IMF Country Report No. 18/378

# CAMEROON

December 2018

## THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CAMEROON

In the context of the Third Review Under the Extended Credit Facility Arrangement and Requests for a Waiver of Nonobservance of a Performance Criterion and Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 17, 2018, following discussions that ended on November 13, 2018, with the officials of Cameroon on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 6, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Cameroon.

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

Letter of Intent sent to the IMF by the authorities of Cameroon*
Memorandum of Economic and Financial Policies by the authorities of Cameroon*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**Washington, D.C.**

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December 17, 2018

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**IMF Executive Board Completes Third Review of the Extended Credit Facility Arrangement for Cameroon**

- Cameroon to receive the fourth US$76.3 million disbursement from IMF.
- Program performance has improved, with progress in delayed structural reforms.
- Fund supported program aims to restore Cameroon's and CEMAC's external and fiscal sustainability and to encourage growth.

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the arrangement under the Extended Credit Facility (ECF) Arrangement for Cameroon. The completion of the review enables the disbursement of SDR 55.2 million (about US$76.3 million), bringing total disbursements under the arrangement to SDR317.4 million (about US$438.9 million).

In completing the third review, the Executive Board also approved the authorities' request for a waiver for the non-observance of the performance criterion on the ceiling on net BEAC financing and the modification of two performance criteria pertaining to the ceiling on net borrowing of the central government from the central bank, excluding IMF financing, and the continuous performance criterion on new non-concessional external debt contracted or guaranteed by the government.

Cameroon's three-year arrangement for SDR 483 million (about US$667,8 million, or 175 percent of Cameroon's quota), was approved on June 26, 2017 (see Press Release No.17/248). It aims at supporting the country's efforts to restore external and fiscal sustainability and lay the foundations for sustainable, inclusive and private sector-led growth.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“Cameroon’s performance under its ECF-supported program is broadly satisfactory. Most end-June 2018 targets have been met and structural reforms have advanced, with completion of key delayed financial sector reforms.

“The authorities remain committed to the concerted regional effort to rebuild CEMAC’s fiscal and external buffers. To that end, addressing revenue shortfalls and containing investment spending will be key to reaching the 2018 deficit target. Steadfast implementation of the 2019 budget, including measures to mobilize non-oil revenue by gradually removing exemptions and further spending rationalization will be essential to mitigate the risks from the challenging security situation, increasing commodity price volatility and other shocks to growth.

“Public external debt has increased rapidly in 2018, mainly owing to faster-than-envisaged disbursements of foreign project loans. Strictly limiting new non-concessional borrowing and addressing the stock of contracted but undisbursed loans are essential to maintain debt sustainability. Gradual adjustments in administered prices would help reduce subsidies and restore the financial viability of key public utility companies, while lowering risks from contingent liabilities.

“Financial sector reforms should continue to advance, including effective resolution of ailing banks and reduction of overdue loans. Other structural reforms should focus on tackling governance issues and improving the business environment to support private investment and enhance competitiveness.

“Cameroon’s program continues to be supported by the implementation of supportive policies and reforms by the regional institutions in the areas of foreign exchange regulations and monetary policy framework and to support an increase in regional net foreign assets, which are critical to the program’s success.”

INTERNATIONAL MONETARY FUND

# CAMEROON

December 6, 2018

## THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA

## KEY ISSUES

**Context.** President Biya was re-elected as President of Cameroon on October 7 by a large margin, amidst some violence in anglophone regions. Growth is projected to gradually increase from 3.5 percent in 2017 to 3.8 percent in 2018, driven by construction activity ahead of the Africa Cup of Nations (CAN) and large infrastructure projects. Fiscal consolidation as of end-June was in line with program objectives, but faces significant headwinds in the second half of the year owing to accelerating capital spending and revenue shortfalls. The goods trade balance worsened significantly in H1 and private capital outflows increased, contributing to a slower-than-anticipated buildup of external buffers.

**Outlook and risks.** The medium-term outlook remains positive with growth expected to increase to 4.4 percent in 2019 and reach 5 percent in the medium-term. Risks from heightened global uncertainty, insufficient adjustment at the regional level, and continued insecurity in the anglophone regions are increasing.

**Program status.** Program performance has improved. All end-June performance criteria (PCs) were met except the ceiling on net BEAC financing which was missed by a marginal amount owing to larger arrears repayments. All end-June indicative targets (ITs) but the floor on non-oil revenue were met. In addition, all end-September ITs were met except the ceiling on net BEAC financing as the issuance of a CFAF 150 billion infrastructure bond was postponed to October. Structural reforms are advancing: all but four structural benchmarks (SBs) due before end-November have been completed, though two measures have been completed with delay.

**Key policy recommendations**

- Maintain the fiscal consolidation and preserve debt sustainability by: (i) prioritizing and closely monitoring foreign-financed investment to meet fiscal targets and limit the buildup of public debt; (ii) boosting non-oil revenue mobilization by gradually eliminating tax exemptions; (iii) accelerating the review of non-performing contracted-but-undisbursed loans and limiting new non-concessional borrowing; (iv) reducing the fiscal risks arising from SOEs by ensuring timely payment of utility bills and transfers to key public utilities while implementing reforms to curb fuel subsidies and other administered prices.
- Advance financial sector reforms to resolve ailing banks and reduce overdue loans.
- Continue to improve governance and the business environment to support private investment and enhance competitiveness.

**Staff views.** Staff supports the authorities' requests for completion of the third ECF review, a waiver of nonobservance of a performance criterion and modification of two performance criteria. Upon completion of the review, a disbursement of SDR 55.2 million (20 percent of quota) will be made available, for a cumulative amount of SDR 317.4 million or 115 percent of quota.

Approved By
**David Owen and Martin Sommer**

Discussions took place in Yaoundé during November 5-13, 2018. The staff team comprised Ms. Deléchat (head), Ms. Chen, Messrs. Barry, and Nsengiyumva (all AFR), Ms. Schauer and Mr. Tessema (all SPR), Messrs. Portier (MCM), and Sow (FAD). The team was supported by Mr. Tchakoté (local economist), and Ms. Canales, Ibrahim and Liu. Mr. N'Sonde (OED) and staff of the African Development Bank and the World Bank participated in the discussions.

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## ANNEXES



## APPENDIX

# Glossary

| | |
|---|---|
| AML/CFT | Anti-Money Laundering and Combatting the Financing of Terrorism |
| BEAC | Regional Central Bank (*Banque des États de l'Afrique Centrale*) |
| CAN | African Cup of Nations (*Coupe d'Afrique des Nations*) |
| CEMAC | Central African Economic and Monetary Community (*Communauté Économique et Monétaire de l'Afrique Centrale*) |
| CFA | Central African Financial Cooperation (*Coopération Financière en Afrique Centrale*) |
| CIME | Medium-Size Enterprises Tax Centers (*Centre des Impôts des Moyennes Entreprises*) |
| CNDP | National Public Debt Committee (*Comité National de la Dette Publique*) |
| COBAC | Regional Supervisory Body (*Commission Bancaire de l'Afrique Centrale*) |
| CONAC | National Anti-Corruption Commission (*Commission Nationale Anti-Corruption*) |
| CPIA | Country Policy and Institutional Assessment |
| CSPH | Hydrocarbon Price Stabilization Fund (*Caisse de Stabilisation des Prix des Hydrocarbures*) |
| DGD | Directorate General of Customs (*Direction Générale des Douanes*) |
| DGI | Directorate General of Taxes (*Direction Générale des Impôts*) |
| DSA | Debt Sustainability Analysis |
| EITI | Extractive Industries Transparency Initiative |
| ENEO | Energy of Cameroon |
| EPA | European Partnership Agreement |
| E-GUCE | Single Electronic Trade Platform (*Guichet Unique des Opérations du Commerce Extérieur*) |
| FATF | Financial Action Task Force (for AML/CFT) |
| GABAC | Task Force on Money Laundering in Central Africa (*Groupe d'Action contre le Blanchiment d'Argent en Afrique Centrale*) |
| GFSM 2001 | Government Financial Statistics Manual of 2001 |
| HIPC | Heavily Indebted Poor Countries |
| LPG | Liquefied Petroleum Gaz |
| MFI | Micro-Finance Institution |
| NHPC | Nachtigal Hydro Power Compagny |
| NPL | Nonperforming Loan |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| SENDS | Signed-But-Undisbursed Loans (*Emprunts Signés Non Décaissés*) |
| SME | Small and Medium-Size Enterprise |
| SOE | State-Owned Enterprise |
| SNH | National Hydrocarbons Corporation (*Société Nationale des Hydrocarbures*) |
| SONARA | National Oil Refinery (*Société Nationale de Raffinage*) |
| SRC | State Asset Management Compagny (*Société de Récouvrement des Créances*) |
| UNCAC | United Nations Convention Against Corruption |

# CONTEXT

1. **The CEMAC regional economic situation remains challenging, with shortfalls in reserves accumulation.** Regional growth could improve to 2.2 percent in 2018 (1 percent in 2017), largely from a rebound in oil production. However, end-September BEAC's net foreign assets (NFAs) were significantly below projections, caused by delays in external financing, mixed program performances, and slow repatriation of export proceeds. In response to this shortfall, the BEAC took corrective actions, increasing its policy rate from 2.95 to 3.5 percent on October 31st, and enhancing implementation of the existing foreign exchange regulation. On October 25 in N'djamena, CEMAC heads of state reiterated their commitment to the Yaoundé summit's regional strategy, and to strengthen their cooperation to restore external and fiscal stability in the region.

