 2006 which consolidated the gains made in the first half of 2005 under the SMP. Good program performance in 2005 bodes well for an improved outlook for growth and poverty reduction over the medium term.

## I. BACKGROUND AND INTRODUCTION

1. **In 2005, Cameroon corrected fiscal slippages and restored the conditions for macroeconomic stability**, a key element of the government strategy since the decision point was reached.<sup>1</sup> In a comparison of the periods before the decision point (1996-2000) and after (2001-05), the following macroeconomic trends can be discerned (text table):

- Annual non-oil real GDP growth averaged about 4¾ percent in both periods and was accompanied by a rise in investment. Progress made on structural reforms over the past few years is also believed to have helped growth (see Section III.C). Post-decision point, consumer price inflation decelerated to an annual average of about 2 percent.

- The fiscal position improved between the two periods, although fiscal policy implementation was uneven in the latter. In view of serious slippages from PRGF targets on non-oil revenues and current spending, the fiscal position deteriorated significantly in 2004 relative to 2003, but good policy implementation in 2005, first under the SMP and then under the PRGF-supported program, led to a marked improvement in the fiscal position.

Cameroon: Selected Macroeconomic Indicators, 1995-2005					
	Average				
	1995-2000	2001-05	2003	2004	2005
(In percentage change, unless otherwise indicated)					
<b>Economic growth and prices</b>					
Real GDP	4.7	3.8	4.0	3.7	2.6
Oil	1.4	-6.5	-5.0	-9.3	-9.7
Non-oil	4.9	4.8	4.9	4.9	3.5
Consumer prices (period average)	3.1	1.9	0.6	0.3	2.0
Gross domestic investment	16.8	19.4	18.3	18.9	19.6
(In percent of GDP)					
<b>Government finance</b>					
Total revenue (excluding grants)	15.5	16.6	16.0	15.2	17.2
Oil revenue	3.9	4.7	4.1	3.9	4.9
Non-oil revenue	11.6	11.8	11.9	11.3	12.3
Total expenditure	17.3	15.6	15.3	16.0	14.3
Current expenditure	14.8	13.2	13.2	14.0	11.8
<i>Of which</i> : Non-interest current spending	9.2	10.9	10.9	12.1	10.3
HIPC-related spending	0.0	0.4	0.2	0.5	0.8
Capital expenditure	2.3	2.3	2.1	2.0	2.3
Overall budget balance (commitment basis, excluding grants)	-2.9	0.9	0.7	-0.8	3.0
<i>Of which</i> : non-oil primary fiscal balance	1.1	-0.9	-0.7	-2.0	0.0
(In percentage change, unless otherwise indicated)					
<b>Balance of payments</b>					
Current account balance	-2.3	-3.3	-2.6	-3.6	-2.0
Export volume	8.0	-0.5	6.9	1.5	-4.6
Import volume	12.4	6.4	-0.6	11.7	0.7
Terms of trade	3.6	0.7	-0.8	-1.3	15.1
Real effective exchange rate (index, 2000=100)	67.5	70.9	72.6	72.8	69.4
Sources: Cameroonian authorities and staff estimates and projections.					
1/ Excluding grants; in percent of GDP.					

- The external current account balance (excluding grants) deteriorated during 2001-05. This was due mainly to (i) declining oil exports with the gradual depletion of Cameroon's oil reserves, (ii) a fall in coffee output after the sharp decline in world prices, and (iii) the curtailment of lumber exports following government actions to promote sustainable logging.

<sup>1</sup> Cameroon reached the decision point under the enhanced HIPC Initiative in October 2000.

The record on achieving macroeconomic stability during the past five years was broadly satisfactory but could have been stronger if fiscal policy implementation had not weakened in 2004.

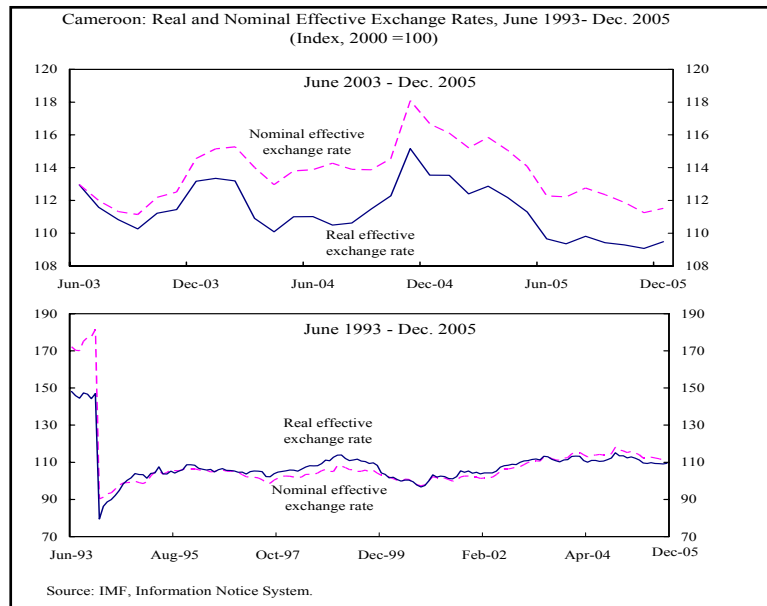
2. **On the political front, President Biya was reelected for a fifth term in 2004.** The cabinet was reshuffled in early 2005, entailing, inter alia, a better delineation in the economic ministries. The next parliamentary elections are scheduled for 2007.

## II. ECONOMIC DEVELOPMENTS IN 2005 AND RECENT PROGRAM PERFORMANCE

3. **Inflation remained low and there was a slowdown in real GDP growth in 2005** (text table above, Table 1). Reflecting a contraction of agro-industry and forestry production, non-oil real GDP growth slowed to 3.5 percent (from about 5 percent in 2004). Oil output declined sharply for the second year in a row, slowing overall real GDP growth. Inflation, estimated at 2 percent, remains low despite increases in the prices of refined petroleum products (by an average of about 15 percent in 2005).

4. **Cameroon's external current account position strengthened in 2005 as the terms of trade improved** (Table 2). Non-oil export volume declined primarily as a result of reduced lumber and coffee exports. However, with a strong increase in prices of oil and other commodities, total exports grew by 15 percent (in value terms) even though oil export volume declined. The terms of trade improved with higher oil and non-oil export prices.

5. **The real effective exchange rate (REER) depreciated somewhat in the past year or so, but high costs weigh on competitiveness** (text figure). The recent evolution in the REER reflects the depreciation of the euro relative to the U.S. dollar (Cameroon has a fixed exchange rate vis-à-vis the euro and two thirds of its trade is with the Euro area). Nevertheless, while the REER remains about 25 percent below its 1993 level, Cameroon's external competitiveness suffers from the high cost of doing business<sup>2</sup> (Box 1). The government undertook a preliminary analysis of the impact on the Cameroonian economy of the forthcoming Economic Partnership Agreement between the



<sup>2</sup> The CFA franc was devalued by 50 percent in January 1994.



European Union and the Central African Economic and Monetary Community (CEMAC). The assessment notes the potential adverse impact on industry and government revenue of lower import tariffs. It also points to low agricultural efficiency and lack of competitiveness in the manufacturing sector as impediments to the economy's ability to diversify in order to mitigate the potentially adverse impact of the trade liberalization. Possible solutions call for increased labor market flexibility, technological enhancement, and an improved business environment, accompanied by adequate provisions for social safety nets.

**6. Monetary developments in 2005 were marked by strong foreign exchange inflows, thanks mainly to rising oil export earnings** (text table, Table 3). Broad money growth decelerated, however, and net domestic assets contracted because of a sharp reduction in net government liabilities to the banking system. Credit to the private sector grew somewhat faster than nominal non-oil GDP, which suggests the possibility of improved economic growth prospects.

**7. Cameroon's fiscal position strengthened substantially in 2005, in sharp contrast to the slippages registered in 2004** (text table, Table 4-5a).

Non-oil revenue grew by one percentage point of GDP, a result mainly of stronger tax and customs revenue administration.

	2004 Dec.	2005 Dec.
(In billion CFA francs)		
Net foreign assets	357	500
Net domestic assets	1,148	1,069
Of which:		
Net credit to central govt.	374	238
Credit to the private sector	750	832
Broad money	1,505	1,568
(In percent change)		
Net credit to government	4.1	-36.4
Credit to the private sector	1.4	10.9
Broad money	7.3	4.2

Source: Bank of Central African States (BEAC), and staff estimates and calculations.

	2003	2004		2005			
		Jul-Dec	Year	Jul-Dec		Year	
				Prog.	Prel. Est.	Prog.	Prel. Est.
Total revenue and grants	16.7	8.3	15.4	8.8	9.1	17.7	17.7
Total revenue, excluding grants	16.0	8.1	15.2	8.3	8.8	16.9	17.2
Oil revenue	4.1	2.5	3.9	2.5	2.9	4.5	4.9
Non-oil revenue	11.9	5.6	11.3	5.9	5.9	12.4	12.3
Grants	0.7	0.1	0.2	0.5	0.3	0.8	0.5
Total expenditure	15.3	8.2	16.0	8.4	7.5	15.3	14.3
Current	13.2	7.2	14.0	6.2	5.9	12.2	11.8
Capital	2.1	1.0	2.0	2.2	1.5	3.0	2.3
Foreign-financed	0.5	0.3	0.8	0.4	0.2	0.7	0.5
Domestically-financed	1.4	0.7	1.1	1.2	1.2	1.7	1.8
Restructuring of public enterprises	0.2	0.1	0.1	0.5	0.0	0.6	0.0
Unclassified	0.1	-0.1	-0.1	0.0	0.1	0.1	0.2
Net change in arrears	-0.3	0.3	0.4	-0.7	-0.7	-0.8	-0.8
Overall balance	1.1	0.4	-0.2	-0.2	1.0	1.5	2.7
Primary balance 1/	3.4	1.2	1.9	1.2	2.3	3.9	4.9
Excluding oil sector							
Primary balance 1/	-0.7	-1.3	-2.0	-1.3	-0.6	-0.6	0.0
Primary balance, program definition 2/	-0.3	-0.8	-1.3	-0.2	-0.1	0.8	0.9

Source: Cameroonian authorities, and staff estimates and calculations.  
1/ Excludes interest, foreign-financed investment and restructuring expenditure.  
2/ Excludes interest, foreign-financed investment, debt relief and restructuring expenditure.

### **Box 1. Doing Business in Cameroon**

The World Bank's "Doing Business" database (2005) ranks countries on the basis of ten topics thought to provide a snapshot of the business environment:

	Cameroon's Rank	Rank for All Sub- Saharan Countries
Doing business (overall rank)	130	116
Starting a business	133	110
Dealing with licenses	121	102
Hiring and firing	106	91
Registering property	122	115
Getting credit	91	102
Protecting investors	35	73
Paying taxes	142	99
Trading across borders	127	115
Enforcing contracts	152	97
Closing a business	80	105

Of the 155 countries covered, Cameroon's ranking is 130; it has a particularly low standing in "enforcing contracts," "paying taxes," "starting a business," "trading across borders," "registering property," and "dealing with licenses."

Total expenditures were lower than programmed by about one percentage point of GDP. Restructuring spending was substantially lower than planned because privatization-related social plans got off to a late start. Foreign-financed investment was below target primarily owing to insufficient domestic counterpart funds and weak execution capacity. Nonetheless, domestically-financed investment exceeded the projections for the first time in years.

8. **The government continued clearing domestic arrears and replenishing the HIPC account.** Windfall oil revenue (0.5 percent of GDP in the second half of 2005) was used to pay domestic debt, as planned, leaving the stock of domestic debt at 14 percent of GDP at end 2005. The government also started clearing arrears on value-added tax (VAT) credits that had accumulated before the program began. Arrears accumulated in the replenishment of the HIPC account at the Bank of Central African States (BEAC) were also cleared. The government published the 2004 audit of HIPC spending, and responded to its findings by strengthening the mechanisms for using HIPC resources by setting up a unit within the HIPC Consultative Committee to monitor projects.<sup>3</sup>

**All quantitative and structural performance criteria and benchmarks through January 2006 were met** (MEFP,<sup>4</sup> Tables 1 and 2).

- The quantitative criterion related to the non-oil primary balance was met with a small margin thanks mainly to slightly higher-than-programmed non-oil revenue, and the criterion related to net government credit was met with a substantial margin.
- The structural criterion related to the 2006 budget was met through Parliament's adoption of the 2006 budget in December 2005. The structural criterion related to the national airline company (CAMAIR) was met through the (i) timely adoption of a privatization strategy, developed in cooperation with the International Finance Corporation and deemed satisfactory by the World Bank, and (ii) launching of invitation for bids for pre-qualification of potential majority investors.<sup>5</sup> Under the privatization strategy, CAMAIR is to be liquidated and new investors will set up, operate and manage a new airline company. The new company will take over CAMAIR's traffic rights and will freely choose its routes and build its fleet.

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<sup>3</sup> The audit found that HIPC-financed projects were somewhat effective in stimulating rural and social development. However, it also found shortcomings: some projects were implemented without prior approval by the HIPC Consultative Committee; and part of the HIPC spending did not observe proper public procurement and execution procedures (e.g., spending without prior commitment orders).

<sup>4</sup> See Appendix I.

<sup>5</sup> Four airline companies were selected to participate in the bidding process. The authorities are now in the process of selecting a liquidator for CAMAIR; seven consultancy firms have submitted offers.

- To meet the structural benchmarks, the authorities provided consistent budget execution data on a regular basis. They also adjusted upward fuel prices, bringing prices to 95 percent of the level that would be required to eliminate subsidies to the national oil refinery (SONARA).<sup>6</sup> Further, they adopted a privatization strategy for the national telecommunications company (CAMTEL). They also closed microfinance institutions that had no operating license. They updated the national governance plan with the aim of refocusing it on key priorities, setting annual objectives, and monitoring indicators.<sup>7</sup> The restructuring plan for the national postal agency (CAMPOST), with benchmarks in February and June, is delayed. This delay is on account of (i) unsuccessful efforts to recruit a team of management consultants, and (ii) a request by the regional banking commission (COBAC) of new measures, including, preparation of financial statements, before a separate financial services agency can be set up (see Section III.C below)

**9. The authorities have made efforts to enhance transparency and governance.**

Besides updating the national governance plan, the authorities made progress on the Extractive Industry Transparency Initiative (EITI) by publishing an action plan calling for a first report by the independent EITI administrator in 2006, and continuing to publish information on the budget and the oil sector. The Audit Chamber was set up, but needs to be strengthened with adequate staffing, equipment, and training. The government has also started cracking down on corruption. In early March 2006, one minister and several other senior public officials were charged with embezzlement and abuse of office and detained while awaiting trial. However, despite recent steps, governance remains weak (Box 2).

### III. POLICY DISCUSSIONS

**10. The medium-term projections have been updated in anticipation of relief under the Multilateral Debt Relief Initiative (MDRI)** (text table below). The macroeconomic framework reflects economic developments during 2005 and current WEO commodity price forecasts (except for oil prices, which continue to be programmed with a precautionary margin below WEO prices). Oil output in 2007 and beyond is projected to be higher than originally projected, thanks to the recent discovery and development of a moderate-sized oil

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<sup>6</sup> The program limits the budgetary subsidy to the national oil refinery to CFAF 20 billion or 0.2 percent of GDP in 2006. Given current oil price and exchange rate projections, the authorities would need to raise fuel prices further by about 3-5 percent to avoid quasi-fiscal losses on the refinery's domestic operations.

<sup>7</sup> Targeted areas are: civil service reform; fight against corruption; and improvement of the electoral framework, judicial system, business environment, and public finance management.

### Box 2. Governance Indicators

Although Cameroon has taken measures to strengthen governance, lower corruption, and enhance transparency, governance indicators remain rather weak.

- The standing of Cameroon improved marginally between 2000 and 2005, according to Transparency International. Subject to methodological caveats, Cameroon's Corruption Perception Index improved from 2.0 out of 10 (least corrupt) in 2000 to 2.2 in 2005. The country's ranking improved slightly from 84 (out of 90 countries) in 2000 to 138 (out of 159 countries) in 2005.
- The World Bank's Country Policy and Institutional Assessment (CPIA) notes some improvement in recent years, particularly in public sector management and institutions, where Cameroon moved up from the fifth (bottom) quintile in 2002 to the third in 2004.

deposit.<sup>8</sup> As performance during 2005 was close to the program targets and the revisions in WEO prices are modest, the baseline medium-term framework (IMF Country Report No. 05/413) continues to be appropriate.

			Baseline (EBS/05/149)			Updated Scenario		
	2004	2005	2006	2007	2008	2006	2007	2008
	Est.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP (in percent change)	3.7	2.6	4.2	3.7	4.6	4.2	4.3	4.3
Oil	-9.3	-9.7	6.0	-10.1	-3.3	6.1	2.7	-8.2
Non-oil	4.9	3.5	4.1	4.7	5.1	4.1	4.5	5.1
Inflation (in percent; period average)	0.3	2.0	1.8	2.0	2.0	2.6	1.0	2.1
Oil production (in thousand barrels/day)	89	82	88	78	74	88	89	82
Fiscal aggregates 1/								
Total revenue and grants	15.4	17.7	18.2	17.2	16.6	18.2	17.6	17.0
<i>Of which</i> : non-oil revenue 2/	12.1	13.4	13.2	13.4	13.6	13.3	13.6	13.6
Total expenditure	16.0	14.3	17.0	16.8	17.0	16.9	17.0	17.4
Net change in arrears	0.4	-0.8	-1.1	-0.6	-0.3	-1.3	-0.6	-0.3
Overall balance, cash basis	-0.4	2.7	0.1	-0.2	-0.7	0.1	0.0	-0.7
<i>Of which</i> : non-oil primary balance 2/	-2.1	0.0	-2.3	-2.2	-2.1	-2.3	-2.5	-2.6
Current account balance 3/	-3.0	-1.5	-1.2	-3.4	-4.8	-1.4	-1.9	-2.7

Sources: Cameroonian authorities, and staff estimates and projections.

1/ In percent of GDP.  
2/ In percent of nonoil GDP.  
3/ Including grants.

<sup>8</sup> Value added in the oil sector represents about 5 percent of GDP.

11. **The macroeconomic objectives of the program are unchanged** (text table above; Table 1): (i) achieving annual real GDP growth of about 4 percent on average during 2006-08, (ii) keeping inflation below 3 percent, consistent with the regional convergence criterion; and (iii) keeping the external current account deficit below 3 percent of GDP while allowing for increased investment-related imports. An increase in non-oil real GDP growth is expected to result in part from the easing of electricity constraints on manufacturing, a recovery in the forestry sector, and increased public investment.

12. **While remaining committed to the program, the authorities expressed concern about civil service salaries, fuel prices, and the use of windfall oil revenues.** In their view, low civil service salaries are a contributor to corruption, and further pass-through of world oil prices to the domestic price of fuel could adversely affect economic and social conditions. The staff noted that in light of payroll irregularities, the authorities need to focus attention in the immediate future on upgrading personnel management systems. Further, the staff noted that recent poverty and social impact analyses suggest that the benefits of fuel subsidies typically accrue largely to the richer segments of the population. In the period ahead, the authorities plan to prepare in-depth studies on the feasibility of (i) increasing civil service salaries, (ii) modifying the oil price adjustment mechanism by capping fuel price increases, and (iii) amending understandings on the use of windfall oil revenue. The staff stressed that any change in the macroeconomic framework relative to program objectives would need solid justification, and advised the authorities to ensure that their analysis takes into account fiscal sustainability and macroeconomic stability. It is expected that these issues will feature prominently in future discussions with the authorities.

