Letter of Intent

Yaoundé, April 28, 2020

To

Madam Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, DC. 20431
USA

Subject: Letter of Intent for access to the Rapid Credit Facility

Dear Madam Managing Director,

1. While the government is continuing to implement its Economic and Financial Program, supported by an Extended Credit Facility (ECF), the COVID-19 pandemic has appeared and is causing a significant impact on Cameroon’s economy, potentially undoing hard-won macroeconomic gains and endangering our development agenda. The economic impact was being felt even before the first case was confirmed on March 5 when trade with China and Europe, Cameroon’s largest partners, was disrupted and our export and service sectors have been hit hard following a grinding halt to imports from and exports to China and Europe, the reduction in tourism and transfers from abroad, the cancellation of multiple large international events (including the Soccer African Nations Championship) that were planned to take place in Douala and Yaoundé during this first semester of this year, and the slowdown in the world’s global growth. The pandemic comes on the back of the negative economic impact of the security crisis in the two anglophone regions as well as in the far-northern region and the suspension of production at the SONARA since it was hit by a fire at end-May 2019.

2. Since the first case of infected person were uncovered in Cameroon, the negative economic impact of the pandemic has accelerated as the number of cases started to climb. To contain and mitigate the spread of the disease, we took on March 17 a set of strict measures including closure of our land, air and sea borders (with the exception of cargo flights and vessels transporting consumer products and essential goods and materials), cancellations of sport competitions, closure of schools, bar and restaurants, and prohibition of the gathering of more than 50 people throughout the national territory. We have also scaled up health care spending to respond to this outbreak.

3. In conjunction with the implementation of these drastic measures, a COVID-19 preparation and response plan has been developed by our Ministry of Public Health with the support of WHO and other local government institutions. The plan includes country-level coordination, case investigation and rapid response, provision of patient care and medical supplies, infection prevention and control, case management, and raising public awareness of the risks posed by the pandemic and
prevention methods. At this juncture, the cost of preparedness and response plan is estimated at about CFAF 58.3 billion (about 0.2 percent of GDP).

4. Our country is hit by the COVID-19 at the same time as the collapse of international oil prices. These two shocks, combined, have a major negative impact on Cameroon’s economic activity. Our preliminary projections indicate that real GDP growth could decline from 3.9 percent in 2019 to -1.2 percent in 2020—down from a pre-pandemic projection of 3.8 percent at the time of the 5th review of the ECF arrangement—owing to the various channels through which the COVID-19 pandemic is affecting economic activities, particularly the closing of our borders and the restrictions imposed on the movement of the population. Despite the disruption of the food supply channels, inflation is expected to rise moderately due to multiple factors that are dampening domestic demand.

5. We are experiencing significant deterioration in our external sector position. The projected decline in international oil prices, global demand of our non-oil exports, tourism receipts and current transfers (including remittances) are expected to widen our current account by 2 percentage point of GDP. This rise in current account deficit, together with projected decline in non-official capital inflows, will generate an additional external financing gap estimated at 2 percent of GDP in 2020.

6. The dramatic fall in oil prices, the slowdown in economic activity, and the implementation of measures to limit the spread of the pandemic have a strong negative impact on fiscal revenues, while expenditures are increasing, in particular to implement our anti-pandemic response plan, meet basic health care needs, and support the most vulnerable segments of the population. The uncertainties about the duration and extent of the pandemic is complicating a full assessment of the full impact of the two shocks on public finances. We currently expect a shortfall in total domestic revenue of 1.3 percentage point of GDP in 2020, compared to the pre-COVID-19 projections. To cope with the pandemic, the government has intensified the tightening of controls over spending and initiated a reassessment of its investment program to reprioritize projects and free up room for the funding of expenditures related to COVID-19 and support hard-hit private-sector enterprises and vulnerable groups. Despite these measures and the automatic drop in budgeted pump price subsidies, the pandemic shock has generated immediate fiscal needs close to CFAF 400 milliards for 2020 (about US$700 million).

7. Against this background, and in the face of the urgent fiscal and balance of payments needs arising from the two exogenous shocks and the need to limit the negative impact of the shocks on poverty and growth, the Government of Cameroon requests emergency financing from the IMF under the Rapid Credit Facility (RCF) in the amount of SDR165.6 million, equivalent to 60 percent of our quota, to ease the pressure on our fiscal resources and official foreign reserves. We are confident that IMF involvement in the international effort to assist Cameroon in dealing with the economic fallout from the global pandemic will play a catalytic role in securing additional financing from our development partners, particularly to cover urgent needs to upgrade our health system. We commit also to strengthen our efforts to seek additional financial assistance from donors, either in the form of grants or concessional loans.
8. We will ensure that the financial assistance received is used for the intended purposes, in
strict compliance with the provisions of the Law on the Code for Transparency and Good Governance
in Public Finance Management in Cameroon and the Law on the Financial Regime for the
Government and Other Public Entities, all adopted in July 2018. For this purpose, the funds linked to
COVID-19 will be subject to the strict application of the budgetary procedures and controls provided
for by the above Laws. In addition, we commit to issue a semi-annual report on COVID-19 related
spending and to commission an independent audit of this spending at the end of the 2020 fiscal year
and publish the results. We also commit to publishing documents relating to the results of public
procurement awarded by the government and the beneficial ownership of companies receiving
procurement contracts on COVID-19 related expenditures. In the meantime, such COVID-19 related
expenditures are being incorporated in a supplementary budget in preparation and expected to be
presented to the Parliament in June 2020

9. We remain firmly determined in fulfilling our commitments made in our January 7, 2020
Letter of Intent for the fifth review and committed to the ECF-supported program. However, the
impact of the pandemic on the economic outlook and the accompanying restrictions make
completing the sixth review of the ECF arrangement difficult at this juncture. Maintaining
macroeconomic stability, strengthening the fiscal revenue base, improving spending efficiency,
fostering good governance, and promoting the formal private sector are still key goals. The
government will ensure that the support and assistance measures taken as part of the response to
COVID-19 do not prejudice the mobilization of tax revenues in the medium and long term. The
government is committed to observe fiscal transparency by enshrining the measures in a revised
budget. Moreover, the government will not introduce measures or policies that would compound its
BoP difficulties or introduce any new exchange or trade restrictions. Due to the delay in the
completion of the sixth review under the ECF arrangement and to allow for an RCF request of 60
percent of quota, we request that (i) the ECF arrangement be extended from June 25, 2020 to
September 30, 2020 and; (ii) the availability date for the sixth review (seventh disbursement) under
the ECF arrangement be moved from May 31, 2020 to July 25, 2020.

10. The Cameroon government will continue to maintain a constructive dialogue with the IMF
and will provide the Fund staff with all the data and information necessary to evaluate our policies,
including those taken under the access to the RCF. We agree to cooperate with the IMF in relation to
any update safeguards assessment of the BEAC to be carried out by the IMF. We further authorize
the IMF to publish this Letter and the staff report for the request for disbursement under the RCF.

Sincerely yours,
/s/
Louis Paul Motaze
Minister of Finance