2. **The socio-political situation remains difficult.** President Biya was re-elected for a seventh seven-year term, with low turnout and tight security controls in anglophone regions. While Boko Haram attacks at the border of Nigeria and Chad continue, the deteriorating security conditions in the anglophone regions are taking a toll on the economy: exports of cocoa and coffee, mainly produced in the anglophone regions, dropped by 28 percent and 26 percent respectively at end-September 2018 (y/y); tax collection declined by 8.4 percent in 2017 and by 2.5 percent in the first 10 months of 2018 (y/y) while growing nationwide; and total credit declined by 12.7 percent (4.2 percent increase nationwide) in Q1-Q3. The International Organization for Migration estimates the number of refugees and internally-displaced people to exceed 500,000.

# RECENT DEVELOPMENTS

3. **Growth is recovering only gradually, mostly owing to the continued decline in oil production** (MEFP ¶2). After decelerating to 3½ percent in 2017, growth improved to 3.8 percent in H1 2018 (y/y), mainly driven by construction activity related to large infrastructure projects and the Africa Cup of Nations (CAN).[1] While non-oil growth remained resilient at 4.6 percent, the oil sector continued to contract, declining by 8.8 percent in H1-2018 (y/y). End-September inflation remained contained at 0.8 percent (y/y) (Table 1, Figure 1).

4. **Budget execution at end-September remained on track.** The overall fiscal deficit reached 1.2 percent of GDP as projected. A 0.3 percent of GDP revenue shortfall, half of which caused by the delay in subsidy payments to the state oil refinery (SONARA)—needed to cover its tax liabilities—was compensated by lower recurrent and capital spending. The cash deficit was somewhat higher than projected owing to larger-than-anticipated arrears and float clearance (MEFP ¶3, Text Table 1, Tables 2a-b, Figure 2).

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[1] On November 30 the African Soccer Federation notified Cameroon that the country would no longer host the 2019 CAN due to delays in building the needed infrastructure and the difficult security situation in anglophone regions. There is a possibility that Cameroon could organize the event in 2021, and the authorities have indicated that the construction of stadiums would continue.

**Text Table 1. Cameroon: 2018 Budget Execution**
(Percent of GDP)

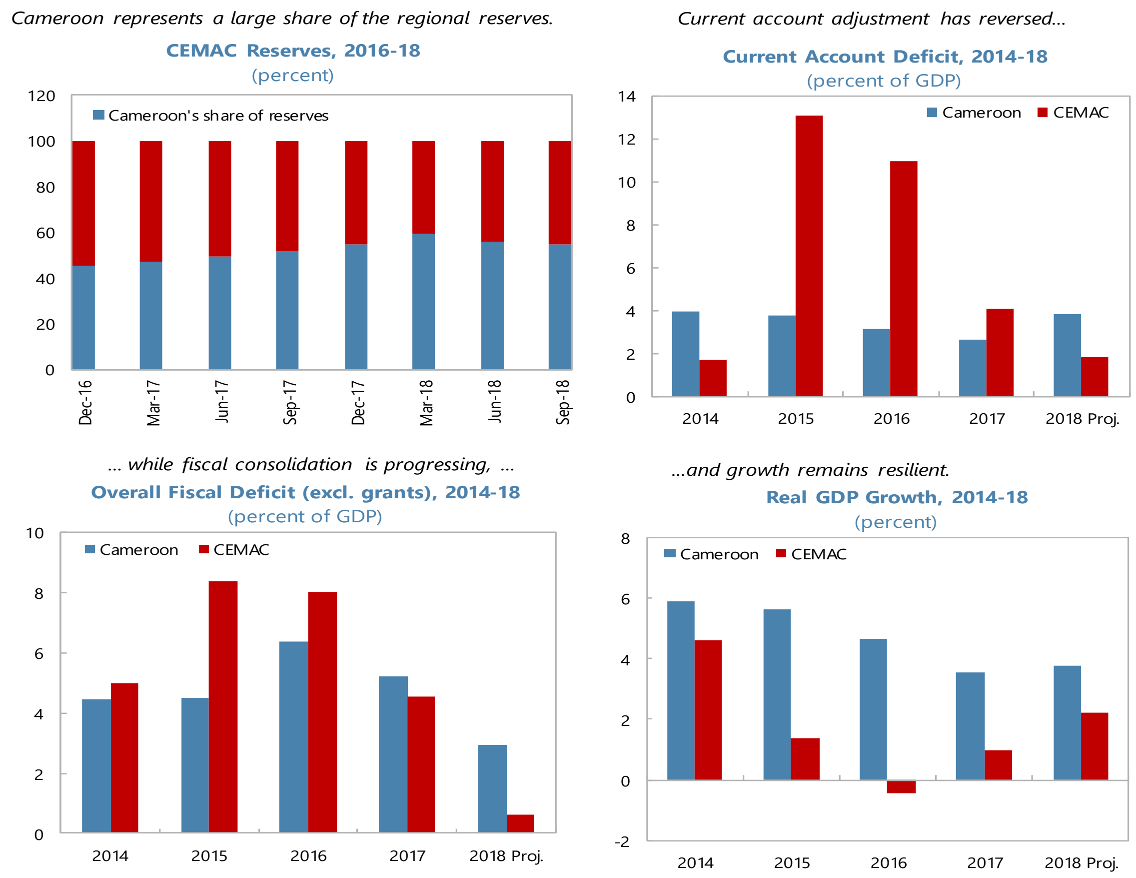
| | Q1 | | Q2 | | Q3 | | Q1-Q3 | |
|---|---|---|---|---|---|---|---|---|
| | *Proj.* | Actual | *Proj.* | Actual | *Proj.* | Actual | *Proj.* | Actual |
| Total revenue and grants | *3.4* | 3.4 | *4.0* | 3.9 | *4.0* | 3.8 | *11.4* | 11.1 |
| o/w Oil sector revenue | *0.4* | 0.4 | *0.6* | 0.6 | *0.6* | 0.6 | *1.6* | 1.6 |
| o/w Non-oil sector revenue | *2.9* | 2.9 | *3.4* | 3.2 | *3.3* | 3.2 | *9.6* | 9.3 |
| Total expenditure | *2.7* | 3.1 | *5.5* | 4.6 | *4.4* | 4.6 | *12.7* | 12.3 |
| Current expenditure | *2.2* | 2.3 | *3.6* | 2.6 | *2.8* | 3.4 | *8.5* | 8.3 |
| Capital expenditure | *0.6* | 0.8 | *2.0* | 2.0 | *1.6* | 1.2 | *4.1* | 4.0 |
| o/w Domestically financed investment | *0.1* | 0.0 | *0.5* | 1.0 | *0.6* | 0.3 | *1.3* | 1.4 |
| o/w Foreign-financed investment | *0.4* | 0.7 | *1.4* | 1.0 | *0.9* | 0.8 | *2.8* | 2.6 |
| Overall balance (payment order basis, incl. grants) | *0.6* | 0.3 | *-1.5* | -0.7 | *-0.4* | -0.8 | *-1.2* | -1.2 |
| Adjustment to cash basis | *0.0* | -0.6 | *0.0* | -0.5 | *-0.3* | 0.0 | *-0.3* | -1.0 |
| Unexecuted payment orders | | | | | *-0.2* | -0.2 | *-0.2* | -0.2 |
| Floats and arrears (- = reduction) | *0.0* | -0.6 | *0.0* | -0.5 | *-0.1* | 0.2 | *-0.1* | -0.8 |
| o/w Arrears (- = reduction) 1/ | *0.0* | 1.1 | *0.0* | -1.5 | *-0.2* | 0.2 | *-0.2* | -0.2 |
| Overall balance (cash basis, incl. grants) | *0.6* | -0.3 | *-1.5* | -1.1 | *-0.7* | -0.8 | *-1.6* | -2.2 |
| Financing | *-0.6* | 0.3 | *1.5* | 1.1 | *0.7* | 0.8 | *1.6* | 2.2 |
| External financing, net | *0.2* | 1.0 | *1.1* | 0.8 | *0.6* | 1.0 | *1.9* | 2.8 |
| Domestic financing, net | *-0.8* | -0.7 | *0.3* | 0.3 | *0.1* | -0.1 | *-0.4* | -0.6 |
| Banking system | *0.2* | -0.1 | *-0.1* | 0.5 | *0.7* | 0.4 | *0.8* | 0.9 |
| BEAC | *0.1* | -0.2 | *-0.2* | 0.4 | *0.2* | 0.4 | *0.1* | 0.6 |
| o/w IMF net financing | *0.0* | 0.0 | *0.0* | 0.0 | *0.2* | 0.2 | *0.1* | 0.1 |
| Banks | *0.0* | 0.1 | *0.0* | 0.1 | *0.6* | 0.0 | *0.7* | 0.3 |
| Non-bank financing | *-1.0* | -0.6 | *0.5* | -0.3 | *-0.7* | -0.5 | *-1.1* | -1.4 |

1/ About 1.1% of GDP of 2017 floats mainly related to unfunded subisidies, tranfers, and projects' conterpart funds that became arrears in Q1 were cancelled in Q2.
Sources: Cameroonian authorities; and IMF staff estimates and projections.