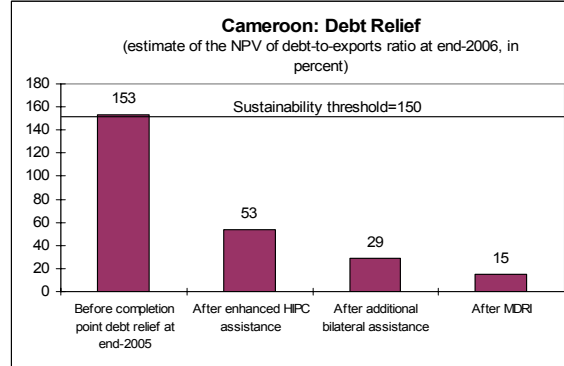
#### A. Fiscal Policy

13. **The fiscal strategy is unchanged from the baseline scenario** (IMF Country Report No. 05/413). It aims to expand spending to accelerate growth and poverty reduction while preserving macroeconomic sustainability. Following possible debt relief at the completion point under the enhanced HIPC Initiative, Cameroon's external debt will decline significantly. New borrowing after the completion point should continue to be prudent and the fiscal strategy will need be anchored on preserving debt sustainability (Box 3). In support of this strategy, fiscal policy will continue to (i) protect government spending from fluctuations in oil revenue by using conservative oil price projections; (ii) gradually increase non-oil revenue to compensate for the expected decline in oil production; (iii) expand poverty-related spending while closely controlling nonpriority spending; and (iv) continue paying domestic arrears to improve the business environment. The baseline fiscal strategy projected a non-oil primary fiscal deficit of 2.1 percent of non-oil GDP in 2008 (unchanged from 2004). Under the updated scenario, non-oil primary fiscal deficit would increase by 0.4 percentage point of non-oil GDP (relative to baseline) with the increase in poverty-related spending stemming from the MDRI debt relief (see below).

**Box 3. Debt Relief and Sustainability**

**At the completion point Cameroon will receive debt relief from three sources:**

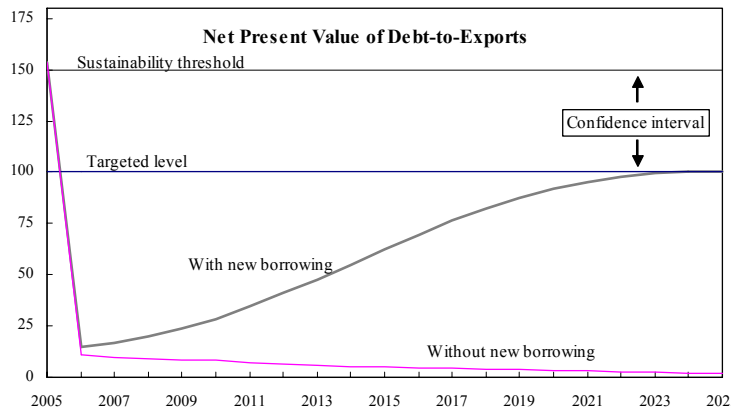
- *Enhanced HIPC relief:* HIPC assistance would bring the NPV of debt-to-exports ratio to the 150 percent sustainability threshold.
- *Additional bilateral relief:* relief provided by some Paris Club and commercial creditors beyond the requirement of the enhanced HIPC framework.
- *MDRI relief:* a 100 percent debt cancellation by the IMF, IDA, and the AfDF.



As a result, the debt-to-exports ratio will be reduced to less than 10 percent of the sustainability threshold. Under the baseline scenario, in the medium- and long-term debt, indicators will remain substantially below the relevant sustainability thresholds.

**After the completion point, the long-term fiscal strategy will be anchored on preserving debt sustainability, while allowing for additional borrowing to help reduce poverty and make progress toward reaching the MDGs.** This strategy would be based on the following principles:

- Establishing the appropriate public financial management, including debt management that will ensure effective use of borrowed funds.
- The targeted level of the NPV of debt-to-exports ratio would not exceed 100 percent over the long term. This would provide a cushion for possible impact of exogenous shocks to export revenue (e.g., commodity price shocks) and would help maintain creditors' confidence in prudent debt policies. By 2020, NPV of debt would reach about 13 percent of GDP, i.e., well within sustainable levels.
- In the long run, new borrowing would not exceed the average nominal exports growth in dollar terms to help maintain the NPV of debt to-exports ratio at sustainable levels. In the absence of grants, new borrowing may increase from about 1 percent of GDP in 2006 to about 1¼ percent by 2015, and thereafter to decline to 1 percent of GDP to ensure sustainability.



- To maintain debt indicators at a stable sustainable level, the non-oil primary deficit would be around 2 percent of GDP. This would require: (i) a gradual increase of non-oil revenue to 14 percent of GDP by 2016 to offset the projected decline in oil revenue, and (ii) stabilizing total expenditure to about 13 percent of GDP. Capital spending would peak at about 5 percent of GDP by 2015, but then decline to 3.7 percent by 2025.
- Once Cameroon graduates from IDA financing, lending on concessional terms may be gradually phased out by all current providers of concessional assistance. Going forward, regular updates as part of the budgetary cycle of the forward-looking DSA can help inform decisions on new loans and their implications for debt sustainability.

14. **Fiscal projections have been revised to integrate MDRI debt relief.** Cameroon will qualify for MDRI debt relief after the completion point is reached, which would reduce external debt service by about 0.3-0.4 percent of GDP annually during 2006-08.<sup>9</sup> The government will open a special account at the BEAC to deposit MDRI debt relief. Use of these resources will be consistent with the PRSP priorities (including on infrastructure, social sector, and governance reforms) and will be closely monitored through regular reporting using a functional classification. Reflecting the rise in pro-poor spending, the fiscal deficit is projected to rise in 2006 by two-tenths of a percentage point of GDP relative to the baseline (text table above, Table 6). Higher poverty-related spending would allow Cameroon to make faster progress toward reaching the MDGs (Table 7). The staff does not expect that the spending from MDRI resources to create inflationary pressures, given the moderate annual amounts and the expected large import content of related spending.

15. **Consolidating the fiscal gains made in 2005 and expanding priority spending is at the center of the 2006 budget.**

- Efforts to raise non-oil revenues will continue. The 2006 budget broadens excise taxes, increases the corporate minimum tax rate and the property tax, and modifies forestry taxation to reduce the potential for fraud.<sup>10</sup> These tax measures are expected to yield two-tenths of a percentage point of non-oil GDP. The effect of tax and customs administration initiatives will be felt only in 2007 (see Section III.C). Notwithstanding conservative future oil price assumptions, oil revenue is projected to rise because of increased output relative to 2005.
- Current spending will increase by four-tenths of a percentage point of GDP relative to 2005 (Table 6), reflecting the impact of MDRI debt relief that is expected post-completion point. The government will continue its efforts to improve payroll management with a view to reducing the scope for leakages in the wage bill.
- The original program envisaged a rise in investment and other priority spending to spur growth and strengthen the delivery of social services. Capital spending, including from MDRI resources, is projected to grow by 2.4 percentage points of

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<sup>9</sup> The reduction of debt service has been integrated into the macroeconomic framework, and the reduction in debt stock associated with the completion point and MDRI will be integrated at the time of the second PRGF review.

<sup>10</sup> The minimum tax was increased from 1 to 1½ percent of turnover for small and mid-size enterprises; the excise tax was extended to passenger vehicles, at a rate of 12½ percent (*ad valorem*), and to non-alcoholic beverages at the top CEMAC rate of 25 percent; the property tax valuation basis was changed from surface areas to market-based values; and a number of VAT and tariff exemptions were eliminated. In addition, forestry companies that do not comply with domestic tax obligations (of 2¼ percent on the value of wood) are now subject to a substitute tax of 2½ percent collected by customs at the point of export.



GDP. The staff advised the authorities to strengthen capacity to execute investment spending.<sup>11</sup> The sizeable increase in domestically-financed capital spending in 2006 reflects mostly the use of resources from debt relief, as well as the authorities' commitment to raise the project execution rate. Projects, including for infrastructure improvements, have been prepared with technical assistance of the donor community.

- The repayment of domestic debt and arrears will continue in order to help strengthen the business environment. The authorities will include arrears on VAT credits in their domestic debt repayment plan. As initially programmed, windfall oil revenues will be used for additional repayment of domestic debt and arrears.

## B. External Debt and Financing Review

16. **After successful buybacks from London Club creditors in 2003, most of the remaining debt is owed to multilateral and Paris Club creditors** (text table). The government stated its commitment to a prudent external debt management strategy, including borrowing on concessional terms.

	In million US dollars	In percent of total	In percent of GDP
Total	6,200	100	36
Multilateral	1,847	30	11
IMF	272	4	2
IDA	1,028	17	6
AfDF	210	3	1
Other	337	5	2
Bilateral	3,977	64	23
Paris Club	3,914	63	23
Non Paris Club	63	1	0
Commercial	376	6	2

Sources: Cameroonian authorities and staff estimates.

17. **Because arrears are outstanding to private external creditors, the staff conducted a financing assurances review**

(MEFP ¶21). The authorities stated that they have tried to reach agreements with holdout private creditors on terms comparable with those provided by the Paris Club, but their offers were declined. Two private creditors that obtained court decisions in their favor have seized government assets; for one, the final court decision significantly raised the amount awarded relative to the original face value of the debt. The authorities note that private creditors who have either already obtained favorable court judgments or are about to launch legal actions have no incentive to accept comparability of treatment.

## C. Structural Reform

18. **Structural reforms focus on the financial sector, public finance management, transparency and governance, public enterprise restructuring, and the business climate** (MEFP, Section IV). Measures in these areas through June 2006 were part of the original

<sup>11</sup>A report prepared by the authorities in 2005 highlights the main impediments to capital spending: lack of know-how on preparation of feasibility studies and issuance of calls for bids; inclusion of investment projects in public investment programs prior to completion of feasibility studies; and inadequate programming of counterpart funds and lack of knowledge on procedures for the release of counterpart funds.

program (MEFP, Table 2); structural benchmarks for the second half of 2006 are described below (MEFP, Table 4).

### **Financial Sector Reform**

19. **Against the background of reform in the banking, insurance, and microfinance sectors in recent years, the insolvent postal savings system (CAMPOST) is now undergoing restructuring.** Before a financial services subsidiary can be created, the conditions decreed by the COBAC must be fulfilled, namely production of CAMPOST's financial statements and certified accounts for 2004 and 2005, and a contribution of capital (CFAF 0.5-1 billion). Preparatory work is to be completed by December 2006 (indicative benchmark).

### **Public Finance Management**

20. **The government plans to continue enhancing public expenditure tracking** (MEFP ¶24-25). It will (i) monitor central government expenditures using the functional classification system, so as to extend budget tracking all the way through the expenditure chain to capture cash payments (indicative benchmark for December 2006); and (ii) continue preparing coherent budget information on a payment order and cash basis, especially as it relates to poverty-related spending (continuous benchmark).

21. **Non-oil revenue will be raised by implementing new tax policies and administrative measures** (MEFP ¶27). Beyond the tax hikes already mentioned, fiscal policy will be geared toward minimizing exemptions to the VAT and import tariffs. The Automated System for Customs Data (SYDONIA) will be extended to customs offices in coastal areas (indicative benchmark for December 2006); and tax collection coverage of the informal sector will be expanded, including by establishing two centers dedicated to effective taxation of mid-size enterprises.

### **Transparency and Governance**

22. Among the efforts planned to improve transparency and governance, the authorities will:

- **Implement the EITI** (MEFP ¶31 and 33). The authorities will publish the first EITI administrator's report, for 2001-04, by October 2006 (indicative benchmark). Annual independent audits of the national oil company (SNH) and publication of quarterly information on the oil sector (production, prices, and revenue) will continue.
- **Enhance budget transparency** (MEFP ¶25 and 31-33). The government will build on progress made in fiscal reporting by publishing quarterly information on budget implementation (quarterly indicative benchmark), reports on execution of investment projects, and financial information on public enterprises. It will also institute periodic reviews of budget execution in partnership with civil society.

- **Tackle corruption** (MEFP ¶32). The government will further strengthen the legal system, especially the organization and functioning of the judiciary, to enhance court capacity to deal with commercial cases. It will also improve the transparency of enforcement of court decisions by publishing on the government website ([www.spm.gov.cm](http://www.spm.gov.cm)) corruption-related court decisions and sanctions (continuous indicative benchmark).
- **Strengthen the public procurement system** (MEFP ¶25). The authorities will:
  - (i) assess the reliability and performance of the national procurement system, using performance indicators established in collaboration with the World Bank; and
  - (ii) ensure effective application of the law barring any individual or legal entity from bidding when infractions in procurement are observed.

### **Public Enterprise Restructuring and the Business Climate**

23. **The government strategy for strengthening the business climate includes public enterprise reform.** Efforts to this end over the past few years have produced some tangible results (Box 4). In 2006, the government plans to:

- Complete the privatization of CAMAIR. Funds to cover the cost have been budgeted. Efforts to contain CAMAIR operating costs will continue as privatization moves forward.
- The offer for sale of the national telecommunications company (CAMTEL) is scheduled to take place by end-June 2006 (benchmark). A social plan is to be adopted in May 2006 and implemented by end-July 2006 (benchmark).
- The government strategy for the water company (SNEC) calls for a public-private partnership. The government would continue to own the assets and a private contractor would manage the company. Calls for bids for the lease contract are to be issued by end-July 2006 (benchmark).
- To contain SONARA's operating costs, an operational audit of the company will be conducted by end-April 2006 and an action plan based on its recommendations prepared by end-June 2006, with implementation of the plan to begin by August. To limit losses, the government will continue to make timely subsidy payments to the company as programmed (continuous benchmark).

#### **Box 4. Public Enterprise Reform in Recent Years**

Public enterprise reform has been a cornerstone of Cameroon's strategy to improve economic efficiency and limit the burden on public finances; however, on balance, progress has been slower than planned. Reforms have focused on:

- **Telecommunications, electricity, and water:** The mobile telecommunications sector was opened to competition by issuing two cellular licenses; this has led to improved services at lower costs. The electricity utility, SONEL, was privatized in 2001. While the national fixed telecommunications provider CAMTEL, and the water utility, SNEC, were brought to the point of sale, negotiations with successful bidders fell through. Privatization of these enterprises is covered under the current PRGF arrangement.
- **Agro-industries:** Reform was to be completed with the sale of the four largest remaining public enterprises in the sector: Cameroon Development Corporation (CDC), Cotton Development Company (SODECOTON), Cameroon Palm Oil Company (SOCAPALM), and Cameroon Sugar Company (CAMSUCO). The latter two were successfully privatized; attempts to privatize SODECOTON and CDC failed. The government is now revising its strategy to re-launch their privatization.
- **Transport:** Port reform, including privatization of commercial and industrial port activities, was successful in improving the quality of port services, not least by reducing clearance time. In the railways sector, the concession holder, CAMRAIL, selected in 1999, raised the traffic level, and government financial support to the sector is no longer necessary. In the air transport sector, the aim was to (i) revise the civil aviation code to enforce competition and increase security; (ii) auction of the private sector rights to the twenty-seven international and regional routes not being operated by the state-owned airline, CAMAIR; and (iii) privatize CAMAIR. Only the first objective was achieved, and financial losses of CAMAIR have continued to weigh heavily on the government budget. The privatization of CAMAIR is covered under the current PRGF arrangement.

24. **The government will work to improve the business climate**, starting with a comprehensive plan to be prepared in partnership with the private sector by end October 2006. The plan will be based, among other, on results of the World Bank's "Doing Business" database and of a survey of business practices to be conducted by the Bank in 2006. It is expected that this plan would serve as a reference for the formulation of specific policy actions, with implementation to commence in early 2007.

#### IV. PROGRAM RISKS AND MONITORING

25. **There are considerable risks as Cameroon moves forward:**

- Ownership of the program might be narrowly focused on attaining the HIPC completion point. However, the authorities took positive steps to strengthen ownership in 2005 by, e.g., clarifying the role of the economic ministries and disseminating information on budget execution.
- The population appears to be awaiting for “post-completion point dividends” in the form of higher government spending (e.g., increased civil service salaries). Pressures for higher spending, perhaps exacerbated by the parliamentary elections that will take place in 2007, could jeopardize macroeconomic sustainability and endanger external competitiveness.
- Uncertainties exist about the projected oil output and prices. Despite conservative fiscal assumptions that seek to isolate core fiscal operations from swings in oil revenue, a sharp decline in oil exports would jeopardize attainment of the program objectives.
- Shortfalls in spending relative to the ambitious budget targets—owing to poor budget planning and weak implementation capacity—could jeopardize the attainment of the growth targets.

26. Progress will be monitored every six months on the basis of quantitative and structural performance criteria, benchmarks, and indicative benchmarks (MEFP, Tables 1-4). Quantitative and structural performance criteria for end-December 2006 will be set at the time of the second review under the PRGF-supported program.

#### V. STAFF APPRAISAL

27. **The staff commends the authorities for the program achievements in 2005 and urge them to stay the course on program implementation.** Fiscal consolidation, reflecting not only increases in oil and non-oil revenues but also expenditure control, recovered the ground lost in 2004. The return of fiscal discipline in 2005 contributed to broad-based macroeconomic stability. The staff urges the authorities to persist in executing the programmed fiscal policy so as to consolidate macroeconomic stability and reinforce conditions for the resumption of poverty reduction and sustained growth. The authorities should maintain cautious medium-term fiscal policies and resolutely implement reforms in revenue administration and budget execution, including through strengthening investment procedures and budget tracking.

28. **The staff welcomes the progress with structural reform in 2005.** The government is now in compliance with the timeline for presenting the budget to parliament. It also prepares and publishes coherent budget data, and has taken steps to strengthen the microfinance sector. These accomplishments have been instrumental in consolidating the

gains of recent years on the structural reform agenda. The staff urges the authorities to press ahead with the remaining structural reforms so as to minimize potential costs, free up scarce resources for pro-poor spending, reduce the scope for corruption, and increase opportunities for private investment.

29. **The staff welcomes the efforts made to enhance transparency**, particularly the publication of information on budget execution and the oil sector, and implementation of the EITI principles. Also commendable are the commitments of the authorities to publish information on anticorruption efforts, public investment projects, finances of public enterprises, and the first independent EITI administrator report.

30. **Despite recent progress, governance remains weak.** The staffs welcome recent actions on corruption, but urges the authorities to apply anticorruption laws systematically. Also, steps are needed to strengthen the judiciary by providing sufficient budget allocations and recruiting and training personnel. Enhanced transparency will also facilitate the work of the Audit Chamber and parliamentary oversight.

31. **The slowdown in non-oil real GDP growth in 2005 is a cause for concern and calls for determined actions by the government.** Resolute public enterprise reform would help consolidate gains in economic efficiency, and hence the staff urges the government to conclude ongoing reforms of CAMAIR, CAMTEL, and CAMPOST. The government should also continue rebuilding its credibility vis-à-vis the private sector by paying arrears on domestic debt and VAT refunds. The composition of public spending should be oriented to growth-enhancing and poverty-reducing outlays. Finally, the business environment should be strengthened, giving particular attention to improving infrastructure and strengthening the judiciary.

32. **Debt relief under the enhanced HIPC Initiative and MDRI would reduce Cameroon's debt to sustainable levels.** The staff urges the authorities to follow prudent borrowing policies, regularly analyze debt sustainability in formulating their medium-term forecasts, and ensure efficient use of borrowed resources. The staff review under the Fund's "Lending into Arrears Policy" confirmed the authorities' good-faith efforts to reach collaborative agreements with commercial creditors.

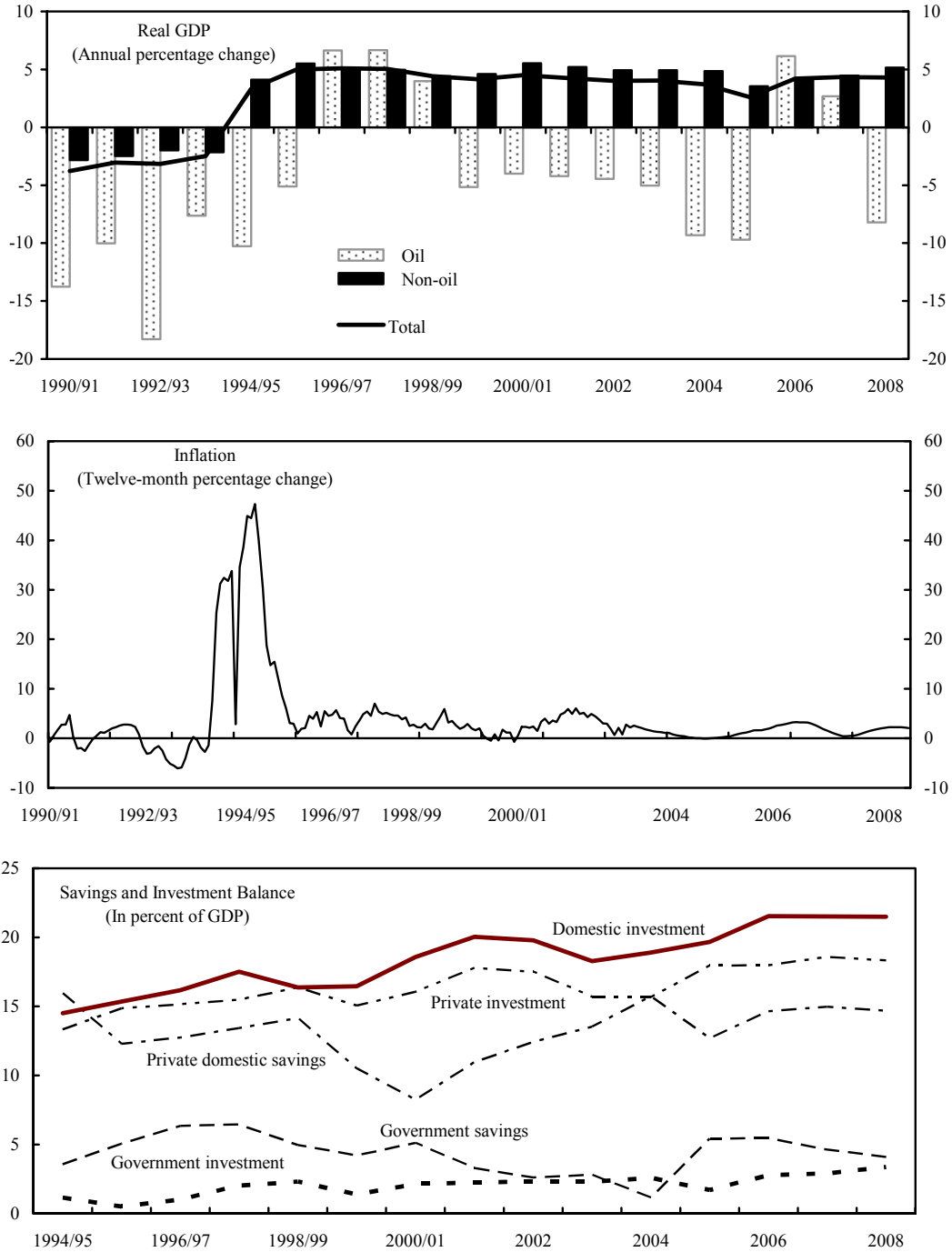
33. **The staff urges the government to implement the program as envisaged.** The authorities have expressed concerns about low civil service salaries, rising fuel prices, and the use of windfall oil revenues solely for domestic arrears clearance. The staff cautions that future changes to the macroeconomic framework relative to program objectives would need solid justification.

34. The staff recommends the completion of the:

- **financing assurances review**, in view of its assessment that the current status of Cameroon's relations with its external creditors provides sufficient financing assurances for the Fund-supported program; and

- **first review under the PRGF arrangement**, in view of strong program performance in the period through January 2006, which consolidated the gains made in the first half of 2005 under the SMP. Good program performance in 2005 bodes well for an improved outlook for growth and poverty reduction over the medium term.

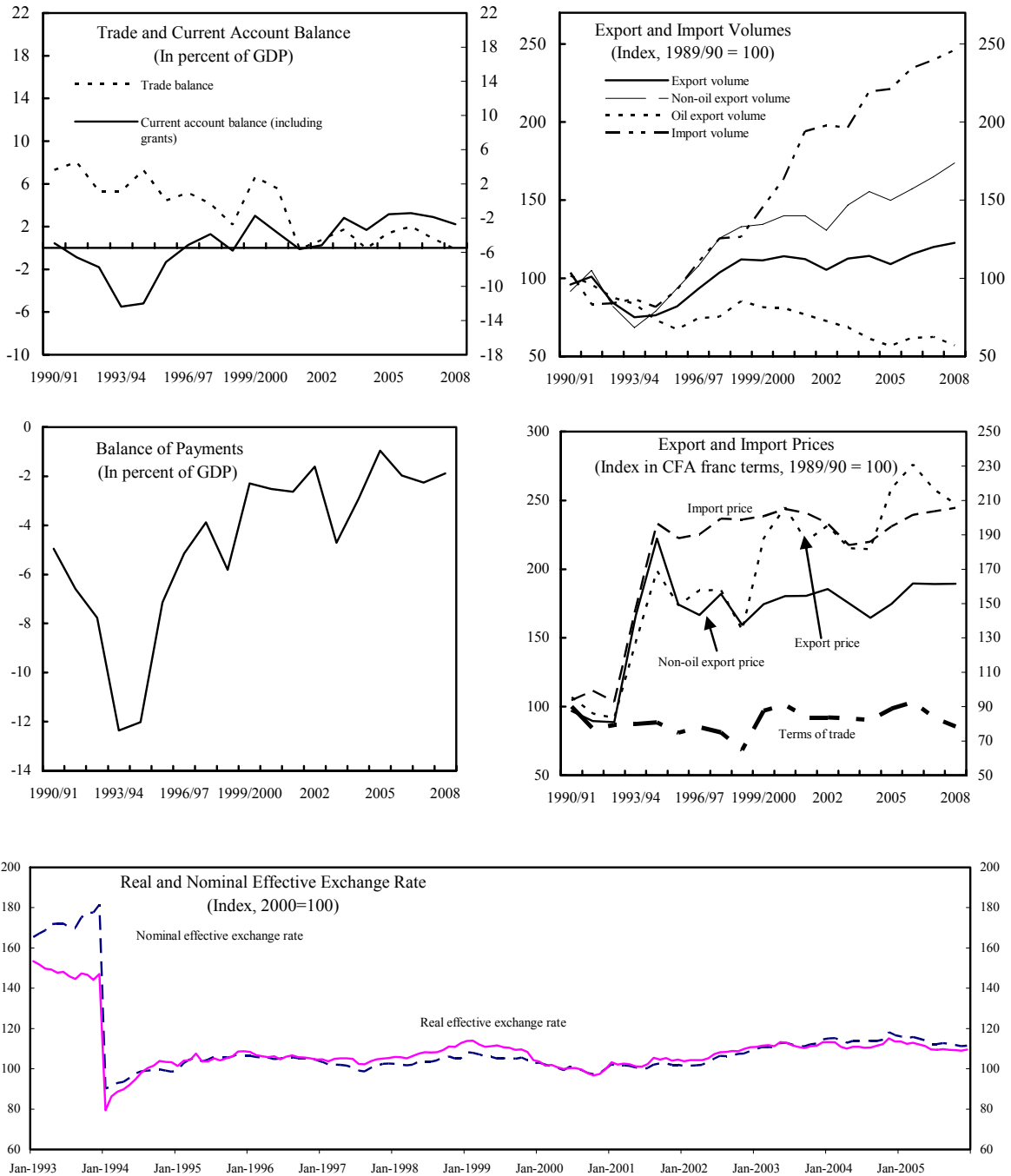
Figure 1. Cameroon: Output, Prices, Savings, and Investments, 1990/91-2008



Sources: Cameroonian authorities and IMF staff estimates and projections.



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



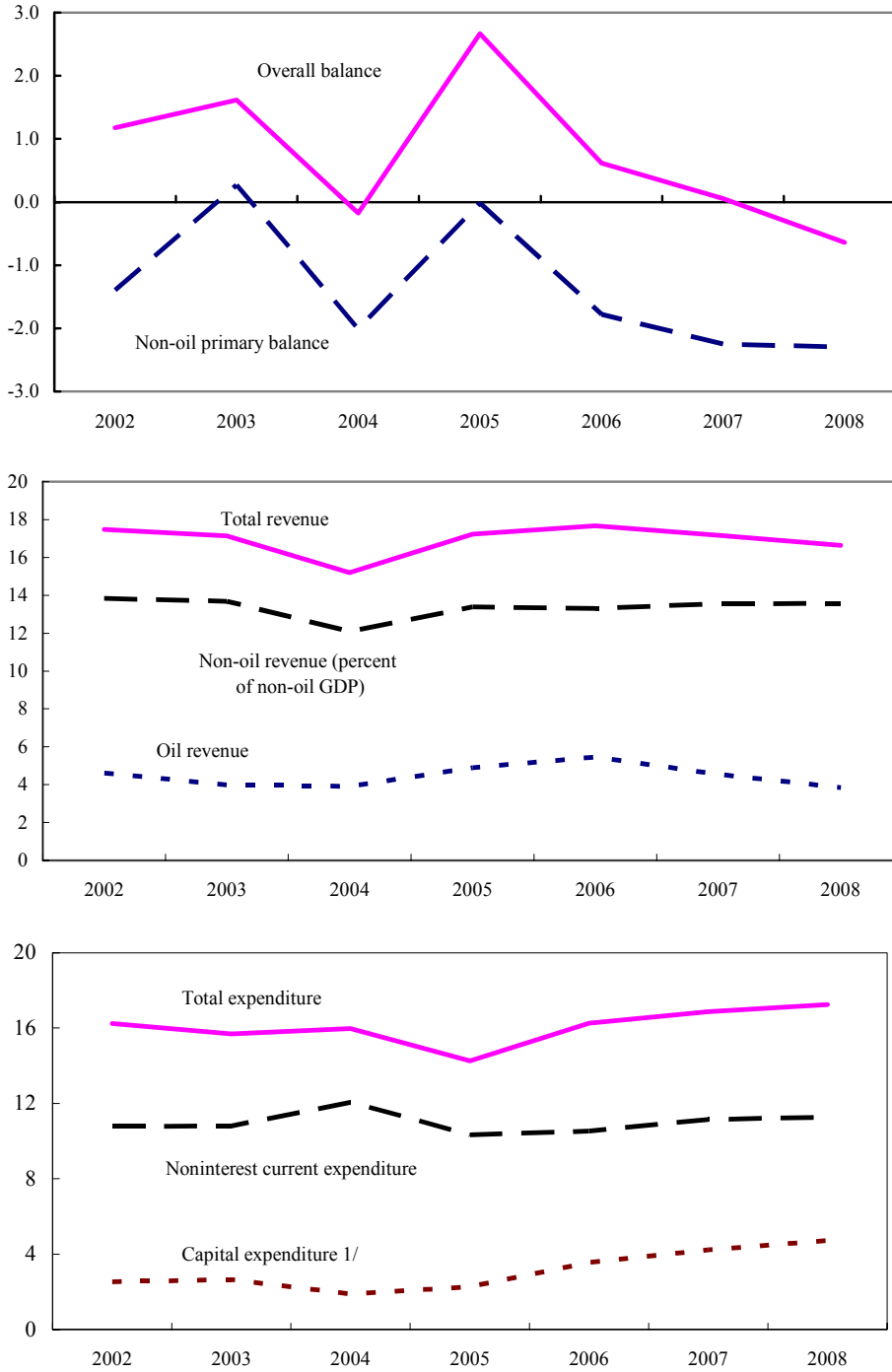
Sources: Cameroonian authorities; and IMF staff estimates and projections.

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

Shaded area indicates projections.

2/ CEMAC: Cameroon, Chad, Central African Republic, Congo, Equatorial Guinea, and Gabon.

Figure 3. Cameroon: Fiscal Developments and Prospects, 2002-08  
(In percent of GDP)



Sources: Cameroonian authorities and IMF staff estimates and projections.

1/ Excluding restructuring expenditures.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2003-2009

	2003	2004	2005		2006		2007	2008	2009
		Est.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
(Annual percentage changes, unless otherwise indicated)									
National income and prices									
GDP at constant prices	4.0	3.7	2.8	2.6	4.2	4.2	4.3	4.3	5.1
Oil	-5.0	-9.3	-9.0	-9.7	6.0	6.1	2.7	-8.2	-3.0
Non-oil	4.9	4.9	3.7	3.5	4.1	4.1	4.5	5.1	5.6
GDP deflator	0.7	1.1	1.7	4.8	2.9	2.3	0.7	1.7	1.8
Consumer prices (12-month average)	0.6	0.3	1.3	2.0	1.8	2.6	1.0	2.1	2.0
Nominal GDP (in billions of CFA francs)	7,946	8,334	8,757	8,959	9,395	9,546	10,033	10,638	11,381
Oil	486	541	618	714	752	788	696	614	578
Non-oil	7,460	7,792	8,139	8,246	8,642	8,758	9,337	10,024	10,803
Oil output (in thousands of barrels a day)	98	89	82	82	88	88	89	82	79
External trade									
Export volume	6.9	1.5	-5.3	-4.6	6.2	5.8	4.0	2.2	4.1
Of which Non-oil sector	12.3	5.9	-3.7	-3.6	4.8	4.8	4.9	5.4	5.9
Import volume	-0.6	11.7	1.0	0.7	2.8	6.0	2.3	2.7	3.3
Average oil export price (U.S. dollars per barrel)	27.3	34.9	45.3	50.4	48.0	49.2	43.3	42.0	41.0
Nominal effective exchange rate	4.1	1.6	...	-3.3	...	...	...	...	...
Real effective exchange rate	1.9	0.4	...	-2.0	...	...	...	...	...
Terms of trade	-0.8	-1.3	9.0	15.1	4.9	3.1	-7.6	-4.9	-3.8
Non-oil export price index (in CFA francs)	-5.5	-6.1	7.8	6.2	5.4	8.5	-0.2	0.2	-3.2
Money and credit (end of period)									
Net domestic assets 1/	1.8	0.3	1.1	-5.3	2.7	5.4	3.3	4.6	3.3
Net credit to the public sector 1/	-0.6	0.1	-0.7	-8.7	-0.9	1.6	-0.7	0.4	-0.9
Credit to the private sector	8.9	1.4	6.0	10.9	7.0	7.2	7.7	8.0	8.0
Broad money (M2)	-0.9	7.3	4.7	4.2	9.0	9.7	6.0	7.0	6.1
Velocity (GDP/average M2)	5.8	5.8	5.9	6.0	6.2	5.8	5.7	5.7	5.7
Central government operations									
Total revenue	3.6	-0.4	16.7	21.8	12.8	9.0	2.7	2.7	5.6
Of which Non-oil revenue	10.4	-0.7	15.1	17.3	6.4	5.7	8.8	7.4	9.7
Total expenditure	2.4	9.2	0.2	-4.0	19.4	25.9	6.1	8.4	8.9
(In percent of GDP, unless otherwise indicated)									
Gross national savings	16.3	15.5	17.4	18.1	19.6	20.1	19.6	18.8	18.6
Gross domestic investment	18.3	18.9	19.8	19.7	20.7	21.5	21.5	21.5	21.5
Central government operations									
Total revenue (excluding grants)	16.0	15.2	16.9	17.2	17.8	17.6	17.2	16.7	16.4
Oil revenue	4.1	3.9	4.5	4.9	5.5	5.4	4.6	3.8	3.3
Non-oil revenue	11.9	11.3	12.4	12.3	12.3	12.2	12.7	12.8	13.1
Non-oil revenue (in percent of non-oil GDP)	12.7	12.1	13.3	13.4	13.3	13.3	13.6	13.6	13.9
Total expenditure	15.3	16.0	15.3	14.3	17.0	16.9	17.0	17.4	17.7
Noninterest expenditure 2/	12.4	13.1	12.5	12.3	13.4	13.4	14.7	15.0	15.4
Capital expenditure 3/	1.9	1.9	2.4	2.3	3.7	3.7	4.0	4.6	4.9
Fiscal balance (excluding net changes in arrears)									
Excluding grants	0.7	-0.8	1.6	3.0	0.7	0.8	0.2	-0.7	-1.2
Including grants	1.4	-0.5	2.0	3.5	1.2	1.4	0.6	-0.4	-1.0
Primary balance 4/	3.4	1.9	3.9	4.9	3.4	3.3	2.2	1.4	0.9
Non-oil primary balance (in percent of non-oil GDP) 4/	-0.7	-2.1	-0.7	0.0	-2.3	-2.3	-2.5	-2.6	-2.5
External sector									
Current account balance (including grants)	-2.0	-3.4	-2.4	-1.5	-1.2	-1.4	-1.9	-2.7	-2.9
Gross official reserves	8.5	9.5	9.1	8.7	9.9	10.9	9.4	11.1	10.1
(In percent of exports of goods and services, unless otherwise indicated)									
NPV of external debt after HIPC, bilateral relief beyond HIPC, and MDRI 5/	...	25.7	...	16.9	...	10.6	13.4	16.8	20.3
External debt service 6/	8.7	7.0	6.7	6.4	3.6	3.6	0.9	1.0	1.3
External debt service (as a percent of government revenue) 6/	13.0	10.8	9.7	9.2	4.8	5.2	1.0	1.2	1.5

Sources: Cameroonian authorities; and IMF 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 foreign-financed investment.

5/ NPVs calculated using the LIC DSA methodology.

6/ Actual payments through 2004 and after all expected debt relief from 2006 onward.