5. **The balance of payments is worsening.** The current account deficit widened to 2 percent of GDP in H1 2018 (compared to 0.9 percent of GDP in H1 2017), driven by weaker-than-projected agricultural exports due to the worsening security situation in anglophone regions and temporarily higher imports of oil products and investment goods caused by the shutdown of the oil refinery in April-November and acceleration of CAN and infrastructure projects. In addition, private capital outflows increased significantly in Q2 due to heightened domestic uncertainty. The current account deficit is likely to remain large in H2 as the trends observed in H1 continue. Private capital outflows are projected to gradually decline with strengthened confidence and export proceeds' repatriation efforts (MEFP ¶32). NFAs declined from CFAF 1,970 billion at end-2017 to CFAF 1,821 billion at end-September 2018, while still accounting for more than half of the regional reserves (MEFP ¶4, Text Figure 1, Table 3, Figure 3).

6. **Private-sector credit growth rebounded in Q3 on the back of improved liquidity conditions**. Broad money increased by 8.3 percent and deposits by 7.2 percent at end-September (y/y), with rising net government borrowing and credit to the public enterprises, mainly driven by SONARA's difficult liquidity situation. Private sector credit growth rebounded to 5.2 percent, up from -0.6 percent at end-June (y/y). Bank reserves remained high at 20 percent of deposits, although foreign banks remain more liquid than local banks. The interest rate on government bonds has been declining (MEFP ¶5, Figures 4-5, Tables 4-5).

**Text Figure 1. Cameroon: Contributions to the Regional Adjustment, 2014–18**




Sources: CEMAC authorities; BEAC; and IMF staff calculations.

# PROGRAM PERFORMANCE

**7. Program performance has been broadly satisfactory.**

- *All but one end-June performance criteria (PCs) were comfortably met* (MEFP ¶7, Table 1). The ceiling on net BEAC financing to the government was missed by a small margin. All but one end-June indicative targets (ITs) were met. The floor on non-oil revenue was missed slightly mainly due to delayed subsidy payments to SONARA which in turn delayed payments of its taxes and custom duties. Preliminary data suggest that all but one end-September ITs were met, including the new IT on containing spending through exceptional procedures. Net BEAC financing to government exceeded the program ceiling again as a planned CFAF 150 billion infrastructure bond was issued after the October Presidential election.
- *Structural reforms have advanced* (MEFP ¶8-9, Table 2). All but four structural benchmarks (SBs) due by end-November were completed, although two were implemented with delay. The adoption of an action plan on SENDs has been proposed as a prior action, the assessment of

restructuring options for two ailing private banks is ongoing and is expected to be finalized in the coming weeks, and the SBs on the closure of correspondent accounts and on SME bank are proposed to be reprogrammed. The collection of the land tax through electricity bills (December SB) was not included in the 2019 budget partly for technical reasons and replaced by an extension of the tax amnesty on property income.

# POLICY DISCUSSIONS

## A. Outlook and Risks

**8. Short-term growth prospects remain positive but somewhat dimmer than anticipated.** Growth is expected to improve gradually from 3.8 percent in 2018 to 4.4 percent in 2019 (4.5 percent in the 2nd review), and to rebound to 5-5 ½ percent in the medium term, driven by new natural gas production and the coming on stream of transport and energy projects (Text Table 2, MEFP ¶11).

**9. External and domestic risks could affect the outlook** (Table 6). External risks mainly include spillovers from the global tightening conditions, volatility in major emerging markets, continued security threats, and delays in the CEMAC regional adjustment. Domestically, potential fiscal slippages from higher security spending, the 2019 legislative and municipal elections, and the completion of large infrastructure projects could derail fiscal consolidation. Continued escalation of the anglophone crisis could further dampen economic activity. Activity in 2019 could also be lower than anticipated owing to the postponement of the CAN, but, with slower implementation of related projects, risks on the 2019 budget might be reduced. On the upside, higher oil prices and still-resilient non-oil sector activity could help cushion unexpected shocks (MEFP ¶13).

**Text Table 2. Cameroon: Medium-Term Outlook, 2016–23**
(Percent of GDP, unless otherwise indicated)

| | 2016 | 2017 | 2018 | | 2019 | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | Est. | *CR 18/235* | Proj. | *CR 18/235* | Proj. | Proj. | | | |
| Real GDP (y/y percent change) | 4.6 | 3.5 | *4.0* | 3.8 | *4.5* | 4.4 | 4.7 | 4.9 | 5.2 | 5.4 |
| Inflation (y/y average) | 0.9 | 0.6 | *1.1* | 0.9 | *1.3* | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Current account balance | -3.2 | -2.7 | *-3.0* | -3.6 | *-2.9* | -3.1 | -3.0 | -2.8 | -2.9 | -3.0 |
| Overall fiscal balance (payment order basis, incl. grants) | -6.1 | -4.9 | *-2.6* | -2.4 | *-2.0* | -2.0 | -1.5 | -1.5 | -1.5 | -1.5 |
| CEMAC reference balance (payment order basis, incl. grants) | -5.4 | -4.3 | *-2.8* | -2.7 | *-2.3* | -2.3 | -1.6 | -1.4 | -1.6 | -1.6 |
| Non-oil primary balance(payment order basis, percent of non-oil GDP) | -7.8 | -6.1 | *-4.0* | -3.9 | *-3.1* | -3.2 | -2.3 | -2.1 | -2.1 | -2.0 |
| Public debt 1/ 2/ | 32.5 | 36.9 | *38.7* | 36.9 | *38.6* | 36.7 | 35.9 | 35.0 | 34.1 | 33.3 |
| WEO Oil price (US$/barrel) | 42.8 | 52.8 | | 69.4 | | 68.8 | 65.7 | 63.1 | 61.3 | 60.3 |

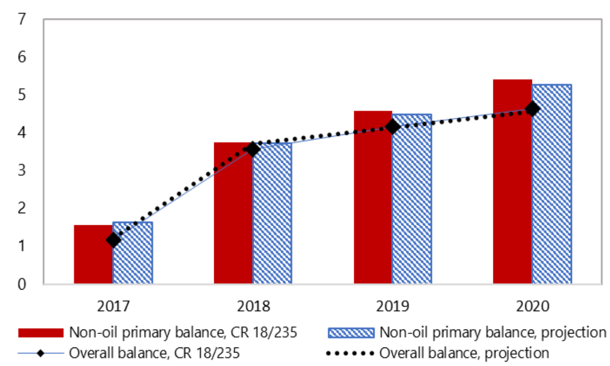
Sources: Cameroonian authorities; BEAC; and IMF staff estimates and projections.
1/ Includes the cumulative financing gap.
2/ Projections are taken from an updated Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de desendettement et de developpment" (C2D).

**10. The authorities shared staff's assessment of growth prospects while noting some positive factors that could lead to more favorable outcomes.** In particular, they considered that growth in 2019 and over the medium term would benefit from a larger positive impact of the connection to the electricity grid of the Memvele hydro-power plant starting end-2018, and the ramping up of gas production and of activity at the Kribi port (MEFP ¶11).

## B. Fiscal Policy: Preserving the Fiscal Consolidation Path

**11. Medium-term fiscal policy aims at maintaining the program consolidation path and converging to the regional deficit target by 2021.** Continued improvement of non-oil revenue mobilization and further rationalization and prioritization of both domestically-financed and foreign-financed investments will support achievement of fiscal objectives in 2018-19. Over the medium term, the stabilization of public investment should limit import growth while enhanced transport and energy supply should boost non-oil exports, leading to the gradual recovery of external reserves and eventual stabilization of the current account deficit at around 3 percent of GDP (Text Figure 2, MEFP ¶12).

**Text Figure 2. Cameroon: Cumulative Fiscal Adjustment, 2017-20** (Percent of GDP)




Sources: Cameroonian authorities; and IMF staff calculations.