Table 2. Cameroon: Balance of Payments, 2003-09

	2003	2004		2005		2006		2007	2008	2009
		Est.	Prog.	Est.	Prog.	Prog.	Proj.	Proj.	Proj.	
(In billions of CFA francs)										
Current account balance	-157	-283	-212	-138	-110	-137	-190	-289	-331	
Trade balance	137	-4	58	127	196	191	85	-11	-64	
Exports, f.o.b.	1,370	1,388	1,511	1,596	1,739	1,802	1,749	1,715	1,705	
Oil and oil products	551	574	665	763	806	854	757	668	631	
Non-oil sector	819	814	845	834	933	948	992	1,048	1,074	
Imports, f.o.b.	-1,233	-1,392	-1,452	-1,469	-1,542	-1,611	-1,664	-1,726	-1,769	
Services (net)	-110	-146	-162	-136	-208	-221	-208	-245	-248	
Income (net)	-306	-213	-201	-244	-199	-226	-176	-144	-131	
<i>of which:</i> Interest due on public debt	-155	-139	-117	-112	-112	-104	-92	-84	-78	
Transfers (net)	121	79	93	114	100	119	109	111	112	
Inflows	130	91	105	127	113	134	123	124	124	
<i>Of which:</i> Official program grants	30	3	18	6	22	22	0	0	0	
<i>Of which:</i> HIPC grants and MDRI relief	17	10	33	35	27	21	23	22	17	
Outflows	-9	-11	-12	-13	-13	-15	-14	-12	-12	
Capital and financial account balance	-217	39	27	53	-107	-50	-36	89	169	
Capital account	10	6	15	6	17	17	12	10	10	
Capital transfers	10	6	15	6	17	17	12	10	10	
Debt forgiveness	0	0	0	0	0	0	0	0	0	
Principal not yet due forgiven	0	0	0	0	0	0	0	0	0	
Financial account	-227	34	13	47	-123	-67	-49	78	159	
Official capital	-297	-191	-225	-236	-128	-129	-100	-55	-22	
Long-term borrowing	27	104	68	38	144	121	112	148	163	
Principal not yet due rescheduled	0	0	0	0	0	0	0	0	0	
Amortization	-325	-296	-292	-273	-272	-250	-213	-202	-185	
Principal not yet due	0	0	0	0	0	0	0	0	0	
Private capital (net)	70	225	237	282	5	62	52	133	181	
Oil sector	-12	-76	-4	-25	-12	59	43	20	-5	
Non-oil sector	82	301	241	308	17	3	9	113	186	
Direct investment	125	128	131	131	133	133	146	161	177	
Privatization receipts	0	0	0	0	0	0	0	0	0	
Other, including short-term	-43	173	110	177	-116	-130	-138	-48	9	
Overall balance	-374	-244	-184	-86	-216	-188	-226	-200	-162	
Financing	374	244	184	86	216	188	226	200	162	
Bank of Central African States (BEAC)	51	-87	-30	-140	-90	-59	-37	-43	-55	
Use of IMF credit (net)	6	-15	-19	-18	-24	-7	4	4	0	
Other reserves (net)	44	-72	-11	-121	-66	-51	-41	-47	-55	
Exceptional financing (debt relief) 1/	313	297	0	237	0	243	262	242	216	
Net change in arrears 2/	11	34	-12	-11	0	0	0	0	0	
Financing need 3/	0	0	226	0	306	3	1	1	1	
<i>Of which:</i> Possible debt relief	0	0	224	0	302	3	1	1	1	
Possible IMF disbursement	0	0	2	0	4	0	0	0	0	
Remaining financing gap	0	0	0	0	0	0	0	0	0	
(In percent of GDP)										
Trade balance	1.7	-0.1	0.7	1.4	2.1	2.0	0.8	-0.1	-0.6	
Current account balance	-2.6	-3.6	-3.0	-2.0	-1.7	-1.9	-2.1	-2.9	-3.1	
Excluding grants	-2.0	-3.4	-2.4	-1.5	-1.2	-1.4	-1.9	-2.7	-2.9	
Including grants	-4.7	-2.9	-2.1	-1.0	-2.3	-2.0	-2.3	-1.9	-1.4	
Overall balance	-4.7	-2.9	-2.1	-1.0	-2.3	-2.0	-2.3	-1.9	-1.4	
(Percentage change, unless otherwise indicated)										
Export volume	6.9	1.5	-5.3	-4.6	6.2	5.8	4.0	2.2	4.1	
Oil sector	-5.6	-10.4	-10.4	-7.9	11.3	9.2	1.1	-8.9	-3.1	
Non-oil sector	12.3	5.9	-3.7	-3.6	4.8	4.8	4.9	5.4	5.9	
Import volume	-0.6	11.7	1.0	0.7	2.8	6.0	2.3	2.7	3.3	
<i>Of which:</i> Non-oil sector	13.8	7.8	-0.6	-0.7	2.7	2.7	3.3	3.7	4.4	
Terms of trade	-0.8	-1.3	9.0	15.1	4.9	3.1	-7.6	-4.9	-3.8	
Non-oil export price index (CFA francs)	-5.5	-6.1	7.8	6.2	5.4	8.5	-0.2	0.2	-3.2	
Import price index (CFA francs)	-6.4	1.1	5.4	4.7	3.3	3.5	1.0	1.0	-0.8	
Exchange rate (CFA francs per U.S. dollar)	580.8	528.0	...	527.3	...	...	...	...	...	

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

1/ From Paris Club creditors.

2/ Including the London Club operation, estimated at CFAF 580 billion in 2002.

3/ Over the medium term, the financing need could be covered through debt relief by non-Paris Club creditors.

Table 3. Cameroon: Monetary Survey, December 2003-December 2006  
(In billions of CFA francs, unless otherwise noted)

	2003		2004		2005		2006			
	Dec.		Dec.		Sept.		Dec.			
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.		
Net foreign assets	259.8	357.1	384.4	388.1	397.2	462.7	411.4	499.7	511.4	568.2
Bank of Central African States (BEAC)	154.5	241.7	258.9	256.5	261.5	300.8	271.5	381.5	361.5	440.0
Commercial banks	105.3	115.4	125.5	131.6	135.7	161.9	139.9	118.2	149.9	128.2
Net domestic assets	1,143.9	1,148.4	1,047.9	1,052.1	1,099.7	1,062.3	1,164.7	1,068.6	1,206.7	1,152.8
Domestic credit	1,216.1	1,231.0	1,159.9	1,148.8	1,196.4	1,175.7	1,261.4	1,174.3	1,303.4	1,258.6
Net claims on the public sector	467.8	469.3	350.7	360.1	403.2	359.5	459.3	337.8	445.6	362.4
Net credit to the central government	359.5	374.1	253.7	253.8	296.9	260.8	353.0	238.0	339.3	262.5
Claims	618.3	572.5	483.7	502.0	526.3	518.4	540.9	461.2	519.3	459.3
Deposits	-258.9	-198.4	-230.0	-248.2	-229.3	-257.6	-187.8	-223.2	-180.0	-196.7
<i>of which</i> : HIPC	-106.7	-86.4	-91.0	-94.5	-95.1	-120.4	-92.4	-74.7	-54.9	-29.4
Credit to autonomous agencies	11.2	14.5	15.6	18.2	18.2	18.6	18.2	22.1	18.2	22.1
Credit to public enterprises	97.1	80.7	81.4	88.1	88.1	80.1	88.1	77.7	88.1	77.7
Credit to financial institutions	8.1	11.5	16.1	7.0	7.0	10.8	7.0	4.2	7.0	4.2
Credit to the private sector	740.2	750.2	793.2	781.7	786.2	805.5	795.1	832.3	850.9	892.0
Other items (net)	-72.2	-82.6	-112.1	-96.8	-96.7	-113.4	-96.7	-105.7	-96.7	-105.7
Money and quasi money	1,403.6	1,505.5	1,432.2	1,440.1	1,496.9	1,525.0	1,576.1	1,568.2	1,718.1	1,721.0
Currency outside banks	296.8	324.2	255.7	250.2	275.0	261.5	330.7	273.5	343.9	279.0
Deposits	1,106.8	1,181.3	1,176.5	1,189.9	1,221.9	1,263.5	1,245.4	1,294.8	1,374.2	1,442.0
Memorandum items:										
Contribution to the growth of broad money (in percentage points)										
Net foreign assets	-2.7	7.8	4.9	8.7	6.3	10.8	3.6	9.5	6.3	4.4
Net domestic assets	1.8	2.5	-5.4	-7.4	-2.4	-5.0	1.1	-5.3	2.7	5.4
<i>Of which</i> : Credit to the central government	-1.5	1.6	-5.3	-8.5	-5.1	-7.6	-1.4	-9.0	-0.9	1.6
Private sector credit (annual percentage change)	8.9	1.4	3.4	5.2	5.4	7.9	6.0	10.9	7.0	7.2
Broad money (annual percentage change)	-0.9	7.3	-0.5	1.3	3.9	5.9	4.7	4.2	9.0	9.7
Currency	-10.6	9.2	-7.7	-2.4	2.0	-3.0	2.0	-15.6	4.0	2.0
Deposits	2.0	6.7	1.2	2.1	4.3	7.9	5.4	9.6	10.3	11.4
Claims on government/domestic credit ratio	29.6	30.4	21.9	22.1	24.8	22.2	28.0	20.3	26.0	20.9
Currency outside banks/deposit ratio	26.8	27.4	21.7	21.0	22.5	20.7	26.5	21.1	25.0	19.3
Velocity (non-oil GDP/average M2)	5.4	5.4	5.7	5.7	5.6	5.6	5.5	5.5	5.7	5.3
Velocity (GDP/average M2)	5.8	5.8	6.2	6.2	6.0	6.1	5.9	6.0	6.2	5.8
Net claims on the public sector 1/	349.8	340.9	205.6	236.9	275.6	192.9	331.7	205.0	317.9	262.5

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

1/ 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 4. Cameroon: Central Government Operations; 2003-09  
(In billions of CFA francs)

	2003	2004	2005		2006		2007	2008	2009
			Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	1,329	1,286	1,546	1,590	1,727	1,741	1,762	1,805	1,900
Total revenue	1,273	1,267	1,478	1,543	1,668	1,682	1,727	1,773	1,872
Oil sector revenue	324	325	394	439	515	515	457	409	375
Non-oil sector revenue	948	942	1,084	1,104	1,153	1,167	1,270	1,364	1,496
Direct taxes	232	228	265	262	279	283	305	331	360
Special tax on petroleum products	67	72	72	70	76	77	82	88	95
Other taxes on goods and services	384	370	438	462	471	477	514	557	606
Of which : value-added tax, net	341	342	368	350	374	379	408	442	482
VAT refund	-49	-51	-51	-49	-58	-58	-63	-69	-75
Centimes additionnels	...	...	19	19	11	11	0	0	0
Taxes on international trade	176	179	187	189	204	207	223	240	260
Other tax revenue	...	...	...	...	2	2	...	...	...
Non-tax revenue	68	96	120	126	121	121	146	148	175
Of which : pipeline	0	13	16	14	17	17	17	17	...
Total grants	56	19	68	47	59	59	36	32	28
Projects	10	6	15	6	17	17	12	10	10
Programs	30	3	18	6	22	22	0	0	0
Debt relief (multilaterals, except IMF)	17	10	35	35	21	21	23	22	17
Of which: MDRI (AIDF and IDA)	0	0	0	0	0	5	9	10	9
Total expenditure	1,219	1,331	1,338	1,278	1,597	1,609	1,707	1,850	2,014
Current expenditure	1,049	1,169	1,068	1,055	1,159	1,162	1,263	1,338	1,436
Wages and salaries	421	450	419	414	446	446	477	494	531
Goods and services	321	414	336	337	392	402	467	529	598
Of which: HIPC	6	33	13	22	12	12	20	9	10
C2D	...	...	...	...	17	17	21	24	21
MDRI	...	...	...	...	...	10	19	18	17
Subsidies and transfers	126	141	175	175	184	184	198	201	202
Scholarships and subsidies	61	77	95	98	99	99	104	104	104
Of which: fuel subsidies	...	...	17	17	20	20	0	0	0
Pensions	66	64	79	77	84	84	94	96	98
Separation grants (POEs)	0	0	0	0	0	0	0	0	0
Interest due	181	164	138	129	137	130	120	114	105
External	154	138	116	111	111	103	92	84	78
Domestic	27	26	22	18	26	26	28	30	27
Capital expenditure	166	167	260	206	438	447	444	512	578
Foreign-financed investment	38	67	60	44	110	110	81	115	139
Domestic investment	112	90	151	159	238	248	318	376	418
Of which : HIPC	7	10	63	52	90	90	80	69	50
C2D	...	...	...	...	39	39	49	56	49
MDRI	...	...	...	...	...	10	19	18	17
Restructuring of public companies	16	10	49	3	90	90	30	20	20
Of which : large companies	0	0	40	0	82	82	20	0	0
Unclassified expenditure	4	-5	10	17	0	0	0	0	0
Overall balance, excl. net change in arrears									
Excluding grants	53	-64	139	265	70	73	20	-77	-142
Including grants	110	-45	208	312	130	132	55	-44	-114
Net change in arrears	-25	31	-73	-73	-100	-120	-60	-35	-22
External	11	34	-12	-11	0	0	0	0	0
Domestic	-16	-4	-61	-62	-100	-120	-60	-35	-22
Overall balance, cash basis									
Excluding grants	29	-34	66	192	-30	-47	-40	-112	-164
Including grants	85	-15	134	239	30	12	-5	-79	-136
Financing	-85	15	-138	-239	-36	-15	4	79	135
External financing, net	-2	51	-55	-35	102	89	136	160	165
Amortization	-325	-296	-293	-273	-272	-250	-213	-202	-185
Drawings	38	94	50	38	96	96	86	120	134
Project financing	0	0	46	38	93	93	69	105	129
Program financing (loans)	0	43	4	0	3	3	17	15	5
Debt rescheduling	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	285	252	188	200	278	243	262	242	216
Domestic financing, net	-83	-36	-83	-204	-139	-104	-132	-82	-30
Banking system	-20	13	-20	-139	-14	25	-12	8	-18
Banking system, excluding HIPC and C2D	-41	-7	-14	-151	-35	3	-43	-32	-26
Net HIPC flows	20	20	-6	12	38	38	34	29	8
Net C2D flows	...	...	...	...	-16	-16	-4	11	0
Amortization	-54	-33	-64	-69	-115	-129	-110	-79	-2
Non-bank financing	-9	-16	2	5	0	0	0	0	0
Reserves	0	0	0	0	-10	0	-10	-10	-10
Remaining financing needs	0	0	3	0	7	3	1	1	1
Memorandum items:									
Possible debt relief (excl. multilaterals and Paris Club)	0	0	1	0	3	3	1	1	1
IMF MDRI relief	...	...	...	...	...	15	28	27	25
Non-oil revenue	948	942	1,084	1,104	1,153	1,167	1,270	1,364	1,496
Non-oil primary balance 2/	-53	-167	-55	-1	-198	-203	-236	-256	-273
Non-oil primary balance (program definition) 3/	-24	-106	69	76	49	64	1	-41	-89
Net bank credit to the government	-20	13	-14	-139	-14	25	-12	8	-18

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

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, projected for 2006.

2/ Excludes grants, interest and foreign-financed capital expenditures.

3/ Excludes restructuring and debt relief expenditures, in addition to grants, interest and foreign-financed capital expenditures.

Table 5a. Cameroon: Central Government Operations, 2005  
(In billions of CFA francs, unless otherwise indicated)

	2005							
	Jan-Jun		Jul-Sep		Oct-Dec		Year	
	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Prel.	
Total revenue and grants	774	359	368	416	448	1,546	1,590	
Total revenue	753	354	368	373	422	1,478	1,543	
Oil sector revenue	179	102	113	113	147	394	439	
Non-oil sector revenue	574	252	255	260	275	1,084	1,104	
Direct taxes	165	46	42	54	55	265	262	
Special tax on petroleum products	35	19	17	19	18	72	70	
Other taxes on goods and services	221	108	117	112	124	438	462	
Taxes on international trade	91	48	50	48	49	187	189	
Other tax revenue	...	...	...	...	...	...	...	
Non-tax revenue	67	30	24	25	34	120	126	
Total grants	21	4	0	43	26	68	47	
Projects	5	4	0	6	1	15	6	
Programs	0	0	0	18	6	18	6	
Debt relief (multilaterals, except IMF)	16	0	0	19	19	35	35	
<i>Of which:</i> MDRI (AIDF and IDA)	0	0	0	0	0	0	0	
Total expenditure	609	345	322	387	348	1,338	1,278	
Current expenditure	522	257	261	286	272	1,068	1,055	
Wages and salaries	206	105	106	110	102	419	414	
Goods and services	172	78	77	80	87	336	337	
<i>Of which:</i> HIPC	9	2	4	2	10	13	22	
C2D	...	...	...	...	...	...	...	
MDRI	...	...	...	...	...	...	...	
Subsidies and transfers	78	41	44	59	53	175	175	
Scholarships and subsidies	40	20	27	37	32	95	98	
<i>Of which:</i> SONARA	...	...	...	17	17	17	17	
Pensions	39	21	18	22	21	79	77	
Interest due	67	33	33	38	29	138	129	
External	58	27	27	32	27	116	111	
Domestic	9	6	6	6	3	22	18	
Capital expenditure	73	88	58	100	74	260	206	
Foreign-financed investment	23	18	15	19	6	60	44	
Domestic investment	49	50	41	53	69	151	159	
<i>Of which:</i> HIPC	18	20	8	25	27	63	52	
C2D	...	...	...	...	...	...	...	
MDRI	...	...	...	...	...	...	...	
Restructuring of public companies	1	20	2	28	0	49	3	
Unclassified expenditure	13	0	3	0	2	10	17	
Overall balance, excluding net change in arrears								
Excluding grants	145	9	46	-13	74	139	265	
Including grants	166	13	46	30	100	208	312	
Net change in arrears	-14	-30	-29	-29	-29	-73	-73	
External	-12	0	0	0	1	-12	-11	
Domestic	-2	-30	-29	-29	-30	-61	-62	
Overall balance, cash basis								
Excluding grants	130	-21	17	-42	45	66	192	
Including grants	152	-16	17	1	71	134	239	
Financing	-152	17	-17	-4	-70	-138	-239	
External financing, net	-14	6	18	-47	-39	-55	-35	
Amortization	-135	-43	-35	-114	-103	-293	-273	
Drawings	19	14	14	18	5	50	38	
Exceptional financing 1/	103	...	38	...	59	...	200	
Domestic financing, net	-138	11	-34	43	-31	-83	-204	
Banking system	-120	43	3	56	-22	-20	-139	
Amortization	-19	-32	-42	-13	-8	-64	-69	
Non-bank financing	2	0	4	0	-1	2	5	
Reserves	0	0	0	0	0	0	0	
Remaining financing needs	0	0	0	3	0	3	0	
Memorandum items:								
Possible debt relief 2/	0	0	0	1	0	1	0	
IMF MDRI relief	...	...	...	...	...	...	...	
Non-oil primary balance 3/	56	-42	-19	-69	-38	-55	-1	
Non-oil primary balance (program definition) 4/	83	0	-5	-14	-1	69	76	
Net credit to the government (flows)	-112	44	29	53	-68	-14	-151	

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, expected in 2006.

2/ Debt relief is treated as a combination of grants and exceptional financing.

3/ Excludes grants, interest and foreign-financed capital expenditures.

4/ Excludes restructuring and debt relief expenditures, in addition to grants, interest and foreign-financed capital expenditures.

Table 5b. Cameroon: Central Government Operations, 2006  
(In billions of CFA francs, unless otherwise indicated)

	2006									
	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Year	
	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Total revenue and grants	430	430	435	440	422	427	440	445	1,727	1,741
Total revenue	427	427	416	421	411	416	413	418	1,668	1,682
Oil sector revenue	112	108	134	136	134	136	134	136	515	515
Non-oil sector revenue	316	320	282	285	276	280	279	283	1,153	1,167
Direct taxes	103	104	65	66	56	57	56	57	279	283
Special tax on petroleum products	18	18	20	21	20	20	18	18	76	77
Other taxes on goods and services	115	117	116	117	117	118	123	125	471	477
Taxes on international trade	48	49	49	50	51	52	55	56	204	207
Other tax revenue	1	1	1	1	1	1	1	1	2	2
Non-tax revenue	31	31	31	31	33	33	27	27	121	121
Total grants	2	2	19	19	11	11	27	27	59	59
Projects	2	2	8	8	2	2	5	5	17	17
Programs	0	0	9	9	0	0	13	13	22	22
Debt relief (multilaterals, except IMF)	0	0	2	2	10	10	9	9	21	21
Of which: MDRI (AfDF and IDA)	0	0	0	0	0	3	0	3	0	5
Total expenditure	346	346	407	407	413	420	431	436	1,597	1,609
Current expenditure	271	271	289	289	298	302	302	300	1,159	1,162
Wages and salaries	107	107	111	111	113	113	116	116	446	446
Goods and services	85	85	102	102	103	106	103	109	392	402
Of which: HIPC	3	3	2	2	2	2	5	5	12	12
C2D	...	...	...	...	8	8	8	8	17	17
MDRI	...	...	...	...	...	4	...	6	...	10
Subsidies and transfers	47	47	45	45	46	46	47	47	184	184
Scholarships and subsidies	27	27	24	24	24	24	24	24	99	99
Of which: SONARA	8	8	4	4	4	4	4	4	20	20
Pensions	19	19	21	21	22	22	23	23	84	84
Interest due	33	33	32	32	36	36	36	28	137	130
External	25	25	27	27	29	29	29	22	111	103
Domestic	8	8	5	5	7	7	7	7	26	26
Capital expenditure	76	76	118	118	115	118	130	136	438	447
Foreign-financed investment	24	24	30	30	24	24	31	31	110	110
Domestic investment	42	42	48	48	61	64	88	95	238	248
Of which: HIPC	16	16	18	18	23	23	33	33	90	90
C2D	...	...	...	...	19	19	19	19	39	39
MDRI	...	...	...	...	...	4	...	6	...	10
Restructuring of public companies	10	10	40	40	30	30	10	10	90	90
Unclassified expenditure	0	0	0	0	0	0	0	0	0	0
Overall balance, excluding net change in arrears										
Excluding grants	81	81	9	14	-2	-4	-18	-18	70	73
Including grants	83	83	28	33	9	7	9	9	130	132
Net change in arrears	-35	-55	-32	-32	-17	-17	-17	-17	-100	-120
External	0	0	0	0	0	0	0	0	0	0
Domestic	-35	-55	-32	-32	-17	-17	-17	-17	-100	-120
Overall balance, cash basis										
Excluding grants	46	26	-22	-18	-19	-21	-35	-35	-30	-47
Including grants	48	28	-3	1	-8	-10	-8	-8	30	12
Financing	-49	-29	0	-2	7	9	6	7	-36	-15
External financing, net	25	24	39	18	13	25	26	22	102	89
Amortization	-29	-29	-95	-95	-37	-37	-110	-89	-272	-250
Drawings	22	22	22	22	22	22	29	29	96	96
Exceptional financing 1/	31	31	111	91	28	39	107	82	278	243
Domestic financing, net	-74	-54	-38	-21	-7	-16	-20	-15	-139	-104
Banking system	-43	-11	-7	8	25	13	11	14	-14	25
Amortization	-29	-43	-29	-29	-29	-29	-29	-29	-115	-129
Non-bank financing	0	0	0	0	0	0	0	0	0	0
Reserves	-3	0	-3	0	-3	0	-3	0	-10	0
Remaining financing needs	1	1	3	1	1	1	2	1	7	3
Memorandum items:										
Possible debt relief 2/	1	1	1	1	1	1	1	1	3	3
IMF MDRI relief	...	...	...	...	...	5	...	10	...	15
Non-oil primary balance 3/	26	30	-63	-60	-76	-79	-85	-94	-198	-203
Non-oil primary balance (program definition) 4/	55	58	-3	0	6	3	-9	-18	49	64
Net credit to the government (flows)	-41	-9	24	39	-14	-26	-4	-1	-35	3

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, expected in 2006.