### Reaching the 2018 Revised Budget Objectives

**12. Staff and the authorities agreed that the end-December program targets can be reached with strict controls on spending and additional revenue measures.**

- Staff estimates that subsidies needed for SONARA in 2018 would likely exceed the currently budgeted amount by CFAF 60 billion (0.3 percent of GDP) and could lead to non-oil revenue slippages. The authorities indicated that this gap can be largely covered by unplanned non-tax receipts collected from the port operator in September (CFAF 32 billion), and by additional tax administration measures amounting to CFAF 23 billion, including accelerating ongoing audit operations, recovery of tax arrears, collection of excess taxes raised on behalf of public entities, and better control of transit regimes at customs (Text Table 3, MEFP ¶14). The authorities also indicated that they had identified savings on goods and services as well as salaries (following the physical count of public employees), which would allow additional subsidy payments to SONARA (MEFP ¶15-16).

**Text Table 3. Cameroon: SONARA Subsidies' Needs and Tax Liabilities** (CFAF billion)

| | | SONARA loss [1] | Compensations: Tax | Compensations: Customs |
|---|---|---|---|---|
| **H1: Jan.-Jun. 2018** | | **62.1** | **21.3** | **40.8** |
| *Of which:* | Tax liabilities | 45.3 | 4.5 | 40.8 |
| | Arrears | 16.8 | 16.8 | |
| **H2: Jul.-Dec. 2018 [2]** | | **77.4** | **44.4** | **33.0** |
| *Of which:* | Tax liabilities | 31.1 | 27.6 | 3.5 |
| | Arrears | 46.3 | 16.8 | 29.5 |
| **Unbudgeted subsidies [3]** | | **20.5** | | |
| **TOTAL** | | **160.0** | **65.7** | **73.8** |

Sources: Cameroon authorities, and IMF staff calculations.

[1] The SONARA loss reflects the difference between the price reflecting movements in international oil price and taxation, and the administered prices of oil-related products.

[2] SONARA agreed to use additional subsidies to cover its tax liabilities and arrears.

[3] Due to higher-than-expected oil prices, SONARA subsidy needs exceed the amount budgeted by 0.3 percent of GDP, of which 0.1 percent of GDP remains unbudgeted.

- Staff highlighted the significant risks stemming from the acceleration of foreign-financed investment projects, with CFAF 583 billion already disbursed as of end-October (including CFAF 390 billion on non-concessional loans) and another CFAF 219 billion in disbursement requests, against total budgeted disbursements of CFAF 596 billion. The authorities indicated that they had made a project-by-project prevision of disbursements to meet the target on non-concessional disbursements and that they intended to prioritize domestically-financed investment to maintain total investment spending unchanged.
- SNH direct interventions reached CFAF 175 billion in October, above the annual ceiling (IT) of CFAF 156 billion.[2] The authorities agreed to limit these interventions until the end of the year as they displace other budgeted expenditures, including using accelerated budgetary procedures to expedite the execution of urgent security-related spending (MEFP ¶7).
- Domestic bond issuances and additional budget support eased the liquidity pressures in H2. The CFAF 150 billion medium-term infrastructure bond issued in November was oversubscribed by CFAF 54 billion. Together with the improved rollover of short-term bonds and additional AfDB budget support in 2018 this would support deposit accumulation as projected at the time of the 2nd ECF review. Non-bank financing will continue to be dominated by domestic debt repayments and the reduction of correspondent accounts balances (MEFP ¶17).

**Text Table 4. Cameroon: Domestic Arrears Clearance**
(CFAF billion)

| | 2016 | 2017 | | | Jun-18 | | | Sept-18 | | | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stock | Reduc. 1/ | New | Stock | Reduc. 1/ | New | Stock | Reduc. 1/ | New | Stock | Stock |
| **Goods and services** | **181.8** | -129.0 | 131.5 | **184.4** | -135.1 | 24.9 | **74.1** | -6.1 | 45.3 | **113.2** | ... |
| **Capital spending** | **313.0** | -216.0 | 261.1 | **358.0** | -244.5 | 46.7 | **160.2** | -12.7 | 15.0 | **162.6** | ... |
| **Other compensations (staff)** | **17.2** | -10.6 | 48.2 | **54.8** | -51.6 | 1.7 | **5.0** | -0.3 | 2.4 | **7.1** | ... |
| **Other transfers** | **33.2** | -21.4 | 35.0 | **46.7** | -29.2 | 9.0 | **26.5** | -2.6 | 34.3 | **58.2** | ... |
| **Subsidies** | **5.3** | -2.8 | 7.3 | **9.8** | -6.2 | 1.6 | **5.2** | -0.1 | 0.1 | **6.9** | ... |
| **Participation/restructuring** | **45.5** | -33.5 | 44.8 | **56.8** | -50.0 | 5.5 | **12.4** | -1.3 | 0.1 | **11.2** | ... |
| **Total float** | **596.0** | **-413.3** | **527.9** | **710.5** | **-516.6** | **89.4** | **283.4** | **-23.1** | **97.2** | **359.1** | **274.0** |
| *Of which arrears* | *495.0* | | | *282.0* | | | *208.2* | | | *232.8* | *187.8* |

Sources: Cameroonian authorities; and IMF staff calculations.

1/ The reduction in the float includes CFAF 68 billion cancellation in 2017 and CFAF 233 billion cancellations in H1-2018.

## 2019 Budget Framework and Key Measures

**13. The 2019 draft budget is in line with program objectives.** The overall deficit will decline to 2 percent of GDP, with non-oil revenue mobilization of 0.3 percent of GDP, as envisaged at the 2nd review, and spending consolidation of 0.5 percent of GDP (prior action, MEFP ¶18, Text Table 5). Staff regretted however that the pace of removing tax exemptions was slower than envisaged in the

[2] Part of SNH oil revenue is allocated off-budget to address urgent sovereignty needs, but regularized ex-post within existing budgetary allocations.

2nd ECF review, and that the proposal to collect the land tax through electricity bills had not been included in the budget submitted to parliament.

- Key revenue measures aim at (i) broadening the tax base by gradually removing tax exemptions, and expanding the base for collecting existing taxes; (ii) increasing registration fees on public contracts and collecting taxes on foreign-financed projects (MEFP ¶19, Text table 6).
- Expenditure consolidation preserves social spending (MEFP ¶18, 20). This comes mainly from efficiency improvements in goods and services, continued gains from the payroll cleanup; limits on non-wage compensation and other low-priority recurrent spending; and further rationalization of capital spending. Subsidies and transfers will accommodate additional social spending in line with the higher 2019 floor (3.3 percent of GDP).

**14. Staff and authorities discussed risks to the 2019 budget.** Staff highlighted risks from the continuing security challenges in the anglophone regions, the municipal and legislative elections, and rising fuel subsidies. The authorities noted that the 2019 budget already included allocations for these expenditures, as well as a cash reserve of 0.35 percent of GDP. They would also continue with their current practice of holding 20 percent of recurrent spending commitments, and committed to identifying additional revenue and spending measures should the need arise (MEFP ¶20).

**Text Table 5. Cameroon: Fiscal Framework, 2016–20**

(Percent of GDP)

| | 2016 | 2017 | 2018 | | 2019 | | 2020 |
|---|---|---|---|---|---|---|---|
| | | | CR 18/235 | Proj. | CR 18/235 | Proj. | Proj. |
| Total revenue and grants | 14.8 | 15.0 | *15.8* | 15.5 | *15.8* | 15.5 | 15.6 |
| Oil sector revenue | 2.2 | 1.9 | *2.1* | 2.2 | *1.9* | 2.0 | 1.7 |
| Non-oil sector revenue | 12.3 | 12.7 | *13.4* | 12.9 | *13.7* | 13.2 | 13.5 |
| Total grants | 0.3 | 0.3 | *0.3* | 0.3 | *0.2* | 0.3 | 0.3 |
| | | | | | | | |
| Total expenditure | 20.9 | 19.8 | *18.4* | 17.9 | *17.8* | 17.4 | 17.1 |
| Current expenditure | 12.4 | 11.2 | *12.2* | 11.8 | *11.8* | 11.7 | 11.3 |
| Wages and salaries | 4.9 | 4.9 | *4.9* | 4.7 | *4.9* | 4.6 | 4.5 |
| Goods and services | 4.3 | 3.7 | *4.1* | 3.8 | *3.7* | 3.9 | 3.6 |
| Subsidies and transfers | 2.5 | 1.8 | *2.3* | 2.4 | *2.3* | 2.3 | 2.3 |
| Interest | 0.7 | 0.9 | *0.8* | 0.8 | *0.9* | 0.9 | 0.9 |
| Capital expenditure | 8.3 | 8.6 | *6.2* | 6.0 | *6.1* | 5.9 | 5.8 |
| o/w Domestically financed investment | 5.8 | 4.8 | *3.4* | 2.6 | *3.3* | 3.1 | 3.0 |
| o/w Foreign-financed investment | 2.5 | 3.8 | *2.9* | 3.5 | *2.8* | 2.7 | 2.7 |
| | | | | | | | |
| Overall balance (payment order basis, incl. grants) | -6.1 | -4.9 | *-2.6* | -2.4 | *-2.0* | -2.0 | -1.5 |
| Overall balance (cash basis, incl. grants) | -5.1 | -4.5 | *-4.0* | -3.8 | *-2.9* | -2.4 | -1.9 |
| Non-oil primary balance (payment order basis, incl. grants | -7.5 | -5.9 | *-3.9* | -3.8 | *-4.0* | -3.1 | -2.3 |
| Non-oil primary balance (cash basis, incl. grants) 1/ | -6.5 | -5.5 | *-5.3* | -5.2 | *-4.0* | -3.5 | -2.6 |
| | | | | | | | |
| External financing, net | 1.8 | 3.9 | *1.7* | 2.4 | *1.3* | 1.1 | 1.3 |
| Domestic financing, net | 3.0 | 0.6 | *0.7* | -0.4 | *0.1* | -0.4 | 0.4 |
| | | | | | | | |
| Financing gap | | 0.0 | *1.6* | 1.8 | *1.5* | 1.7 | 0.2 |
| o/w IMF | | 0.0 | *0.4* | 0.4 | *0.4* | 0.4 | 0.2 |
| o/w budget support (excl. IMF) | | 0.0 | *1.2* | 1.4 | *1.2* | 1.3 | 0.0 |

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

1/ In percent of non-oil GDP.