2/ Debt relief is treated as a combination of grants and exceptional financing.

3/ Excludes grants, interest and foreign-financed capital expenditures.

4/ Excludes restructuring and debt relief expenditures, in addition to grants, interest and foreign-financed capital expenditures.



Table 6. Cameroon: Selected Fiscal Indicators, 2003-09  
(In percent of GDP, unless otherwise indicated)

	2003	2004	2005		2006		2007	2008	2009
			Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	16.7	15.4	17.7	17.7	18.4	18.2	17.6	17.0	16.7
Total revenue	16.0	15.2	16.9	17.2	17.8	17.6	17.2	16.7	16.4
Oil sector revenue	4.1	3.9	4.5	4.9	5.5	5.4	4.6	3.8	3.3
Non-oil sector revenue	11.9	11.3	12.4	12.3	12.3	12.2	12.7	12.8	13.1
Total grants (current)	0.7	0.2	0.8	0.5	0.6	0.6	0.4	0.3	0.2
Of which: projects	0.1	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1
programs	0.4	0.0	0.2	0.1	0.2	0.2	0.0	0.0	0.0
Debt relief	0.2	0.1	0.4	0.4	0.2	0.2	0.2	0.2	0.2
Of which: MDRI	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total expenditure	15.3	16.0	15.3	14.3	17.0	16.9	17.0	17.4	17.7
Current expenditure	13.2	14.0	12.2	11.8	12.3	12.2	12.6	12.6	12.6
Wages and salaries	5.3	5.4	4.8	4.6	4.8	4.7	4.8	4.6	4.7
Goods and services	4.0	5.0	3.8	3.8	4.2	4.2	4.7	5.0	5.3
Of which: HIPC	0.1	0.4	0.1	0.3	0.1	0.1	0.2	0.1	0.1
C2D	...	...	...	...	0.2	0.2	0.2	0.2	0.2
MDRI	...	...	...	...	...	0.1	0.2	0.2	0.2
Subsidies and transfers	1.6	1.7	2.0	2.0	2.0	1.9	2.0	1.9	1.8
Interest due	2.3	2.0	1.6	1.4	1.5	1.4	1.2	1.1	0.9
External	1.9	1.7	1.3	1.2	1.2	1.1	0.9	0.8	0.7
Domestic	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.2
Capital expenditure	2.1	2.0	3.0	2.3	4.7	4.7	4.4	4.8	5.1
Foreign-financed investment	0.5	0.8	0.7	0.5	1.2	1.1	0.8	1.1	1.2
Domestic investment	1.4	1.1	1.7	1.8	2.5	2.6	3.2	3.5	3.7
Of which: HIPC	0.1	0.1	0.7	0.6	1.0	0.9	0.8	0.6	0.4
C2D	...	...	...	...	0.4	0.4	0.5	0.5	0.4
MDRI	...	...	...	...	...	0.1	0.2	0.2	0.1
Restructuring of public companies	0.2	0.1	0.6	0.0	1.0	0.9	0.3	0.2	0.2
Of which: large companies	0.0	0.0	0.5	0.0	0.9	0.9	0.2	0.0	0.0
Unclassified expenditure	0.1	-0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Overall balance, excluding net change in arrears									
Excluding grants	0.7	-0.8	1.6	3.0	0.7	0.8	0.2	-0.7	-1.2
Including grants	1.4	-0.5	2.4	3.5	1.4	1.4	0.6	-0.4	-1.0
Net change in arrears	-0.3	0.4	-0.8	-0.8	-1.1	-1.3	-0.6	-0.3	-0.2
External	0.1	0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic	-0.2	0.0	-0.7	-0.7	-1.1	-1.3	-0.6	-0.3	-0.2
Overall balance, cash basis									
Excluding grants	0.4	-0.4	0.8	2.1	-0.3	-0.5	-0.4	-1.1	-1.4
Including grants	1.1	-0.2	1.5	2.7	0.3	0.1	0.0	-0.7	-1.2
Financing	-1.1	0.2	-1.6	-2.7	-0.4	-0.2	0.0	0.7	1.2
External financing, net	0.0	0.6	-0.6	-0.4	1.1	0.9	1.4	1.5	1.4
Amortization	-4.1	-3.5	-3.3	-3.1	-2.9	-2.6	-2.1	-1.9	-1.6
Drawings	0.5	1.1	0.6	0.4	1.0	1.0	0.9	1.1	1.2
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	3.6	3.0	2.1	2.2	3.0	2.5	2.6	2.3	1.9
Domestic financing, net	-1.0	-0.4	-0.9	-2.3	-1.5	-1.1	-1.3	-0.8	-0.3
Banking system	-0.3	0.2	-0.2	-1.6	-0.1	0.3	-0.1	0.1	-0.2
Amortization	-0.7	-0.4	-0.7	-0.8	-1.2	-1.4	-1.1	-0.7	0.0
Non-bank financing	-0.1	-0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Reserves	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.1
Remaining financing needs	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Memorandum items:									
Possible debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF MDRI relief	...	...	...	...	...	0.2	0.3	0.3	0.2
Non-oil revenue (in percent of non-oil GDP)	12.7	12.1	13.3	13.4	13.3	13.3	13.6	13.6	13.9
Non-oil primary balance (in percent of non-oil GDP) 2/	-0.7	-2.1	-0.7	0.0	-2.3	-2.3	-2.5	-2.6	-2.5
Non-oil primary balance (program definition) 3/	-0.3	-1.3	0.8	0.9	0.5	0.7	0.0	-0.4	-0.8
Net bank credit to the government	-0.3	0.2	-0.2	-1.6	-0.1	0.3	-0.1	0.1	-0.2

Sources: Cameroonian authorities and staff estimates and projections.

1/ Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, projected for 2006.

2/ Excludes grants, interest and foreign-financed capital expenditures.

3/ Excludes restructuring and debt relief expenditures, in addition to grants, interest and foreign-financed capital expenditures.



Cameroon: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2001	2002	2003	2004	2015 Target
<b>Target 8:</b> Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases.							
21. Prevalence of death associated with malaria	...	...	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	145.0	187.7	180.5	180.5	...
24. Tuberculosis cases detected under DOTS (percent)	...	2.0	16.0	59.6	86.4	86.4	...
<u>Goal 7. Ensure environmental sustainability</u>							
<b>Target 9:</b> Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.							
25. Forest area (percent of total land area)	28.9	...	51.3	...	...	...	...
26. Nationality protected areas (percent of total land area)	...	4.5	4.5	4.5	4.5	4.5	...
27. GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.9	3.7	4.7	...	4.7	...	...
28. CO2 emissions (metric tons per capita)	0.1	0.3	0.4	...	...	...	...
29. Proportion of population using solid fuels	...	...	...	...	...	...	...
<b>Target 10:</b> Halve by 2015 proportion of people without access to safe drinking water							
30. Access to improved water source (percent of population)	51.0	...	58.0	...	63.0	...	74.0
<b>Target 11:</b> Achieve by 2020 significant improvement for at least 100 million slum dwellers							
31. Access to improved sanitation (percent of population)	77.0	...	79.0	...	48.0	...	...
32. Access to secure tenure (percent of population)	...	...	...	...	...	...	...
<u>Goal 8. Develop a Global Partnership for Development 1/</u>							
<b>Target 16:</b> Develop and implement strategies for productive work for youth.							
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...	...	...
<b>Target 17:</b> Provide access to affordable essential drugs.							
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...	...	...
<b>Target 18:</b> Make available new technologies, especially information and communications							
47. Fixed line and mobile telephones (per 1,000 people)	3.5	5.1	27.0	49.7	...	...	...
48. Personal computers (per 1,000 people)	...	1.5	3.9	5.7	...	...	...

Sources: World Bank, World Development Indicators database, 2003; and UNDP, Human Development Report 2005.

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured by country. These are related to official development assistance, market access, and the HIPC initiative.

Table 8: Cameroon: Fund Disbursements and Timing of Reviews Under the PRGF, 2006-08

Date of First Availability	Conditions	Amount (in millions of SDRs)
November 17, 2006	Completion of second review (end-June 2006 quantitative and structural performance criteria)	2.65
April 28, 2007	Completion of third review (end-December 2006 quantitative and structural performance criteria)	2.65
November 17, 2007	Completion of fourth review (end-June 2007 quantitative and structural performance criteria)	2.65
April 28, 2008	Completion of fifth review (end-December 2007 quantitative and structural performance criteria)	2.65
November 17, 2008	Completion of sixth review (end-June 2008 quantitative and structural performance criteria)	2.67

Table 9. Cameroon: Indicators of IMF Credit, 2003-09 1/

	2003	2004	2005	Projections			
				2006	2007	2008	2009
IMF credit outstanding							
In millions of SDRs	233.6	214.7	190.3	181.4	186.7	192.0	192.0
In millions of U.S. dollars	332.3	318.0	273.0	259.9	267.6	275.5	275.5
In billions of CFA francs	190.1	167.1	145.0	143.9	147.7	151.6	151.6
In percent of quota	125.8	115.6	102.5	97.7	100.5	103.4	103.4
Debt service to the IMF							
In millions of SDRs	9.2	20.0	28.6	15.1	0.1	0.1	0.1
In millions of U.S. dollars	12.9	29.7	41.0	21.6	0.1	0.1	0.1
In billions of CFA francs	7.5	15.7	21.6	12.0	0.1	0.1	0.1
In percent of							
Export of goods and nonfactor services	0.4	0.8	1.0	0.5	0.0	0.0	0.0
Total debt service due	1.6	3.6	5.6	3.4	0.0	0.0	0.0
Government revenue	0.6	1.2	1.4	0.7	0.0	0.0	0.0
GDP	0.1	0.2	0.2	0.1	0.0	0.0	0.0
Quota	5.0	10.8	15.4	8.1	0.0	0.0	0.0
Debt service to the IMF (in millions of SDRs)							
Interest and charges	1.1	1.1	1.5	0.8	0.1	0.1	0.1
Repurchases/repayments	8.1	18.9	27.0	14.3	0.0	0.0	0.0

Sources: IMF, Finance Department; and staff estimates and projections.

1/ The stock operation associated with MDRI relief from the IMF will be shown only after the IMF and IDA Boards and Paris Club meetings.

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

April 5, 2006

Dear Mr. de Rato:

1. Throughout 2005, the government spared no effort in implementing measures aimed at fiscal consolidation and the deepening and acceleration of structural reforms. These efforts will be continued in 2006 in order to build on the satisfactory results obtained in 2005 and contribute effectively to the improvement of growth prospects with a view to sustainable poverty reduction in Cameroon.

2. The attached memorandum of economic and financial policies (MEFP), which supplements the MEFP attached to the letter of intent of October 13, 2005, reviews achievements in the first six months of implementation of the government's three-year program, supported by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). It also presents the government's economic policies and objectives for 2006.

3. Program implementation at end-December 2005 was generally satisfactory. Efforts to boost revenue and control expenditure led to the attainment of all of the country's fiscal objectives. Moreover, domestic debt payments greatly exceeded program targets, thanks to larger than expected oil revenues. In addition, all the performance criteria and structural benchmarks through end- January 2006 were observed. We therefore request the completion of the first review and the disbursement of the second loan under the arrangement in the amount of SDR 2.65 million.

4. The medium-term economic objectives remain consistent with the macroeconomic framework of the three-year program. To achieve them, the government intends to pursue fiscal consolidation, strengthen governance and the fight against corruption, improve the quality and effectiveness of public investment, and expedite structural reforms, especially in the public enterprise sector. On the fiscal side, the budget law approved by the National Assembly in December 2005 remains the cornerstone of the program for 2006. It calls for continued efforts to boost non-oil revenue by introducing new tax measures and strengthening public expenditure management. To enhance the impact of fiscal policy on economic activity and growth, the government took steps to improve the execution rate of capital expenditure. Government investment will increase significantly in 2006 and beyond and allow for further progress toward poverty reduction and attainment of the Millennium

Development Goals. Special emphasis will also be placed on infrastructure improvement and investment in human capital.

5. The government, aware of the importance of structural reforms in strengthening growth prospects and boosting efficiency in the use of public resources, remains committed to moving forward with initiatives undertaken in 2005 to reduce the government's role in the productive sector, especially with regard to enterprises whose financial problems weigh heavily on the government budget. Accordingly, the measures set out in the action plan for the privatization of CAMAIR and the ongoing reforms of CAMPOST, SNEC, CDC, CAMTEL, and SONARA will be actively pursued. To strengthen the impact of these measures and further improve the business environment, the government will adopt measures to combat corruption and strengthen governance. To this end, the authorities will place particular emphasis on continued reform of the legal system and implementation of the priority action plan of the revised National Governance Program. The government will also ensure that the principles of the Extractive Industries Transparency Initiative (EITI) are implemented in 2006.

6. Since Cameroon achieved the HIPC Initiative decision point, the authorities have spared no effort to implement measures identified as completion point triggers. As all these measures have now been implemented, the government is seeking the remaining financial assistance provided for under that initiative. It also requests multilateral debt relief under the Multilateral Debt Relief Initiative (MDRI). The government undertakes to adopt the measures necessary to ensure the efficient and transparent execution of poverty reduction expenditure financed with debt relief granted to Cameroon. This expenditure will be monitored in the context of the current consultation mechanism with Cameroon's donors.

7. The government of Cameroon believes that the economic and financial policies described in the attached MEFP, which I have the honor of forwarding to you, are adequate to achieve the objectives of its economic program for 2006. However, it will take any further measures that may become necessary for this purpose. The government will consult with the Managing Director of the IMF on the adoption of these measures before any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. Finally, the government of Cameroon authorizes the IMF to make this letter and the attached MEFP available to the public.

8. The government will make every effort to ensure that the second review of the program, which will be based on the quantitative and structural performance criteria for end-June 2006, is completed by mid-November 2006.

Sincerely yours,

/s/

Inoni Ephraim  
Prime Minister  
Cameroon



Yaoundé, April 5, 2006

## **Memorandum of Economic and Financial Policies**

### **I. INTRODUCTION**

1. During 2005 the government of Cameroon implemented an economic and financial program designed to correct the macroeconomic imbalances of 2004 and strengthen the implementation of major structural reforms. In the second half of 2005 this program was supported by the International Monetary Fund (IMF) through an arrangement under the Poverty Reduction and Growth Facility (PRGF).
2. This memorandum presents the results obtained during the first six months of implementation of the government's PRGF-supported economic program. The actions taken under this program helped to consolidate achievements in the area of fiscal discipline, pave the way for streamlining the public enterprise sector, reduce the government's domestic debt, and strengthen governance. Some actions taken in these areas were among the measures Cameroon had pledged to adopt in order to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative.
3. This memorandum describes the economic objectives and policies for 2006 and complements the one adopted by the government in October 2005 (IMF Country Report No. 05/413). These objectives and measures are consistent with those identified in the medium-term framework of Cameroon's three-year program, based on the priorities of Poverty Reduction Strategy Paper (PRSP). The government regrets the delay in implementing the restructuring of the national postal services and savings bank (CAMPOST), which led to a reprogramming of the actions envisaged under the program. Drawing lessons from the broadly satisfactory results of program implementation thus far, the government intends to further strengthen the transparency dimension in budget execution and the implementation of the good governance framework.

### **II. RECENT ECONOMIC DEVELOPMENTS AND RESULTS**

#### **OF IMPLEMENTATION OF THE PRGF-SUPPORTED PROGRAM**

4. Economic activity weakened in 2005 for the second consecutive year. Real GDP growth is estimated at 2.6 percent as compared with 3.7 percent in 2004. This slowdown is explained mainly by a decline in oil production and agro-industry output, as well as a considerable deceleration in forestry sector production. Furthermore, there was a modest acceleration in prices, reflecting in part the pass-through of the increase in world oil prices to domestic prices. Accordingly, average inflation reached 2 percent in 2005, compared with 0.3 percent in 2004. The external current account balance strengthened slightly in 2005,

reflecting an improvement in the terms of trade, which was dominated by the surge in oil prices.

5. Budget execution was satisfactory in 2005. The non-oil primary balance (program definition) turned from a deficit of 1.3 percent of GDP in 2004 to a surplus of 0.9 percent, owing to the ongoing efforts to strengthen revenue collection and contain nonpriority spending. Non-oil revenue grew from CFAF 942 billion in 2004 to CFAF 1,104 billion in 2005. Moreover, oil revenue increased substantially as a result of much higher international oil prices. This enabled the government to register an oil revenue windfall which it used to further reduce its domestic debt and clear arrears in the HIPC account arrears.

6. In order to strengthen the fiscal position, the government tightened expenditure control. As a result, nonpriority current expenditures declined in 2005. Priority expenditures—specifically, those financed by resources from HIPC Initiative debt relief—increased substantially in 2005, reaching 0.8 percent of GDP, compared with 0.5 percent of GDP in 2004. This increase mainly benefited basic infrastructure sectors, health and education. Domestically-financed investment slightly exceeded program projections. However, foreign-financed investment was well below the programmed level, mainly because of the lack of counterpart funds. Expenditures related to public enterprise restructuring were also below the programmed amount, owing in part to delays in the implementation of the social plans for the enterprises targeted by the program. Moreover, salary outlays were lower than expected, reflecting delays in regularizing the administrative status of some public sector employees.

7. Efforts to reduce domestic debt continued. In accordance with the commitments made under the program, domestic debt was reduced on the basis of the medium-term repayment plan finalized in October 2005. Payments under this plan reached CFAF 130 billion, or CFAF 18 billion above the floor defined in the program. These additional payments were financed largely by the higher than programmed oil revenue at end-September 2005, amounting to CFAF 11 billion, and by CFAF 3.2 billion in budgetary assistance from the European Union.

8. The benchmarks and performance criteria of the PRGF-supported program during July-December 2005 and January 2006 were observed. All quantitative performance criteria and benchmarks for end-December 2005 were met (Table 1). In particular, the floor on the non-oil primary balance was observed with a margin of CFAF 10 billion, and net bank credit to the central government was well below the targeted ceiling. The structural performance criteria and benchmarks up to January 2006 were also observed (Table 2).

9. With regard to public finances, the structural performance criterion for presentation to the National Assembly of the 2006 draft budget law in accordance with the program was observed. The budget was presented to the National Assembly within a reasonable time and was adopted in December 2005 as planned. The preparation of data to improve the monitoring of budget execution continued. Accordingly, data recapitulating the expenditure procedure continued to be produced regularly, and two reports on budget execution were

published at end-June and end-September 2005. In order to strengthen cash management, the government completed the process of establishing a single Treasury account at the Bank of Central African States (BEAC). To this end, 185 government accounts were closed, and their credit balances were transferred to the Treasury account.

10. The government took steps to establish a sound basis for further public enterprise restructuring. With regard to the state airline (CAMAIR), it adopted a privatization strategy in December 2005 and issued an invitation for prequalification bids to potential investors in January 2006. In addition, the terms of reference for the CAMAIR liquidator were prepared and transmitted to the World Bank. The modalities for establishing a public-private partnership for the water company (SNEC) were finalized. To that end, the government established an asset management company and an operating company for the public water utility. To identify potential partners, a call for expression of interest was published in January 2006. Moreover, a financial model for the determination of rates in that sector was developed. On the basis of this model, the government increased the water rates by 8 percent in November 2005. The process of restructuring the telecommunications sector and privatizing CAMTEL was marked by the adoption of a sectoral strategy. The government also began to implement the recommendations stemming from an audit of the Special Intercommunal Equipment and Loan Fund (FEICOM) conducted in May 2005. In this context, it established a provisional administration to implement the action plan resulting from the audit, and commissioned studies on reducing the costs and streamlining the staff of FEICOM. In the agro-industrial sector, the government adopted in October 2005 a strategy specifying the modalities for the privatization of the rubber tree and palm oil sectors of the agro-industrial complex (CDC). This strategy will be finalized following a round-table discussion in which the selected privatization scheme will be vetted with the private sector.

11. To restore the financial situation of the state oil refinery, SONARA, the government raised the prices of petroleum products by CFAF 5 per liter per month during the last quarter of 2005. At the same time, it observed the commitment made under the program to carry out budget transfers amounting to CFAF 16 billion.

12. Reforms in the financial sector continued. The government proceeded to draw up a list of microfinance institutions and to close in December 2005 those not licensed by the monetary authority. Nevertheless, delays were incurred in the restructuring of CAMPOST as the bidding process for the recruitment of a team of consultants turned out to be unsuccessful. Since the consulting firms which responded to the invitation for expression of interest did not prove credible in terms of their capacity to carry out the task effectively, the government, on the recommendation of the World Bank, issued a second invitation for expression of interest.

13. During the second half of 2005, the government took a number of steps to strengthen transparency and governance, namely: (i) the adoption of a priority action plan for 2006, based on the revised National Governance Program (PNG II) adopted in November 2005. This action plan and the PNG II document were disseminated on the government's website ([www.spm.gov.cm](http://www.spm.gov.cm)); (ii) the finalization of the action plan aiming at the application of the principles of the Extractive Industries Transparency Initiative (EITI). The draft action plan

was disseminated to the media to solicit comments from the public at large and was the subject of a vetting seminar. In addition, quarterly data on the petroleum sector continued to be published on the websites of the state oil company Société Nationale des Hydrocarbures (SNH) ([www.snh.cm](http://www.snh.cm)) and the government; (iii) the establishment of a list of performance indicators designed to strengthen the monitoring of the public procurement system; and (iv) the launch of activities of the Audit Chamber of the Supreme Court with an examination of the management accounts of government accountants as of 2004, and those of the anti-money laundering agency (ANIF).

### **III. ECONOMIC AND FINANCIAL POLICIES FOR 2006**

#### **A. Macroeconomic Framework**

14. The general economic situation is expected to improve in 2006 and the overall medium-term prospects remain broadly unchanged relative to the forecasts in the initial memorandum of economic and financial policies. In 2006, economic growth in the non-oil sector should be close to 4.1 percent, owing to the recovery of activity in the forestry sector and increased public investment. Growth in the oil sector should also improve as a result of expected new investment. For the period 2006-08, average growth in the non-oil economy should be around 4.6 percent per year and inflation should remain moderate. The external current account deficit (excluding grants) should be around 3 percent of GDP in 2008.

#### **B. Fiscal Policy**

15. Fiscal policy will aim at consolidating the results achieved in 2005, and continue to be directed towards the attainment of the medium-term program objectives. The non-oil primary balance should decline to 2.3 percent of non-oil GDP, owing largely to a rise in priority expenditure.

16. Non-oil revenue should stabilize at 12.2 percent of GDP, while oil revenue should register a strong upturn, on account of the expected production increase. The 2006 budget contains tax measures designed to broaden the indirect tax base, particularly for excise taxes, align the tax system more closely with CEMAC provisions on customs duties and indirect taxes, and improve the effectiveness of the tax system. Accordingly, the excise tax base was broadened, the minimum tax rate paid by enterprises not covered by the “régime réel” was raised, the property tax was restructured, and forestry taxation was modified to strengthen the measures used in the fight against illegal exploitation and to reduce the risks of fraud. In order to improve the value-added tax (VAT) management system, the government will ensure that VAT credits are refunded within the time limits provided by law.

17. Expenditure policy will remain prudent. Nevertheless, in order to strengthen poverty reduction efforts in line with the objectives outlined in the PRSP, the government budget envisages to increase total spending from 14.3 percent of GDP in 2005 to 16.9 percent in 2006, with more pronounced growth in capital expenditure. The government is of the view that making budget appropriations available very early in January 2006 will help to improve the execution rate of investment projects. It also intends to enhance the quality of projects

beginning with 2006 by systematically developing pre-execution projects. Current spending would increase from 11.8 percent to around 12.2 percent of GDP, partially reflecting additional poverty reduction expenditures financed by budgetary assistance from France under the *Contrats de désendettement et de développement* (C2D) debt initiative, and by financial assistance expected from multilateral creditors under the Multilateral Debt Relief Initiative (MDRI). Poverty reducing expenditures will increase from 5.3 percent of GDP in 2005 to 6.9 percent in 2006.

18. The government undertakes to maintain a prudent wage policy. Accordingly, the increase in the wage bill will not exceed 7.8 percent in 2006. It would reach CFA 446 billion, or 4.7 percent of GDP. This ceiling will allow for new recruitment in priority sectors, which will help improve, in particular, the provision of social services. Moreover, the government intends to continue strengthening the payroll management and monitoring systems. Preliminary studies conducted in 2005 revealed major irregularities in payroll procedures (ANTILOPE), the elimination of which would result in payroll savings. The government plans to expand these studies in 2006 and discuss their results with IMF staff. Furthermore, the work related to the development and implementation of a new payroll management software in the Ministry of the Economy and Finance started with the aim of having the new system operational in 2007.

19. The medium-term domestic debt and arrears repayment plan will continue to be implemented rigorously in 2006. In addition, the government undertakes to use any additional oil revenue to accelerate the reduction of the government's domestic debt. The debt agency Caisse Autonome d'Amortissement (CAA) will continue to provide coordination and monitoring of the payments made and consolidate the information relating thereto. The government undertakes to start repaying during 2006 the outstanding VAT credits not refunded at end-December 2005.

### **C. Monetary and Financial Sector**

20. Monetary policy is carried out at the regional level. In 2006, a modest increase in net credit to the central government is envisaged, thus preserving the potential for private sector credit growth. Broad money will grow slightly faster than nominal GDP, in part because the expected increase in oil revenue will lead to a sharp expansion of foreign assets. The actions which began in 2005 to strengthen the financial system and deepen financial intermediation will be continued. Accordingly, in collaboration with the regional bank supervision agency, COBAC, the government will remain vigilant regarding the strengthening of supervision of microfinance institutions. Concerning the housing credit agency, a new management team was put in place in September 13, 2005 and an inspection mission by COBAC took place during October 19 to December 23, 2005 with the goal of evaluating the results of the first year of operation of the company since its restructuring. The government will undertake the necessary measures to implement the mission's recommendations. These include mainly the adoption of more transparent and effective management methods, the restructuring of the financial, accounting and information systems, and the strengthening of the system of internal controls.

21. With regard to CAMPOST, the difficulties described above in the recruitment process for a consulting team led to delays in attaining the program objectives. Furthermore, the preparatory work for the creation of a financial services subsidiary will require fulfillment of the conditions decreed by COBAC, namely, production of the company's financial statements and certified accounts for fiscal years 2004 and 2005, and a capital contribution totaling between CFAF 0.5 billion to CFAF 1 billion. The plan is for this preparatory work to be completed by December 2006.

#### **D. External Debt**

22. The government reaffirms its commitment to implement a prudent external debt management policy. During the second half of 2006 it will prepare, in consultation with IMF staff, a debt strategy comprising the following elements: (i) continuation of the policy of more frequent recourse to grants and concessional loans; (ii) preparation of regular analyses of the sustainability of external debt to ensure that new loans are compatible with external debt sustainability over the medium and long term; and (iii) payment of external debt service obligations within the agreed time limits to avoid the accumulation of external arrears. Furthermore, the government will continue its efforts to find a favorable solution to litigation pursued by some of its creditors. It will continue to negotiate in good faith with all creditors without losing sight of the principle of comparability treatment.

### **IV. STRUCTURAL POLICIES**

23. The government is aware that attainment of the program's macroeconomic objectives requires the effective implementation of structural reforms. It will therefore pursue them in 2006, with a renewed focus on the strengthening of fiscal management, public enterprise restructuring, good governance, and transparency (Tables 2 and 4).

#### **A. Public Finances**

24. The government will maintain its commitment to strengthen the monitoring of public expenditure. It expects to improve the presentation of budget execution on a commitment, payment order, and cash bases in order to enhance the monitoring of priority spending. The government further undertakes to accelerate reforms relating to the monitoring of central government spending procedures up to the payment level using the functional classification. It will also continue to strengthen the existing overall and sectoral medium-term expenditure frameworks (MTEF) and their use in the budget preparation process during preparation of the 2007 draft budget law. Furthermore, it intends to prepare an action plan to improve the system of budget execution controls and the physical and financial monitoring of central government expenditure. The government is aware that observance of the budget preparation timetable is essential for addressing the problems identified during budget implementation. Accordingly, it plans to distribute the budget preparation timetable by end-May 2006.

25. On the basis of the recommendations resulting from the survey in the monitoring of budget execution and assessing beneficiary satisfaction, the government began in 2005 to post the lists of projects in administrative divisions. The list of the 2006 budget projects is

already posted. In order for beneficiaries to participate effectively in monitoring the projects, the government intends to institute periodic reviews of budget execution in partnership with civil society and representatives of the beneficiaries (deputies, municipal councilors) in the administrative departments in which the lists are posted. The departmental comptrollers will transmit reports based on these reviews to the Minister of Finance, who will publish a summary report covering the physical and financial execution of the projects. To this end, the government plans to prepare and distribute by end-April 2006 the standard format of the reports that will be used in the 2006 budget assessment. These reviews will also focus on foreign-financed investment projects. Concerning projects financed by HIPC resources, the government intends to operationalize the special task force to monitor expenditure execution.

26. The government intends to strengthen implementation of the public procurement reform in Cameroon. It intends to: (i) develop a national strategy for strengthening public procurement capacity; (ii) design and install in 2007 a computerized system for the planning, execution, monitoring, and control of public contracts and make it accessible to the public via the Public Procurement Regulatory Agency (ARMP) website; and (iii) assess, on an annual basis, the reliability and performance of the national procurement system, using a set of performance indicators defined in collaboration with the World Bank. In addition, the government intends to impose penalties on violations in the public procurement system. In this context, it will ensure effective application of the statute barring any individual or legal entity from bidding in the event of proven infractions committed during a procurement phase. To this end, it undertakes to publish systematically the penalties imposed in the context of the fight against corruption, such as legal proceedings and sanctions against offenders.

27. With regard to revenue, the government intends: (i) to prepare a note outlining the options for improving the personal income tax (IRPP) yield based on data collected from enterprises by March 2006; (ii) operationalize the tax centers for small and medium-sized enterprises in Yaoundé and Douala by July 31, 2006; (iii) extend implementation of the Automated System for Customs Data (SYDONIA) to the customs sectors of Littoral province (which accounts for 95 percent of customs revenue) by December 31, 2006; and (iv) eliminate the “minimum administrative values” by June 2007 and begin taxing imported goods on the basis of CEMAC customs valuation rules.

### **B. Public Enterprise Restructuring**

28. The government intends to pursue the actions under way to reduce the role of government in the productive sector. To this end, the timetable for privatization of the state airline (CAMAIR) and other measures to restructure the public enterprise sector will be carried out as planned, and the cost of these operations will be covered by the budget resources provided for that purpose, in consultation with IMF and World Bank staff. The efforts to contain CAMAIR operating costs will continue along with the actions planned for its privatization. In this connection, a liquidator will be appointed by end-March 2006 as planned. As to the state telecommunications company, CAMTEL, following consideration of the status of the privatization process and the recommendations of the Government Council concerning this transaction, the company’s offer for sale remains scheduled for June 2006 as

planned. A social plan for CAMTEL is scheduled to be adopted in May 2006 and implemented by end-July 2006. The privatization process for CAMTEL will take place in line with the strategy adopted in December 2005 by agreement with the World Bank. The call for bids for the leasing of the water company (SNEC) will be issued at end-July 2006 in accordance with the strategy adopted by the government.

29. The policy of adjusting the prices of petroleum products, which began in 2005, will be continued as described in paragraph 38 of the memorandum of economic and financial policies of October 13, 2005 (IMF Country Report No. 05/413). In particular, the government will adjust the retail prices of petroleum products to reflect changes in international prices. The price of domestic natural gas will be raised on a quarterly basis to further reduce cross subsidies between fuels and domestic natural gas.

30. The government intends to pursue the implementation of measures to bolster the financial position of SONARA, as described in paragraph 38 of document IMF Country Report No. 05/413. The government will conduct an audit of SONARA operations before end-April 2006 in order to ascertain the economic costs of the refinery in its current configuration, seek ways to ensure its medium-term viability, and attract private investors in the modernization of this strategic production facility. By end-June 2006 the government will adopt an action plan to expedite the company's reorganization, based on the audit recommendations. The implementation of this plan will get under way by end-July 2006.

### **C. Transparency, Governance, and the Business Climate**

31. The government intends to strengthen its program to promote transparency in government budget execution; accordingly, the following documents will be published on the government's website ([www.spm.gov.cm](http://www.spm.gov.cm)): (i) the EITI conciliator's report on oil revenue for 2001-2004 before end-October 2006; (ii) the quarterly report on execution of the overall government budget (within two months following the end of the quarter); (iii) the quarterly report on investment budget execution (within two months); and (iv) the principal financial data on the 20 public enterprises selected by the government for regular monitoring of their activities (on an annual basis, end-June publication).

32. The government remains determined to strengthen governance and combat corruption in order to improve the business climate and the effective use of public resources. It intends to pursue the ongoing judicial reform and plans to implement the following measures to enhance the effectiveness of the judicial system: (i) submission to Parliament of the drafts on the organization of the judiciary and the organization and strengthening of the Supreme Court, the lower courts in contentious administrative matters, and the lower audit offices for government finances; and (ii) strengthening, as from August 2006, the collegial administration in commercial matters before the courts of major jurisdiction of Wouri (Douala) and Mfoudi (Yaoundé). The government further undertakes to translate into English and publish the Uniform Acts of the Treaty on the Harmonization of Business Law in Africa (OHADA Treaty) in the Official Gazette. It also plans to strengthen the system to monitor enforcement of the code of criminal procedure, step up oversight of the courts, and publish



on the government's website ([www.spm.gov.cm](http://www.spm.gov.cm)) the criminal code, court decisions and disciplinary sanctions related to the fight against corruption.

33. The implementation of EITI principles will be effective in 2006. The government will ensure the implementation of the action plan prepared in 2005 by the EITI Committee. In particular, it will proceed with recruitment of the data conciliator and the publication of the conciliator's report for 2001-2004 at end-October 2006. Moreover, the preparation of the SNH annual audits will continue, with the publication at end-September 2006 of the 2005 audit of operations. Information on SNH operations, including total oil production, selling prices, and oil revenue received by the Treasury, will continue to be published on the SNH website ([www.snh.com](http://www.snh.com)) on a quarterly basis.

34. The government will take steps to improve the business climate. By October 30, 2006, it will prepare, in partnership with the private sector and with the assistance of the World Bank, a strategic plan for strengthening the business environment based on the business climate survey results, which are expected in June 2006.

#### **D. Forestry Sector**

35. In order to foster sustainable development in the forestry sector and improve revenue collection, the government intends to clarify the respective roles and responsibilities, as well as the relationships, between the Ministry of Economy and Finance (Directorate-General of Taxes, Directorate-General of Customs) and the Ministry of Forests and Wildlife, and to establish a computerized link between the automated management system (SIGIF) at the Ministry of Forests and Wildlife and the fiscal receipts monitoring software at the Ministry of Economy and Finance. This measure is essential to restore the capacity to monitor sectoral economic data and control the tax base. The government undertakes to continue to combat illegal logging via the following measures: (i) the withdrawal of all tax provisions that might contribute to the legalization of fraudulent forestry operations and effective enforcement of the article in the general tax code which provides a penalty of 400 percent on forestry operators unable to document payment of domestic logging taxes, without prejudice to timber seizures; (ii) the adoption during the second half of 2006 of a system to track timber from the forest to the port; (iii) the installation in the Ministry of Justice and the Ministry of Economy and Finance, at end-June 2006, of a management and monitoring system for forestry infractions and disputes (SIGICOF), already in place at the Ministry of Forests; and (iv) the quarterly publication of the outcomes of these disputes. The government also intends to repay the government arrears to the staff of the former National Office of Forestry Development (ONADEF) during the first half of 2006.

#### **E. Statistical Data and Technical Assistance**

36. The government intends to take full advantage of the technical assistance provided by the IMF during the first quarter of 2006 to reduce delays in the production of balance of payment statistics and improve their quality. It also plans to increase available material and

human resources in the departments responsible for gathering and processing foreign trade data.

#### **V. HIPC INITIATIVE COMPLETION POINT**

37. The government believes that all the measures required for Cameroon to reach the enhanced HIPC Initiative completion point were implemented in a satisfactory manner. In addition, the government updated sectoral policies in the key social sectors and proceeded with updating the PRSP. Reaching the enhanced HIPC Initiative completion point will enable Cameroon to benefit from the remaining amount of HIPC debt relief, determined at the time when the country reached the decision point under this initiative; debt relief by the IMF, the International Development Agency (IDA) and the African Development Fund (AfDF) under the MDRI; and additional relief from Cameroon's bilateral partners. The debt sustainability analysis shows that these measures will reduce Cameroon's external debt to sustainable levels.

38. The government intends to use the resources stemming from these initiatives to strengthen spending that will contribute to the implementation of the PRSP. In order to ensure effective and transparent use of these resources, the government undertakes to improve the current system of managing the use of HIPC resources in collaboration with donors. Accordingly, it will continue to deposit the proceeds of HIPC debt relief into the HIPC account at the BEAC. The government will also open an account at the BEAC to deposit the resources stemming from debt relief under the MDRI. It will closely monitor related expenditures, using the functional classification of public spending.

#### **VI. PROGRAM MONITORING**

39. In 2006 program monitoring will be based on the performance criteria and quarterly quantitative and structural benchmarks shown in Tables 1-4. The government will communicate to the IMF the information required for program monitoring consistent with the Technical Memorandum of Understanding prepared in the framework of the three-year program approved by the IMF Executive Board on October 24, 2005 (attached to IMF Country Report No. 05/413).