**Text Table 6. Cameroon: New Tax Measures in the 2019 Budget**
(CFAF billion, unless otherwise indicated)

| | | | |
|---|---|---|---|
| **Tax administration** | **35.3** | **Customs administration** | **26.2** |
| Excise taxes 1/ | 25.5 | Excise taxes 3/ | 17.0 |
| Reduction of VAT exemptions 2/ | 8.8 | Reduction of other exemptions 4/ | 9.2 |
| Tax amnesty, revision of the tax base on tobacco, alcohol and weapons | 1.0 | | |
| **Total additional revenue** | | | **61.5** |
| In % of non-oil revenue | | | 2.1 |
| In % of GDP | | | 0.3 |
| *Of which:* exemption reduction | | | 25.5 |
| In % of non-oil revenue | | | 0.9 |
| In % of GDP | | | 0.1 |

Sources: Cameroonian authorities and IMF staff estimates
1/ Elimination of tax reduction on alcohol. Increase of the registration fees on public contracts.
2/ Elimination of VAT exemptions on insurance contracts, on social portion of electricity and water bills and on processed wood.
3/ Excise tax on used clothes, used tires, on all merchandises, on tabacco products, on vehicles, on sodas; and increase of slaughter tax.
4/ Suppression of tax rebate on new tires, re-introduction of the tax base on tabacco, alcohol and weapons, and increase of the specific excise tax on alcohol.

## C. Strengthening Fiscal Governance: Bosting Non-Oil Revenue Mobilization and Improving Public Financial Management

**15. The authorities are accelerating non-oil revenue mobilization efforts.** Staff welcomed recent progress, notably on enhancing transparency and governance at customs and the improved cooperation between the tax and customs administrations, but noted that additional efforts would be needed to reap the full potential of these measures. The authorities indicated that they were developing the following measures, based on TA recommendations (MEFP ¶24-25).[3]

- Operationalizing the medium-size enterprises tax centers (CIME);
- Operationalizing the web-based interface between the active taxpayers' database and the tax software;
- Broadening e-filing in all large and medium-sized enterprises' tax units;
- Enhancing customs revenue through cross-checking imports declarations and scanned images of imports, tracking informal transactions, improving customs' IT system, and enhancing controls and streamlining exemptions.

**16. Measures to enhance public financial management (PFM) are starting to bear fruit and the authorities will deepen these reforms in the 2019-21 PFM reform strategy** (MEFP ¶22-23).

- The June circular on budget execution has led to visible improvements, including the elimination of treasury advances, a reduction in unallocated spending, and better monitoring of foreign-financed investment. This circular will be renewed in 2019 to ensure that exceptional procedures

[3] An FAD tax and customs administration TA mission planned for December will allow to define specific action plans.

are limited to 5 percent of authorized domestically financed spending. Transparency of SNH direct interventions will also be enhanced, through monthly reconciliation and regularization of these spending (new January 2019 SB) (MEFP ¶20-22).[4]

- The 2019 budget follows the new CEMAC directive on finance laws, and the government plans to accelerate the adoption of the four remaining directives to further strengthen the credibility and the transparency of the budget.
- Treasury management is supported by the continued reduction of the balances of correspondent accounts and the closure of inactive public entities' accounts in commercial banks. The authorities also reiterated their commitment to have a fully functional TSA by September 2019 (MEFP ¶23).
- The authorities would continue to improve the efficiency and the quality of capital spending based on the PEFA recommendations. They intend to ensure effective implementation of the project maturation guide and to continue to closely monitor external disbursements to ensure their pace of execution remains consistent with the program's fiscal framework (MEFP ¶23).

## D. Debt Policies: Maintaining Debt Sustainability and Controlling Contingent Risks

**17. The public-debt-to-GDP ratio has remained stable in 2018, but external debt continues to rise fast** (Text Table 7). Total public debt stood at 36.8 percent of GDP at end-September as the clearance of expenditure float was offset by an increase in external debt, resulting from faster-than-expected execution of CAN and large infrastructure projects. New non-concessional loans signed reached CFAF 267.1 billion (annual ceiling of CFAF 436 billion) at end-September, while concessional borrowing stood at CFAF 88.8 billion (MEFP ¶27).

### Text Table 7. Cameroon: Public and Publicly-Guaranteed Debt, 2016-September 2018

| | Dec-16 | | Dec-17 | | Sept-18 (Est.) | |
|---|---|---|---|---|---|---|
| | CFAF bn | percent of GDP | CFAF bn | percent of GDP | CFAF bn | percent of GDP |
| **Public debt contracted and disbursed** | **5228** | **27.0** | **6255** | **30.8** | **6937** | **32.4** |
| External debt | 3961 | 20.5 | 4625 | 22.8 | 5333 | 24.9 |
| Domestic debt | 1201 | 6.2 | 1578 | 7.8 | 1558 | 7.3 |
| Publicly-guaranteed debt | 66 | 0.3 | 52 | 0.3 | 46 | 0.2 |
| **SONARA debt** | **457** | **2.4** | **534** | **2.6** | **569** | **2.7** |
| o/w external | 293 | 1.5 | 383 | 1.9 | 415 | 1.9 |
| **Expenditure float** | **596** | **3.1** | **710** | **3.5** | **359** | **1.7** |
| **External claims to SOEs (ex-SONARA)** | **9** | **0.0** | **9** | **0.0** | **8** | **0.0** |
| **Total public debt** | **6290** | **32.5** | **7507** | **36.9** | **7874** | **36.8** |
| Domestic | 1961 | 10.1 | 2439 | 12.0 | 2072 | 9.7 |
| External | 4329 | 22.4 | 5069 | 24.9 | 5802 | 27.1 |
| Memo: | | | | | | |
| *Stock of contracted but undisbursed debt* | *3842* | *19.9* | *4415* | *21.7* | *4092* | *19.1* |
| Domestic | 257 | 1.3 | 170 | 0.8 | 171 | 0.8 |
| External | 3586 | 18.5 | 4245 | 20.9 | 3922 | 18.3 |

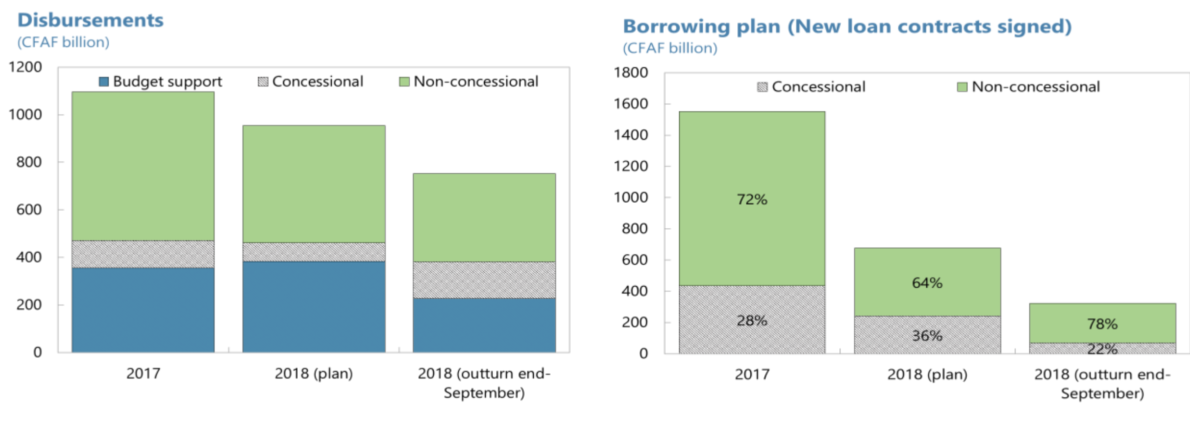
Sources: Cameroonian authorities; and IMF staff calculations.