Table 1. Cameroon: Quantitative Performance Criteria and Benchmarks during the First Year of the PRGF-Supported Program  
(In billions of CFA francs, cumulative from July 1, 2005, unless otherwise indicated)

	End-Sep. 05			End-Dec. 05			End-Mar. 06	End-Jun. 06				
	Indicative targets	Adjustor	Adjusted target	Outturn	Status	Performance criteria 15/	Adjustor	Adjusted target	Outturn	Status	Quantitative benchmark	Performance criteria 15/
Ceiling on the increase in net claims of the banking system on the central government 1/	44	-20	23	29	not met	97	-53	44	-39	met	56	80
Floor on the non-oil primary budget balance 2/	0	-2	-2	-5	not met	-14	-2	-16	-6	met	41	38
Ceiling on the accumulation of external payments arrears of the central government 3/ 4/ 5/	0	none	0	0	met	0	none	0	0	met	0	0
Ceiling on new medium- and long-term non-concessional external debt contracted or guaranteed by the central government 3/ 5/ 6/	0	none	0	0	met	0	none	0	0	met	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	none	0	0	met	0	none	0	0	met	0	0
Floor on non-oil revenue of the central government 8/	252	none	252	255	met	513	none	513	530	met	829	1110
Ceiling on spending on goods and services 9/	76	none	76	73	met	155	none	155	151	met	237	336
Ceiling on cash spending by SNH 10/	20	none	20	18	met	30	none	30	24	met	30	30
Payments on account of the government (interventions directes)	8	none	8	4	met	16	none	16	6	met	21	25
Other operating costs (autres charges)	46	none	46	56	met	65	none	65	70	met	104	133
Structured debt	30	none	30	29	not met	47	none	47	59	met	82	113
Non-structured debt	23	none	23	26	met	47	none	47	55	met	67	82
Floor on the replenishment of the HIPC account 12/	1.8	none	1.8	2.0	met	3.5	none	3.5	3.7	met	5.5	7.5
Floor on payments to utility companies 13/	1.5	none	1.5	2.0	met	3.0	none	3.0	3.5	met	4.8	6.5
SNEC	3.0	none	3.0	3.0	met	6.0	none	6.0	6.0	met	9.3	12.5
AES SONEI	1.0	none	1.0	1.0	met	2.0	none	2.0	2.0	met	3.0	4.0
CAMTEL	1.5	none	1.5	1.5	met	3.0	none	3.0	3.0	met	4.5	6.0
CAMRAIL	102	...	113	113	...	113	...	113	147	...	112	134
SONARA	35	35	70	38	79	70	33	114	45	...	...	...
Memorandum items (non-cumulative)	0	0	0	0	0	2	0	11	8	2	0	2
Oil revenue	0	0	0	0	0	0	0	0	0	0	0	0
Oil windfall profit	392	392	377	377	309	445	445	445	309	405	405	428
Assumed external debt relief												
External program financing												
of which: IMF (disbursement)												
Privatization proceeds												
Stock of net bank credit to the central government 14/												

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

1/ Defined in paragraph 14, and adjusted as specified in section C of the TMU.

2/ The non-oil primary budget balance is defined in paragraph 13 of the TMU.

3/ Applied on a continuous basis.

4/ Excluding reschedulable external payments arrears.

5/ In millions of U.S. dollars.

6/ Terms defined in paragraphs 3 and 4 of the TMU.

7/ Excluding normal, import-related credit.

8/ Non-oil revenue is defined in paragraph 10 of the TMU.

9/ Defined in paragraph 12 of the TMU; excluding HIPC and C2D spending.

10/ Defined in paragraphs 17 and 18 of the TMU.

11/ Defined in paragraphs 6-8 of the TMU.

12/ Defined in paragraph 15 of the TMU.

13/ Defined in paragraph 16 of the TMU.

14/ Excluding HIPC and C2D accounts.

15/ The following are quantitative benchmarks for end-December 2005 and end-June 2006: floor on non-oil revenue; ceiling on goods and services spending; ceiling on SNH spending; and floors on utility payments.

Table 2. Cameroon: Structural Performance Criteria and Benchmarks for the First Year of the Program

Target	Status
<b>Structural performance criteria</b>	
Submission to Parliament of the 2006 budget law consistent with the program and adoption by end-December 2005.	Met
Adoption of privatization strategy of CAMAIR by end-December 2005 and launching of invitations for bids by end-January 2006.	Met
<b>Structural benchmarks</b>	
Preparation of monthly fiscal operations table fully consistent on a cash and commitment basis and a monthly table on a functional basis to monitor spending for priority sectors (monitored on a continuous basis).	Met
Completion of the single Treasury account by limiting sovereign accounts in commercial banks to one account per entity and closing all other accounts (with the exception of project-related and debt payment-related accounts of the CAA, and accounts of court clerks needed in the context of court proceedings) by end-December 2005.	Met
Launching of the invitation for bids for the management contract of the public-private partnership for SNEC by end-July 2006.	
CAMPOST	
Recruitment of a management contract team for CAMPOST by end-February 2006.	
Completion of preparatory work to establish a financial subsidiary by end-June 2006.	Delayed

<p>CAMTEL</p>	<p>Finalization and adoption of privatization strategy of CAMTEL by end-December 2005, based on the sectoral strategy on telecommunications finalized by end-October 2005.</p> <p>Offering the company for sale by end-June 2006.</p> <p>Petroleum products</p> <p>Adjustment of retail fuel prices as agreed with Fund staff (continuous basis).</p> <p>Subsidy payments to SONARA as agreed with Fund staff (continuous basis).</p> <p>Completion of licensing process for microfinance institutions by end-October 2005 and closure of all institutions without license by end-2005.</p> <p>Finalization of the update of the National Governance Program by end-November 2005.</p>	<p>Met</p> <p>Met</p> <p>Met<sup>12</sup></p> <p>Met</p> <p>Met</p>
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<sup>12</sup> The subsidies programmed for end-October were paid in mid-December 2005.

Table 3. Cameroon: Indicative quantitative targets for July-December 2006  
(In billions of CFA francs; cumulative from July 1, 2006, unless otherwise indicated)

	End-Sep. 06 Indicative targets	End-Dec. 06 Indicative targets 15/
Ceiling on the increase in net claims of the banking system on the central government 1/	-26	-27
Floor on the non-oil primary budget balance 2/	3	-15
Ceiling on the accumulation of external payments arrears of the central government 3/ 4/ 5/	0	0
Ceiling on new medium- and long-term non-concessional external debt contracted or guaranteed by the central government 3/ 5/ 6/	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
Floor on non-oil revenue of the central government 8/	280	563
Ceiling on spending on goods and services 9/	92	182
Ceiling on cash spending by SNH 10/		
Payments on account of the government (interventions directes)	0	0
Other operating costs (autres charges)	5	9
Floor on reduction of domestic debts 11/		
Structured debt	37	66
Non-structured debt	17	33
Floor on the replenishment of the HIPC account 12/	15	31
Floor on payments to utility companies 13/		
SNEC	2.0	4.0
AES SONEL	1.8	3.5
CAMTEL	3.3	6.5
CAMRAIL	1.0	2.0
SONARA	1.5	3.0
Memorandum items (non-cumulative)		
Oil revenue	136	136
Oil windfall profit	...	...
Assumed external debt relief	1	1
External program financing	0	16
of which: IMF (disbursement)	0	0
Privatization proceeds	0	0
Stock of net bank credit to the central government 14/	402	401

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

1/ Defined in paragraph 14, and adjusted as specified in section C of the TMU.

2/ The non-oil primary budget balance is defined in paragraph 13 of the TMU.

3/ Applied on a continuous basis.

4/ Excluding reschedulable external payments arrears.

5/ In millions of U.S. dollars.

6/ Terms defined in paragraphs 3 and 4 of the TMU.

7/ Excluding normal, import-related credit.

8/ Non-oil revenue is defined in paragraph 10 of the TMU.

9/ Defined in paragraph 12 of the TMU; excluding HIPC, C2D and MDRI spending.

10/ Defined in paragraphs 17 and 18 of the TMU.

11/ Defined in paragraphs 6-8 of the TMU.

12/ Defined in paragraph 15 of the TMU.

13/ Defined in paragraph 16 of the TMU.

14/ Excluding HIPC and C2D accounts.

15/ The following could be quantitative benchmarks for end-December 2006: floor on non-oil revenue; ceiling on goods and services spending; ceiling on SNH spending; and floors on utility payments. The other targets for end-December 2006 could be quantitative performance criteria.

**Table 4. Cameroon : Structural Benchmarks and Proposed Structural Conditions for the Second Half of 2006<sup>1</sup>**

Target	Date
<b>Public finances</b>	
Prepare and implement measures to improve the execution oversight system and physical and financial monitoring of central government expenditure.	July 31, 2006
Complete reform of the monitoring of the central government expenditure procedure, using functional classifications up to the payment level; prepare a table relating thereto.	December 31, 2006
Extend the Automated System for Customs Data (SYDONIA) to the customs sectors of Littoral province (accounting for 95 percent of customs revenue).	December 31, 2006
Prepare consistent monthly budget execution tables on a payment order and cash basis and a monthly expenditure table broken down by economic function to monitor spending for priority sectors. <sup>2</sup>	Continuous basis
Adjust the retail prices of petroleum products and pay subsidies to SONARA as agreed with Fund staff. <sup>2</sup>	Continuous basis
<b>Transparency and governance</b>	
Publish the report of the Extractive Industries Transparency Initiative (EITI) conciliator on oil revenue for 2001-2004 on the website <a href="http://www.spm.gov.cm">www.spm.gov.cm</a> .	October 30, 2006
Publication of the quarterly report on execution of government budget within two months following the end of the quarter	Two months following the end of the quarter
Publish judicial decisions and sanctions aimed at combating corruption on the website <a href="http://www.spm.gov.cm">www.spm.gov.cm</a> . <sup>2</sup>	Continuous basis
<b>Public enterprise restructuring</b>	
<b>CAMTEL</b>	
Implement the social plan adopted in May 2006. <sup>2</sup>	July 31, 2006
<b>SNEC</b>	
Launching of the invitation for bids for the management contract of the public-private partnership for SNEC. <sup>2</sup>	July 31, 2006
<b>CAMPOST</b>	
Finalize the preparatory work for the establishment of a financial subsidiary.	December 31, 2006

<sup>1</sup> See TMU for details.

<sup>2</sup> Structural benchmark.

### **Addendum to the Technical Memorandum of Understanding**

1. This addendum supplements the Technical Memorandum of Understanding of October 13, 2005 (IMF Country Report No. 05/413).

2. The period of application of the Technical Memorandum of Understanding of October 13, 2005 is extended to December 2006. The memorandum is amended as follows for the period beginning July 2006 through end-December 2006.

3. The following paragraph replaces paragraph 5:

“For the purpose of the program, the only form of debt relief that will be subject to the contingency mechanism described below is the debt relief that leads to an effective reduction in programmed debt service. This includes relief in the form of rescheduling, forgiveness, restructuring or grants under the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative (MDRI), and bilateral initiatives.”

4. The following is added at the end of paragraph 7:

“Debt on refunds of value-added tax (VAT) credits as at end-June 2006 will be included in the stock of nonstructured debt by July 15, 2006.

5. The following paragraph replaces paragraph 20:

“20. The floor on the non-oil primary balance will be adjusted:

- upward by the amount of lower-than-programmed receipt of budget support grants (excluding the EU-funded grants earmarked to domestic debt payments for an amount of CFAF 12.9 billion);
- upward by the amount of lower-than-programmed transfers made to SONARA.”

6. The following paragraph replaces paragraph 21:

“21. The ceiling on net bank credit to the Government will be adjusted:

- downward up to the amount of higher-than-programmed oil revenue and privatization proceeds that are not used to reduce domestic debt;
- upward/downward by the amount of lower/higher-than-programmed external budget support (grants and loans) and by half of the amount of lower/higher-than-programmed debt relief; the revision upward will be capped at a cumulative amount of CFAF 15 billion;
- downward by the amount of lower-than-programmed restructuring expenditure;



- downward by the amount of lower-than-programmed payments of domestic debt (as defined above).”

7. The following paragraph replaces paragraph 24:

“24. Exchange rates to be applied for the conversion of amounts in SDR or U.S. dollars are US\$1.4525 per SDR and CFAF 542.79 per U.S. dollar for the third quarter of 2005, US\$1.4540 per SDR and CFAF 541.55 per U.S. dollar for the fourth quarter of 2005, US\$1.4544 per SDR and CFAF 541.44 per U.S. dollar for the first quarter of 2006, US\$1.4554 per SDR and CFAF 541.13 per U.S. dollar for the second quarter of 2006, US\$1.4329 per SDR and CFAF 553.874 per U.S. dollar for the third quarter of 2006, and US\$1.4330 per SDR and CFAF 553.458 per U.S. dollar for the fourth quarter of 2006. Liabilities to the IMF, which are included in the definition of net claims on the 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 BEAC, and to a similar adjustment of the ceiling on net claims on the Government by the banking system.”

The following paragraphs will be inserted after paragraph 34:

“34a. The benchmark on the completion of the reform for tracking the government expenditure process until the payment stage, with a breakdown by function, will be considered observed if by end-December 2006 (i) tables are produced indicating the amount of allocations, commitments, payment orders, and payments broken down by function, and if (ii) these tables are consistent with the TABORD and the expenditure tracking tables broken down by chapter and account.

34b. The benchmark on the application of the Automated System for Customs Data (SYDONIA) to the customs sectors of Littoral province will be considered observed if by end-December 2006 the customs offices in the Littoral province sectors are using SYDONIA to record all import and export activities and to manage all duties and taxes collected by Customs.

34c. The benchmark on the preparation and implementation of an action plan to improve the government expenditure control and physical/financial expenditure tracking system will be considered observed if by July 31, 2006 (i) a technical memorandum is prepared by the Ministry of Economy and Finance detailing the weaknesses of the current system for internal control of expenditure execution, taking into account the work done on the “public finance platform”; (ii) an action plan based on this memorandum proposing measures to strengthen the physical/financial tracking of expenditure is adopted by the government; and (iii) among these controls, a standard form is prepared and provided to administrative units to collect data for the physical/financial tracking of projects.

34d. The benchmark on the preparation of monthly budget execution tables will be considered observed if by the 25<sup>th</sup> of the month following the reporting month, the following are sent to the IMF: (i) the TABORD, the Treasury balances, and the expenditure tracking tables broken down by chapter and account and by function (to the payment order level and for central services only); (ii) the TABORD contains an annex showing payment orders and payments broken down by economic function (for the central services only); (iii) the TABORD is consistent with the Treasury balances and the expenditure tracking tables broken down by chapter and account and by function; and (iv) the expenditure tracking table broken down by chapter and account is consistent with the expenditure tracking table broken down by function.

34e. The benchmark on the implementation of the social plan for CAMTEL to be adopted in April 2006 will be considered observed if as of end-July 2006 all lay-offs and reassignments included in the social plan for CAMTEL have been completed, the related compensation and benefit payments have been made, and the persons concerned no longer work for CAMTEL.

34f. The benchmark on the finalization of the preparatory work for the establishment of a financial subsidiary of CAMPOST will be considered observed if at end-December 2006 (i) the following tasks have been completed and their results have been adopted by the government: draft legislation; list of shareholders and directors; proposed activities, establishment, and organization; financial statements and accounts audited by the external auditors and adopted by the Board of Directors and Annual General Meeting; and (ii) the capital of the financial subsidiary is ready to be paid up in accordance with COBAC standards.”

**Cameroon: Relations with the Fund**

(As of February 28, 2006)

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

II. <b>General Resources Account:</b>	<u>SDR million</u>	<u>% Quota</u>
Quota	185.70	100.00
Fund holdings of currency	185.00	99.62
Reserve position in Fund	0.70	0.38

III. <b>SDR Department:</b>	<u>SDR million</u>	<u>% Allocation</u>
Net cumulative allocation	24.46	100.00
Holdings	0.12	0.51

IV. <b>Outstanding Purchases and Loans:</b>	<u>SDR million</u>	<u>% Quota</u>
PRGF arrangements	187.62	101.03

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
Poverty Reduction and Growth Facility (PRGF)	10/24/2005	10/23/2008	18.57	2.65
Poverty Reduction and Growth Facility (PRGF)	12/21/2000	12/20/2004	111.42	79.59
Enhanced Structural Adjustment				

Facility	08/20/1997	12/20/2000	162.12	162.12
(ESAF)/PRGF 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)**

	<u>Forthcoming</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Principal	28.75	40.38	37.05	29.43	21.32
Charges/interest	1.49	1.51	1.31	1.15	1.02
Total	30.24	41.89	38.37	30.57	22.34

**VII. Implementation of HIPC Initiative:**

	<u>Enhanced Framework</u>
Commitment of HIPC assistance	
Decision point date	10/11/2000
Assistance committed (NPV terms)	
Total assistance (US\$ million)	1,260.00
<i>Of which:</i> Fund assistance (US\$ million)	36.90
(SDR equivalent in millions)	28.51
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	11.25
Interim assistance	11.25
Completion point	...
Additional disbursement of interest income	...
<b>Total disbursements</b>	<b>11.25</b>

### **VIII. Safeguards Assessments:**

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

The main recommendations of the assessment apply to the BEAC as an institution; they are: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of 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 reporting the program data 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 system of internal controls, to be coordinated by internal audit department with regular reporting to the Audit Committee and the BEAC Governor.

Priority country-specific recommendations of the assessment were: (i) the BEAC should clarify with 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 members; (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 for credits to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

The authorities agreed in September 2005 to fully implement the Cameroon-specific recommendations of the 2004 Safeguards Assessments.

### **IX. Exchange Arrangements:**

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

Local currency equivalent: CFAF 782.61 = SDR 1, as of March 28, 2006.

Cameroon maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for the restrictions for security reasons of which the Fund was notified pursuant to Executive Board decision 144-152/51.

**X. Article IV Consultation:**

The last Article IV consultation with Cameroon was concluded by the Executive Board on April 22, 2005.

**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 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, during 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:**

Since September 2005: FAD resident expert for fiscal administration (shared with other countries in the region).

July 2005: FAD mission on tax policy.

May 2005: FAD mission on tax and customs administration.

December 2004: STA mission on the compilation of national accounts; 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; 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 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 the 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 preparing for 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 IMF Resident Representative has been maintained in Yaoundé continuously since 1989. The current Resident Representative, Ms. Kabedi-Mbuyi, has been in this post since July 2005.



**Cameroon: Relations with the World Bank**  
(As of end-February, 2006)

**Government's Strategy Supported by the World Bank**

8. 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**

9. The joint IDA-IFC Country Assistance Strategy (CAS) was presented to the Board on September 11, 2003. The strategy, which covers fiscal year (FY) 04-06, has two main aims: (i) strengthen the institutional framework for improved pro-poor economic management and service delivery; and (ii) support private sector development, to diversify the economy and increase growth. The proposed strategy is results-based; the following outcomes are expected to be achieved during the CAS period: (i) improved transparency and accountability in the mobilization and use of public resources; (ii) improved use of public resources in education, health, and forestry; (iii) improved service delivery in key sectors; (iv) enhanced response of vulnerable groups in over 300 communities to the threat of HIV/AIDS through preventive, curative, or mitigating measures, and strengthened national capacity to respond to the epidemic; and (v) reduced burden on the private sector from regulatory, administrative, and infrastructure constraints. Specific indicators (such as an increase in the percentage of rural communities in targeted provinces that have access to basic socioeconomic services, or a decrease in the percentage of private firms rating specific constraints as major or severe) have been identified to measure progress toward achieving these outcomes. An internal progress report (October 2004) suggests that some encouraging intermediate results have been secured in such critical areas as public finance, transport reform, and HIV /AIDS); and that the building blocks to achieve results in other areas covered by the CAS (forestry, education, local development) are falling into place. A CAS progress report is planned for FY06.

10. SACIII, which supported politically complex and ambitious reforms in transport, financial, and forestry reforms and privatization, was closed by April 2004. It was rated satisfactory by an ex-post assessment, and that was confirmed independently by the Operations Evaluation Department of the World Bank (OED). SACIII reforms were consolidated and monitored under the HIPC completion point framework. The forestry reforms will be further consolidated through the Forestry and Environment Policy Development Credit (FESP), approved by the Board in February 2006.

11. The World Bank has been supporting the government with analysis and a policy dialogue in such areas as

- Monitoring socioeconomic developments, e.g., through the HIPC Initiative and PRSP implementation, and providing assistance on, e.g., formulating medium-term expenditure frameworks in priority sectors, reviews of trade prospects (especially

with the Central African Economic and Monetary Community (CEMAC) countries and Nigeria), and action plans for the Millennium Development Goals (MDGs) in education

- Assessing the investment climate to support the PRSP pillar of diversifying the economy
- Strengthening the dialogue and action on the governance agenda by taking an active role in creating a multidonor platform on public finance management, undertaking a Public Expenditure Management and Financial Accountability Review (PEMFAR), and supporting reforms in public procurement through a Country Procurement Assessment Review. Finally, a Development Policy Review (DPR) elaborated in 2004 and the Poverty Assessment finalized in FY05 measure progress.

12. As of February 28, 2006, the IDA portfolio comprises eight active projects with a total commitment of US\$217.6 million, of which US\$134.7 million are not yet disbursed, in education, transport, environment, forestry, HIV/AIDS, local development, and public-private partnerships. Progress on all but two projects is rated satisfactory. A results-based portfolio review (CPPR) is planned for the end of June 2006; it will seek in particular to review the contribution of the portfolio to the attainment of results defined under the CAS. The IFC portfolio totals US\$206 million, of which US\$85 million in the energy sector.

<b>IDA Total</b>	<b>217.6</b>
Transport	77.7
Community development	20.0
Public-private partnership	20.9
Environment capacity building	5.8
Forestry	25.0
HIV/AIDS multisector	50.0
Education	18.2
Undisbursed loans	134.7
<b>IFC Total</b>	<b>206.0</b>
Energy	85.1
Finance	0.9
Logistics	1.3
Textiles	2.3
Wholesale & retail	1.4
Other	0.2
Undisbursed loans	17.6
Loans booked by IFC on behalf of other institutions	97.2
<b>MIGA:</b> No investment guarantees issued.	

### IMF–World Bank Collaboration in Specific Areas

13. The IMF and World Bank staffs collaborate on (i) monitoring 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 and legal systems. Table 2 briefly describes each area and the specific policy advice support provided by the two institutions.

**Table 2: Cameroon: Bank/Fund Collaboration**

Area	Description	Specialized Advice/ Reforms Supported by Fund	Specialized Advice/ Reforms Supported by Bank
<b>HIPC completion point reforms</b>	Regular Bank and Fund 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, and forestry  Judicial reform  Public procurement reform  Budget tracking in social sectors
<b>Public financial management</b>	Bank and Fund missions analyzing 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 Elaboration of global and sector MTEF
<b>Other governance reforms</b>	Coordination of Bank/Fund staff work with UNDP on developing implementation plans	Customs reform	Anticorruption agenda and decentralization

14. The Fund takes the lead on policy advice and reforms related to (i) 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) budget accounting; and (v) treasury procedures. Bank staff participate in meetings of Fund missions with the authorities in these areas.

15. The World Bank takes the lead on (i) institutional and human capacity building for economic management, including formulation of sectoral strategies and medium-term expenditure frameworks, analysis of poverty and sources of growth to support the PRSP process, and creation of a macroeconomic model for preparing the short- and medium-term macroeconomic framework as well as global and sector MTEF; (ii) specific sector advice in the areas where the Bank has active lending operations (especially the social sectors, infrastructure, agriculture, and forestry); and (iii) support and monitoring of implementation of the privatization program. The Bank has jointly produced with the GOC and the AFD an Education Status Report. In June 2004 it also produced an Urban Sector Review and a Development Policy Review; and in fiscal 2005, a Poverty Assessment and a Country Procurement Assessment Report. In 2005 it also initiated, as part of the multidonor platform on Public Finance Management, preparation of a Public Expenditure Management and Financial Accountability Review (PEMFAR), to be delivered before June 30, 2006. Finally, it has a continuing investment climate assessment, combined with a ROSC on Auditing and Accounting, that is expected to be delivered before December 31, 2006.

16. 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) customs reform ; (iv) trade policy; (v) financial system reform; and (vi) governance. The two institutions also jointly support and monitor the HIPC Initiative and PRSP process. Finally, the Bank and the Fund are presently conducting a joint FSAP for the CEMAC region, to which Cameroon belongs.

Questions may be addressed to Florence Charlier (ext. 458-8437) or Guido Rurangwa (Tel. 473-1602).

**CAMEROON: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE**  
(as of March 24, 2006)

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of publication <sup>7</sup>
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)	Mar 24, 2006	Mar 24, 2006	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Dec 31, 2005	Feb 28, 2006	M	M	M
Reserve/Base Money	Dec 31, 2005	Feb 28, 2006	M	M	M
Broad Money	Dec 31, 2005	Feb 28, 2006	M	M	M
Central Bank Balance Sheet	Dec 31, 2005	Feb 28, 2006	M	M	M
Consolidated Balance Sheet of the Banking System	Dec 31, 2005	Feb 28, 2006	M	M	M
Interest Rates <sup>2</sup>	Dec 31, 2005	Feb 28, 2006	M	M	M
Consumer Price Index	Dec 31, 2005	Jan 31, 2006	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	Jan 31, 2006	Feb 28, 2006	M	M	Partial data published monthly.
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Dec 31, 2005	Feb 28, 2006	M	M	M
External Current Account Balance	Dec 31, 2003	Aug 30, 2005	A	A	NA
Exports and Imports of Goods and Services <sup>6</sup>	Dec 31, 2005	Jan 31, 2006	M	M	NA
GDP/GNP	Dec 31, 2004	Jan 31, 2006	A	A	NA
Gross External Debt	NA	NA	NA	NA	NA

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Goods only, data on trade in services are not available.

<sup>7</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).



Press Release No. 06/84  
FOR IMMEDIATE RELEASE  
April 28, 2006

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Executive Board Completes First Review  
Under Cameroon's PRGF Arrangement and Approves US\$3.9 million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed the first review under Cameroon's Poverty Reduction and Growth Facility arrangement (PRGF) and has approved a disbursement in an amount equivalent to SDR 2.65 million (about US\$3.9 million) to support the government's economic reform and poverty reduction program. This brings total disbursements under the PRGF arrangement to an amount equivalent to SDR 5.3 million (about US\$7.8 million).

The three-year PRGF for Cameroon was approved in October 2005 (see [Press Release No. 05/236](#)) in an amount equivalent to SDR 18.57 million (about US\$27.3 million).

Following the Executive Board's discussion of Cameroon's economic performance, Deputy Managing Director and Acting Chair, Agustín Carstens, stated:

“Strong fiscal performance as well as the satisfactory implementation of structural reforms under the PRGF-supported program contributed to maintaining macroeconomic stability. In 2005, inflation remained low, and a rise in the terms of trade led to an improvement in the external current account balance, accompanied by strong capital inflows. Nonetheless, there was a slowdown in real GDP growth, reflecting a contraction of oil, agro-industry, and forestry output.

“Cameroon's encouraging and substantial fiscal improvement in 2005, which was realized against a backdrop of budgetary slippages in 2004, reflected increased revenues and better expenditure control. Over the medium term, measures to further mobilize non-oil revenue and to offset the declining trend in oil production and revenue, the containment of current spending, and a gradual increase in capital and poverty-reducing expenditure, would contribute to the continued strengthening of the country's fiscal position, and would further enhance conditions for growth and poverty reduction.

“Important structural measures were taken in 2005, including timely presentation of the government budget to parliament, publication of coherent budget data, and strengthening of the microfinance sector. Looking ahead, the prompt implementation of structural reforms would

further enhance the conditions for boosting growth. In this regard, of particular importance will be the expeditious completion of the privatization of the national airline company (CAMAIR), offering for sale of the national telecommunications company (CAMTEL), and limiting the losses of the national oil refinery (SONARA) through a combination of increases in fuel prices and programmed subsidy payments, to accommodate an appropriate safety net.

“The authorities view financial sector development as critical for economic growth and reducing poverty. In this regard, the completion of the licensing for microfinance institutions is a welcome step, reflecting Cameroon’s commitment to deepen financial intermediation. Looking forward, it will be important to step up efforts to restructure the national postal savings system by fulfilling the conditions required for establishing a financial subsidiary.

“A number of important steps have been taken towards enhancing governance and eliminating corruption, including the adoption of an updated National Governance Program and an accompanying priority action plan with emphasis on delivering results. In order to make further durable progress on governance, the authorities will need to apply anticorruption laws systematically, and to take steps to strengthen the judiciary, including through the provision of sufficient budget allocations and the recruitment and training of more personnel. Implementation of the Extractive Industry Transparency Initiative principles in the oil sector will also be important,” Mr. Carstens said.

The PRGF is the IMF's lower-cost loan facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

**Statement by Damian Ondo Mañe, Executive Director for Cameroon**  
**April 28, 2006**

On behalf of my Cameroonian authorities, I would like to convey their appreciation for the constructive and fruitful discussions they had with the staff, and for the advice and quality of discussions and for the candid and well-balanced set of papers.

**I. Recent Developments and Performance under the Program**

In 2005, the Cameroonian authorities redoubled their adjustment efforts by implementing strong fiscal consolidation measures and deepening structural reforms. These efforts which have been pursued in 2006 have helped to restore the conditions for macroeconomic stability. However, economic activity weakened, due to a decline in oil production and agro-business output, as well as a significant deceleration in forestry production. Although average inflation remained low at 2 percent, it was higher than in 2004, when inflation was 0.3 percent. This acceleration reflects mainly the pass-through of the increase in world oil prices. Both the fiscal position and the external current account balances strengthened in 2005. Moreover, all quantitative and structural performance criteria and benchmarks through January 2006 were met.

The program placed a major emphasis on strengthening the fiscal position. In this regard, non-oil revenues increased significantly on the basis of measures implemented to strengthen tax and customs administrations. Non-oil revenue, thus, grew by one percentage point of GDP. Oil revenue also increased, reflecting higher international prices. Spending was also tightened, although priority expenditures, especially those in the areas of health and education were increased. Total expenditures, in 2005, were lower than programmed by one percentage point of GDP. As a result, the primary balance strengthened further.

It is to be noted that the government pursued steadfastly the clearing of domestic arrears. The oil revenue windfall was used to reduce domestic arrears and clear arrears in the HIPC account. The authorities place high importance in the clearing of domestic arrears which they view as contributing significantly to improving business confidence and leading to an increase in economic activity.

Progress continued in structural reforms. Privatization strategies for CAMTEL and CAMAIR were adopted. Reforms in the financial sector continued. The authorities made significant strides in the areas of transparency and governance. These include adoption of an updated National Governance Plan (PNG II) which emphasizes high-impact results to be measured through monitorable performance indicators. The PNG II covers democratic, administrative and economic governance, with a specific subcomponent on the fight against corruption. It has led to the adoption of a Law by Parliament requiring public officials, including the President, the Prime Minister, other ministers, high official in government and public enterprises members and members of the National Assembly, to declare their assets. It has also led to the establishment of an independent agency to spearhead the anti-corruption drive. Progress has been made towards implementing the EITI and publication of information on



budget execution and oil sector data. Quarterly data on the petroleum sector continue to be published on the websites of the state oil company. ([www.snh.cm](http://www.snh.cm)). The government established a list of performance indicators designed to strengthen the monitoring of the public procurement system. The government also took steps to crack down on corruption. My authorities recognize that more efforts will be needed and they remain committed to pursuing the efforts to improve governance.

## **II. Economic Policies for 2006 and the Medium-Term**

My Cameroonian authorities are aware that achieving the objective of strong and sustainable growth to reduce poverty will require, in the medium-term, diversifying the economy and broadening the export base. The medium-term objectives remain consistent with the macroeconomic framework of the three-year program. For the period 2006-08, average growth in the non-oil economy should be around 4.6 percent per year, and inflation should remain moderate at below 2 percent per annum. The external current account deficit (excluding grants) should be around 3 percent of GDP by 2008.

The authorities remain committed to achieving these objectives, and towards that end, they will pursue steadfastly the fiscal consolidation efforts, strengthen governance, improve the quality and effectiveness of public investment and expedite structural reforms. In that context, the authorities are cognizant that maintaining the real GDP growth in the non-oil sector to at least 4.4 percent per year, on average, is key to reducing poverty. In this regard, they have expanded the preparation of the Medium-Term Public Expenditure Frameworks (MTEF) with the aim of establishing a multi-year budget framework consistent with this medium-term growth objective. To finance the PRSP and the MDG targets, the authorities will make every effort to increase mobilization of internal resources. Given the magnitude of the needs and the limited internal resources available, external financing will continue to play a key role in the development of infrastructures and the fight against poverty.

### **Fiscal Policy**

Prudent fiscal policy will remain the cornerstone of the authorities' economic program. On the revenue side, the efforts will focus on raising non-oil revenue. In this regard, the tax measures adopted in the 2006 budget include broadening the excise taxes, enhancing the income tax and forestry taxation, and minimizing exemptions to the VAT and imports tariffs. Furthermore, the authorities intend to extend the taxation nets to the informal sector. The strengthening of the tax and customs administration will be pursued. Notably, the Automated System for Customs Data (SYDONIA) will be extended to all main customs offices.

On the expenditure side, the authorities will continue to pursue a policy of prudent spending while taking into account the PRSP priorities. The salary increase in 2006 will remain prudent and together with new recruitment in priority sectors will keep the wage bill at 4.7 percent of GDP. More broadly, the authorities are of the view that they will need to give more attention to the low civil service salaries, which they believe is one of the causes of poor service and corruption. However, they intend to address this issue prudently, and in the meantime, efforts at strengthening the payroll management and monitoring systems will

continue. My authorities are committed to raising pro-poor spending by 2 percentage points of GDP to make faster progress towards achieving the MDGs. The authorities also intend to open a special account at the BEAC to deposit MDRI debt relief, and use of these consistent with the PRSP priorities will be closely monitored. The government has taken steps to improve the programming and execution of HIPC-financed projects, including streamlining disbursement procedures, strengthening capacity of the National Consultative Committee and putting in place an information system for monitoring project implementation. Projects targeted were in the construction and rehabilitation of schools, recruitment of temporary teachers, improving immunizations and combating malaria and HIV/AIDS, and rural infrastructure.

It is the intention of the authorities to increase capital spending, as envisaged in the original program to spur growth and strengthen the delivery of social services. In this regard, capital spending, including resources from MDRI, is projected to grow by 2.4 percentage point of GDP, and will include projects related to infrastructure improvement which have been prepared with technical assistance from the donor community. The authorities are taking measures to strengthen capacity to ensure an efficient execution of investment spending. As in 2005, windfall oil revenues will be used to reduce domestic arrears, including arrears on VAT credits.

### **Monetary policy and Financial Sector Reform**

Monetary policy, implemented at the regional level, will continue to focus on strengthening the BEAC external reserves and maintaining inflation at a level compatible with the anchor currency. The actions which began in 2005 to strengthen the financial system and deepen financial intermediation will be continued. Accordingly, in collaboration with the regional bank supervision agency (COBAC) the government will remain vigilant regarding the strengthening of supervision of microfinance institutions. The restructuring of the housing credit agency and of CAMPOST will be pursued.

### **Structural Reforms**

My Cameroonian authorities are resolved to push ahead the agenda of reforms and move toward strengthening growth prospects and boosting efficiency in the use of public resources. To this end, they remain committed to moving forward with initiatives undertaken in 2005 to reduce the government's role in the productive sector. The measures set out in the action plan for the privatization of CAMAIR and the ongoing reforms of SNEC, CAMTEL, and SONARA will be actively pursued. In the agro-industrial sector, the government is working on a new strategy to ensure the successful privatization of the cotton company (SODECOTON) and the palm oil and rubber plantations of Cameroon Development Corporation (CDC). However, in this area, my authorities call for a cautious approach, given the importance of these entities in Cameroon's economy and the social implications of the ongoing reform. The World Bank is assisting the authorities in the advancement of this process.

My authorities will continue to take measures to enhance the environment conducive to private sector development. Cameroon's ranking in the World Bank's "Doing Business" database of 2005 is an incentive to maintaining the momentum in the reforms initiated and consolidate gains already realized and further improve the business environment. To this end, they will continue implementing in-depth structural reforms and improve the legal, regulatory and judicial frameworks to attract FDI. Institutional development and improved governance and reduced corruption will ensure sound management of public affairs and improve the business environment. At the same time, development of infrastructure will support productive sectors and reinforce public-private partnership. The government will also ensure the continued implementation of the principles of the Extractive Industries Transparency Initiative (EITI).

As regards the judicial sector, I would like to highlight the comment made by the President of Cameroon at the time of EDs' visit to this country. At that meeting, the President noted the Cameroonian legal system is a blend of the French, English and traditional legal systems. To understand the difficulty of the reform process, he pointed out that the reform started 30 years ago and that the implementation of the new penal code has just started. The difficulty is now training the judges, lawyers, law enforcement officers, and educate the public about the new laws and regulations, and this will take time, but my authorities are determined to do it.

### **Completion Point Triggers and PRSP**

My Cameroonian authorities have implemented satisfactorily the actions required for meeting the Enhanced HIPC completion point triggers. Almost all completion point triggers have been met, as well as satisfactory implementation of the poverty reduction strategy, maintenance of macroeconomic stability, social sector and structural reforms, and actions to improve governance and reduce corruption.

On the trigger points:

- the full PRSP has been prepared and satisfactorily implemented for one year;
- macroeconomic stability is being maintained, and the country is implementing a PRGF-supported adjustment program;
- the budgetary savings from debt relief are being used according to the criteria set forth;
- SACIII has been satisfactorily concluded and reforms implemented;
- the priority strategy and action plan for improving governance and combating corruption have been satisfactorily implemented;
- regulatory agencies for key sectors of water, electricity and telecommunications are autonomous and are operating;
- the sectoral strategy for the education and health sectors have been satisfactorily implemented.

The only trigger which my authorities could not fulfill and for which they request a waiver is with respect to water regulator agency. The privatization strategy of the water utility (SNEC) was changed after the failure to award a concession in 2003. My authorities would like to underscore that there was limited investor interest in the water sector. Consequently, the

government with the assistance of the World Bank, restructured the water utility as a public-private partnership (PPP). The firm implementation of the revised water reform led to the creation of the assets holding company (CAMWATER) that will carry investment responsibilities. In this context, the private partner will operate the facilities and deliver services under a lease contract. The regulatory framework is already in place and will be operational once the operator is selected and lease signed. The prequalification process for private partner - several international operators expressed interest - and the invitation for bids is expected to be launched in mid-2006.

It is to be noted that the authorities have also pursued the implementation of their Poverty Reduction Strategy Paper (PRSP) adopted in 2003 that was prepared in a participatory and consultative manner, involving all stakeholders. An institutional body to oversee the implementation of the PRSP was created and three annual progress reports of the PRSP were produced. Moreover, the authorities have extended the elaboration of Medium-Term Public Expenditure framework in order to enhance the budget preparation process, in particular in the allocation and the monitoring of pro-poor spending.

My Cameroonian authorities, therefore, believe that they have implemented successfully all the measures required for Cameroon to reach the completion point under the HIPC Initiative, and hope that the Board will come to the same conclusion.

### **Debt Sustainability and Economic Growth**

The debt relief that Cameroon will receive under the HIPC and the MDRI will finally put the country's external debt position on a sustainable path. My authorities will follow prudent fiscal and debt policies, and will continue their efforts to diversify the economy which they hope will strengthen the economy's resiliency to shocks.

My Cameroonian authorities view the Completion Point as a new step in the country's development path. They intend to follow policies consistent with their PRSP and that that will ensure macroeconomic stability and high sustainable growth. Reflecting economic stimulus from increased capital spending, and the implementation of structural reforms, real growth is expected to accelerate to 6 percent per annum by 2011. Fiscal policy would be supportive of economic growth and poverty reduction.

### **III. Conclusion**

My Cameroonian authorities reiterate their gratitude to staff, management and the Board for their advice and support. They remain determined to pursue steadfastly the implementation of their poverty-reduction strategy with the aim of accelerating and sustaining growth while making progress towards the achievement of the MDGs. In this endeavor, my authorities will continue to rely on the strong support of their development partners, including the Fund. It is also my authorities' intention to continue to rely on Fund for advice and technical assistance.