[4] At present SNH interventions are regularized with significant lags and on the basis of availability of budgetary credits, which blurs budget execution.

**18. The updated Debt Sustainability Assessment (DSA) under the new LIC DSF indicates that Cameroon remains at high risk of debt distress.** Cameroon's debt carrying capacity has been increased from weak to medium under the new CI score, which significantly raises several thresholds. However, in line with the new methodology SONARA's debt service including short-term supplier debt has been included in the debt stock as it generates significant fiscal risks. As a result, both external debt service thresholds are breached under the baseline, also due to the Eurobond's maturation in 2023-25. Stress tests continue to point to significant risks.

**19. The authorities have taken concrete steps to address problematic undisbursed loans, but will need to carefully manage the pace of disbursements** (Text Figure 3). Total signed-but-undisbursed loans (SENDs) declined to 19.1 percent of GDP at end-September. The authorities prepared an evaluation of problematic SENDs in May which identifies about 1 percent of GDP of non-performing projects, but only approved an action plan to reduce them on November 21 (July SB, prior action). Staff welcomes the discussions initiated with project managers and creditors to implement the plan. However, given the large share of problematic SENDs classified for continued disbursement (about 12.7 percent of GDP), the recent acceleration of foreign-financed spending, and the high risk of debt distress, staff urged the authorities to formulate a disbursement plan for all remaining SENDs in line with the fiscal framework (new SB for March 2019, MEFP ¶29). Based on preliminary discussions with the authorities and development partners on the 15 largest projects amounting to 50 percent of total SENDs, and factoring in the need to fulfill pre-disbursement conditions including mobilizing adequate counterpart funds and finalizing expropriation procedures, staff's assessment is that most of the SENDs are likely to be disbursed slowly, over a span of up to 8 years.

**Text Figure 3. Cameroon: Disbursement and Signing of Loans**




Sources: Cameroonian authorities; and IMF staff calculations.

**20. Staff and the authorities agreed on the 2019 ceiling on contracting of non-concessional borrowing**. The CFAF 500 billion ceiling is based on financing needs for projects integral to the authorities' development program. The authorities concur with staff on the need to continue to seek more concessional financing, enhance investment efficiency, and improve prioritization of projects towards those with potential to crowd in private investment (MEFP ¶27).

**21. Contingent liabilities should be closely monitored.** Staff welcomed the updated fiscal risks' annex to the budget. The financial situation of SOEs, particularly of the public utilities with administered prices set below cost recovery, remains difficult with weak payment discipline, particularly from the government and other public entities. Staff welcomed the authorities' commitment to quarterly payments of its utility bills (September SB) and encouraged them to take more forceful measures, such as making monthly payments, seeking external audits of the largest loss-making SOEs and setting performance contracts to restore their viability. Staff also noted rising fiscal costs of contingent liabilities PPPs, especially with the addition of a 3.5 percent of GDP contingent liability for the Nachtigal hydro-power project (Text table 8).

**Text Table 8. Cameroon: Public-Private Partnerships**

| | 2018 | |
|---|---|---|
| | CFAF bn | percent of GDP |
| PPPs (ongoing) | 437 | 2.0 |
| Nachtigal | 751 | 3.5 |
| PPPs (in preparation) | 1388 | 6.5 |
| **Total** | **2577** | **12** |

Sources: Cameroonian authorities; and IMF staff calculations.

**22. The authorities agreed with the need for prudent debt management but viewed the debt sustainability outlook more positively.** They noted that excluding mostly SONARA's short term supplier debt, which they do not consider as part of public debt, should significantly improve the debt profile. However, they agreed with the need to prioritize and limit non-concessional borrowing to critical projects (MEFP ¶26), and carefully manage disbursements of SENDs (MEFP ¶29). They also pointed out that addressing problematic SENDs will require close collaboration with project managers and creditors. The authorities agreed to continue to improve SOEs' data provision, including cross-debts (MEFP ¶30) and to have the CNDP systematically review all PPP project proposals (MEFP ¶23).

## E. Monetary and Financial Sector Policies: Accelerating Reforms and Expanding Financial Access

**23. The government is committed to implementing policies that support the stability of the financial and the monetary arrangement especially the recovery of BEAC's reserves**. BEAC's reserve accumulation reportedly suffers from the non-repatriation of all export earnings, including oil and mining revenues. In this regard, the government will support the BEAC's efforts by: (i) transmitting to the BEAC all contracts with foreign oil and mining companies by end-2018; (ii) ensuring that all public entities including customs collaborate with BEAC to enforce foreign exchange regulations in terms of domiciliation and repatriation of exports proceeds; (iii) closing all foreign accounts held by public entities, except those authorized by the BEAC whose statements will be regularly reported to BEAC; (iv) sending to the CEMAC Commission by end-2018 the 2019-21 convergence plan consistent with IMF and regional commitments (MEFP ¶32).

**24. Staff welcomed recent progress in addressing ailing banks** (Annex I). At end-September; banks appear adequately capitalized, profitable and liquid, but overdue loans remain elevated at 14.8 percent of total loans. With World bank's support, the authorities are finalizing the plan to resolve the private ailing banks at the least fiscal cost while preserving financial inclusion and agreed to fully implement it by end-August 2019 (new SB), including the transfer of impaired assets to the state asset management company (SRC) using the recently updated pricing methodology. The government will provide the public bank with an independent governance structure by end-June 2019 in line with its performance contract finalized in October. The SME bank's revised business model will be adopted by end-March 2019 (SB, MEFP ¶33).

**25. Measures to address NPLs are being implemented.** The authorities are implementing their action plan, and drafted bills for: (i) establishing a commercial court to be adopted by June 2019 (new SB) and estimating its cost; (ii) the creation of a case preparation chamber; and (iii) enhancing credit repayment discipline. The authorities are training 20 judges and 10 court clerks in banking conflicts (December SB) to be deployed in major business centers. The movable collateral registry will be computerized by December 2018 (MEFP ¶34).

**26. The AML/CFT framework needs to be strengthened and vigorously implemented.** While the volume of suspicious transaction reports (STRs) to the National Agency for Financial Investigation (NAFI, Cameroon's financial intelligence unit) is gradually increasing, 90 percent are from banks. STRs from other financial institutions, as well as from designated non-financial businesses and professions and relevant authorities remain scarce. Transparency on the outcome of law enforcement actions remains weak. Staff encouraged the authorities to promptly address these weaknesses and identified deficiencies in the AML/CFT regime in anticipation of the AML/CFT assessment to be conducted in September 2019 (MEFP ¶35).

## F. Structural Policies and Governance: Enhancing Private Sector-Led Growth

**27. Weak governance and corruption hamper private sector development and competitiveness and are contributing to high trade costs**.[5] The current ECF-supported program focuses on key macro-critical governance areas, essential to reach program's objectives, namely fiscal governance and the business environment (Annex II). The dialogue on governance with the anti-corruption body (CONAC) and customs initiated in the 2nd ECF review continued, as trade costs in Cameroon are much higher than for peers and hamper regional integration. The authorities noted that in addition to their efforts to enhance transparency at customs, they were also implementing trade facilitation reforms, by extending the electronic trade platform, implementing a customs' risk management mechanism, and expanding availability of the unique transit title (MEFP ¶35).

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[5] A World Bank study (*Regional Trade Diagnostic Report: Breaking Down the Barriers to Regional Agricultural Trade in Central Africa*) indicates that corruption at the border in Cameroon and neighboring countries almost doubles transport costs of agricultural commodities and represents on average 14 percent of the consumer price.

**28. While transparency in extractive industries has improved, significant gaps remain.** The 2017 EITI assessment noted meaningful progress made by Cameroon in implementing the 2016 standard, including through frequent publications by SNH and reforms in the mining sector. However, several areas require corrective actions, including more comprehensive data publication on government ownership of extractive companies, production values, allocation of extractive industry revenues within and outside the budget, subnational transfers, and quasi-fiscal expenditures. The authorities are committed to remain EITI compliant by implementing all recommendations by end-2019 (Annex II, MEFP ¶35).

**29. Staff encouraged the authorities to review the fuel pricing mechanism.** The financial situation of SONARA is worrisome, given rapidly increasing fuel subsidies. Staff encouraged the authorities to promptly implement identified short-term measures to simplify and compress the hydrocarbons price structure, including by lowering costs of LPG subsidies by allowing open bids for LPG purchases and validating LPG subsidy by committee, while transferring profits of the Hydrocarbon Prices Stabilization Agency (CSPH) to the Treasury (January 2019 SB). The authorities also agreed with staff to start planning a gradual move towards cost-recovery and more flexible fuel price, while protecting the poor through targeted social transfers, although they reiterated the sensitivity of the issue. They expressed openness to examining various options and would start a communication campaign in 2019 to raise public awareness (MEFP ¶31).

# PROGRAM MODALITIES

**30. Staff supports the authorities' request for a waiver for nonobservance of one end-June PC, modification of two PCs, and proposals for new program conditionality (MEFP Tables 1 and 2).**

- The PC on net BEAC financing of the government was missed by a small amount not affecting program objectives, and the deviation is expected to be more than corrected by end-year as budget support and additional domestic financing become available. Accordingly, the end-2018 PC on net BEAC financing of the government is proposed to be modified. The adjustor to the continuous PC on contracting of new non-concessional external debt is also proposed for modification to eliminate the possible impact of changes in the calendar of non-concessional budget support disbursements on the PC.
- The two prior actions for the third review have been completed: (i) the draft 2019 budget submitted to parliament on November 15 is in line with program objectives; (ii) the Minister of Finance (head of the National Public Debt Committee) has adopted a time-bound plan to reduce the SENDs on November 21.
- The missed SBs on the SME bank business model and closure of correspondent accounts (both end-August SBs) are proposed to be reset to March 2019 and June 2019 respectively (MEFP ¶9). In addition, the SB on computerization of the movable collateral registry (end-December SB) is proposed to be reset to March 2019 (MEFP ¶34).

- Quantitative and continuous PCs and quarterly ITs till end-September 2019 are proposed in line with program quarterly projections (MEFP Table 1). New SBs are proposed in the areas of SNH interventions, CSPH dividend repatriation and LPG fuel compensations, disbursement plan of SENDs, resolution of banks in difficulty, and completion of single treasury account.
- The two SBs on monthly reporting of gross SNH revenue and direct interventions, on fuel price structure, the SB on quarterly budget execution report, and the SB on joint quarterly DGI-DGD report are routinely met and staff proposes to move them to the TMU data requirements.

**31. The BEAC and COBAC have pursued the implementation of their policy commitments and provided updated policy assurances in support of CEMAC countries' programs.** In response to the lower NFA accumulation, the BEAC took corrective actions, increasing its policy rate and strengthening the enforcement of foreign exchange regulations. Consistent with the June 2018 policy assurances, by end-year the BEAC will also submit for adoption new foreign exchange regulations to the UMAC ministerial committee and make the new monetary policy framework fully operational. The updated policy assurances present new projections for regional NFAS, with the end-2018 projection revised downward but the end-2019 projection broadly unchanged. To achieve these projections, the BEAC reiterated its commitment to implement an adequately tight monetary policy, while member states will implement adjustment policies in the context of IMF-supported programs. Starting in the first half of 2019, semi-annual consultations between the member states, the regional institutions, and IMF staff will be held to review the regional strategy implementation and, if necessary, identify and adopt any additional corrective measures at the national and/or regional policy levels to allow the continuation of (or approval of new) IMF financial support as part of the IMF-supported programs with CEMAC members. These policy assurances are critical for the success of Cameroon's program as they will help bolster the region's external sustainability, and hence Cameroon's. The BEAC also continues to implement the remaining recommendations of the 2017 safeguards assessment.[6]

**32. The program is fully financed through end-2019.** Annual budget support commitments of CFAF 298 billion for 2018 and the same for 2019 have been confirmed, with CFAF 184 billion already disbursed in 2018 (Text Table 9, Tables 7-9).

**Text Table 9. Cameroon: Budget Support**
(CFAF billion)

| | 2017 | 2018 | | 2019 | | 2020 | Total |
|---|---|---|---|---|---|---|---|
| | Act. | CR 18/235 | Proj. | CR 18/235 | Proj. | Proj. | Proj. |
| **1. Financing gap** | **355** | **334** | **383** | **333** | **384** | **42** | **1165** |
| **2. IMF financing** | **158** | **81** | **85** | **80** | **86** | **42** | **371** |
| *Percent of quota* | *75* | *40* | *40* | *40* | *40* | *20* | *175* |
| **3. Budget support from other donors** | **197** | **253** | **298** | **253** | **298** | **0** | **794** |
| World Bank | 113 | 53 | 0 | 52 | 111 | 0 | **224** |
| European Union | 19 | 16 | 16 | 23 | 23 | 0 | **59** |
| African Development Bank | 0 | 118 | 216 | 112 | 98 | 0 | **315** |
| France | 66 | 66 | 66 | 66 | 66 | 0 | **197** |
| **4. Residual financing gap (1-2-3)** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Share of Fund financing** | 44 | 24 | 22 | 24 | 22 | 100 | 32 |

Source: IMF staff calculations.

**33. Cameroon's capacity to repay the Fund remains adequate.** Repayments under the

[6] CEMAC—Staff Report on the Common Policies of Member Countries, and Common Policies in Support of Member Countries' Reform Programs.

ECF-supported program will remain below 0.2 percent of GDP during 2018-20, and peak at 1.6 percent of exports in 2026 (Table 10).

# STAFF APPRAISAL

**34. The CEMAC regional strategy has helped to avert an immediate crisis but continues to face headwinds.** Uneven program implementation, insufficient repatriation of export proceeds and delays in securing IMF-supported programs with two member countries have contributed to the underperformance of reserve accumulation, despite higher-than-projected oil prices. Regional socio-political and security conditions remain difficult, and growth weak. However, the BEAC and COBAC have made progress in delivering on their policy assurances, including by taking corrective actions in response to the NFA underperformance.

**35. Cameroon's continued leadership of the concerted regional efforts to restore fiscal and external sustainability is essential.** Cameroon's full support of the BEAC's enhanced measures to enforce the foreign exchange regulations and ensure adequate repatriation and surrendering of export proceeds is essential to the recovery of regional reserves. In that regard, staff welcomes the authorities' commitment to communicate to the BEAC all contracts signed with companies in extractive industries, and to ensure adequate coordination and exchange of information between banks, customs and the BEAC on domiciliation and repatriation of export proceeds.

**36. Continued efforts to mobilize non-oil revenue while prioritizing foreign-financed capital spending will be key to meeting the 2018 fiscal targets.** Following the end-2017 fiscal slippages, program implementation has improved so far in 2018. However, the current account is worsening, and reaching end-year fiscal consolidation objectives may be complicated by revenue shortfalls and an acceleration in public investment spending. Hence, staff welcomes the authorities' renewed commitment to implement forceful measures to maintain public investment within budget limits and mobilize additional non-oil revenue. This will require difficult decisions on project prioritization and ensuring that SONARA can cover part of its tax liabilities.

**37. The draft 2019 budget envisages an overall deficit reduction of about ½ percent of GDP, supported by measures aimed at expanding the non-oil revenue base and enhancing spending efficiency.** While adequate to deliver projected revenue gains, the package of tax measures doesn't contribute to broaden the non-oil revenue base to the extent envisaged at the time of the second ECF review. Further efforts to reduce costly exemptions and develop the potential of personal income taxation through enhanced collection of the land tax will be needed going forward. Continued efforts to rationalize spending, and enhanced planning and transparency in budget execution, will also support the fiscal consolidation. Staff welcomes the authorities' commitment to identify specific contingent revenue and spending measures to keep the fiscal consolidation on track.

**38. Ongoing public financial management reforms need to be entrenched and deepened.** Staff welcomes the authorities' commitment to finalize the transposition of the 4 remaining CEMAC

PFM directives and to extend to 2019 the provisions of the June circular limiting exceptional spending procedures. Staff also encourages the authorities to continue to limit SNH direct interventions and enhance their transparency. Full implementation of a single treasury account ought to be accelerated, and correspondent account balances should continue to decline.

**39. Resolving problematic SENDs and limiting non-concessional borrowing are essential to maintaining public debt on a sustainable path**. Cameroon remains at high risk of debt distress, and the acceleration of foreign-financed investment illustrates the continued risk posed by the large amount of SENDs on debt sustainability. The action plan on non-performing SENDs needs to be implemented in a timely manner, including by reaching agreement with development partners on a disbursement plan for remaining projects consistent with the macro-fiscal framework.

**40. Staff encourages the authorities to continue to enhance the monitoring of SOE debt and contingent liabilities and initiate a dialogue on liberalizing administered prices**. The situation of a number of large SOEs remains difficult, and SONARA's losses in particular significantly worsened in 2018. Performance improvement plans based on audits of the key loss-making SOEs ought to be approved in 2019. Staff also urges the authorities to implement agreed short-term measures to reduce SONARA's costs, while starting to prepare for a gradual adjustment in pump and other administered prices.

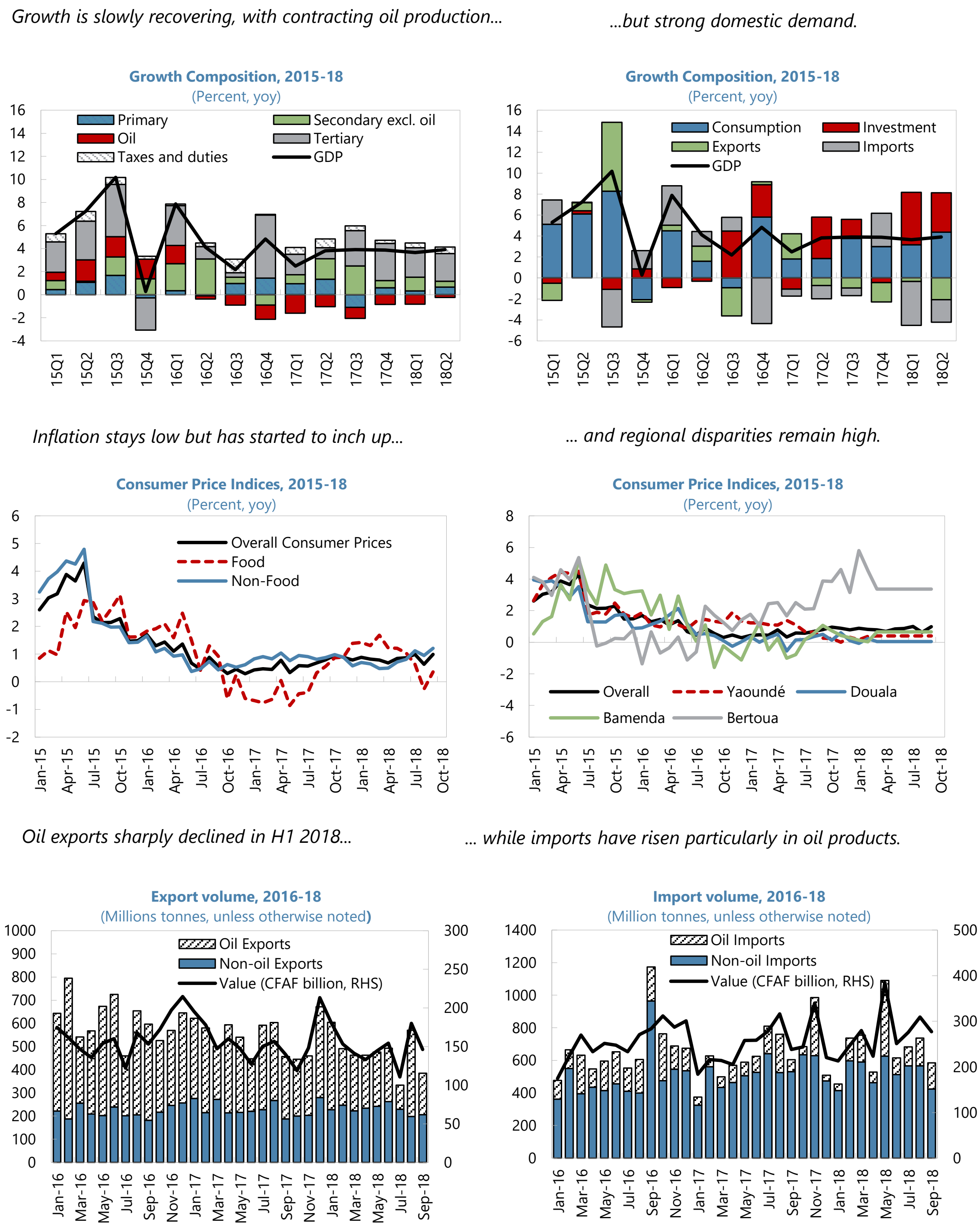
**41. Staff welcomes the completion of some key delayed financial sector reforms and encourages the authorities to sustain their efforts**. The signature of the amended contract with the public bank, the adoption of the new pricing methodology for the transfers of impaired assets to the state, progress towards adopting a resolution plan for two private ailing banks and the decisions taken to cut costs and revise the SME bank's strategy are important steps. However, strict and timely implementation will need to follow. Staff also encourages the authorities to continue to implement the action plan to reduce nonperforming loans and to promptly initiate concrete steps towards the creation of commercial courts. In anticipation of its next AML/CFT assessment, identified deficiencies in Cameroon's AML/CFT regime should be addressed promptly.

**42. Reforms to improve governance and enhance competitiveness and financial inclusion will support private sector-led sustainable and inclusive growth and reduce the scope for corruption**. The authorities' ECF supported program is predicated upon significant reforms to enhance transparency and governance in tax and customs administration as well as in budget execution and reporting. Further reforms to facilitate trade and improve the business environment and financial inclusion are advancing. Staff urges the authorities to secure progress against the EITI standard on the issues identified in the 2018 EITI validation report.

**43. Based on Cameroon's performance under the program, good progress towards the end-December regional policy assurances and corrective actions taken in response to the end-June NFA underperformance, staff supports the authorities' request for the completion of the third review under the Extended Credit Facility**. Staff also supports the authorities' requests for (i) a waiver of nonobservance of the end-June quantitative performance criterion on net BEAC financing of the government on the grounds that the deviation is minor; (ii) modification of the end-

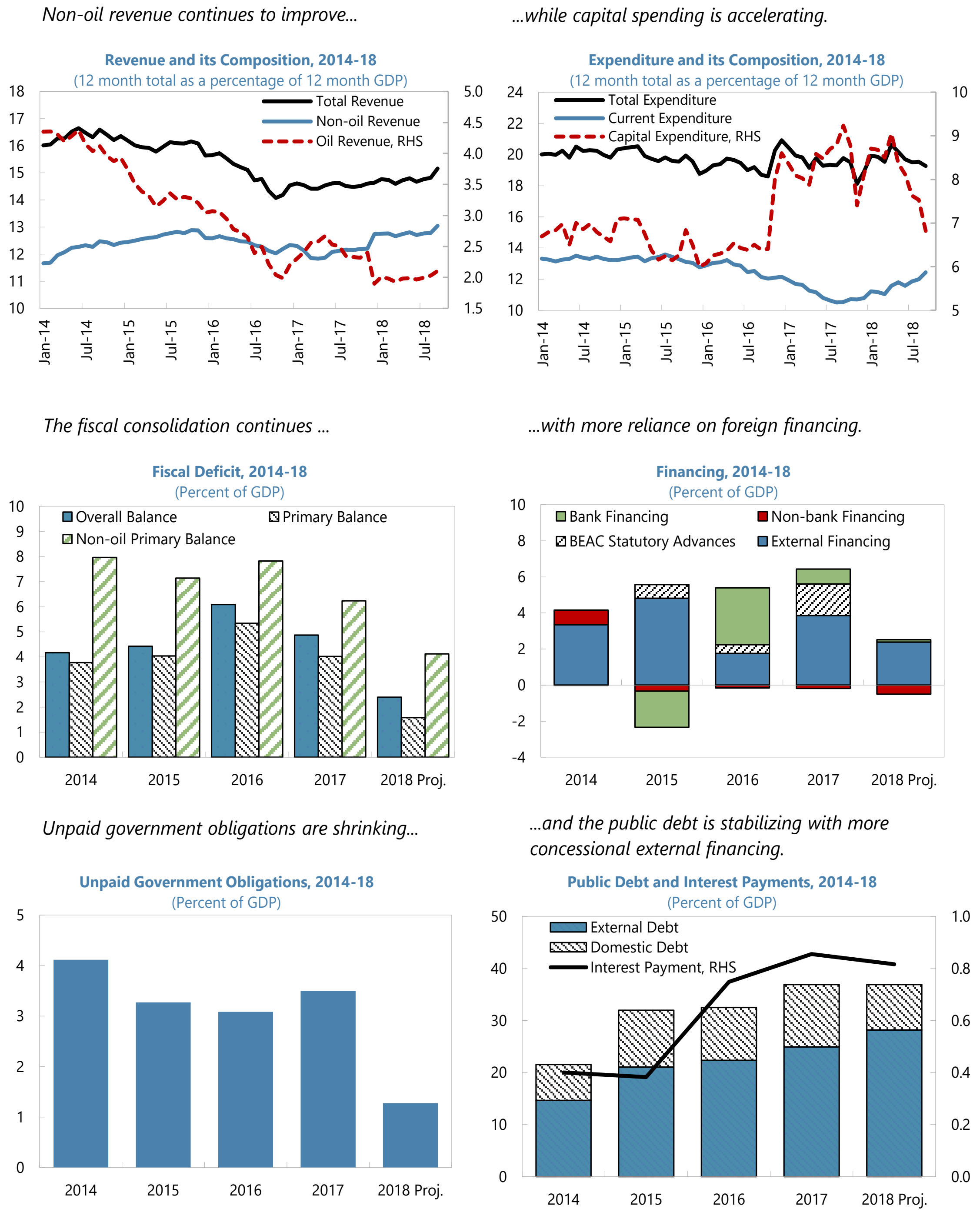
December criterion on net BEAC financing of the government; and (iii) modification of the performance criterion on the contracting or guaranteeing of new non-concessional external debt; and (iv) the modification of end-March ITs. Staff proposes that completion of the fourth ECF review be conditional on the implementation of critical policy measures at the union level, as established in the December 2018 union-wide background paper.

## Figure 1. Cameroon: Real Developments, 2015-18




Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

## Figure 2. Cameroon: Fiscal Developments, 2014-18

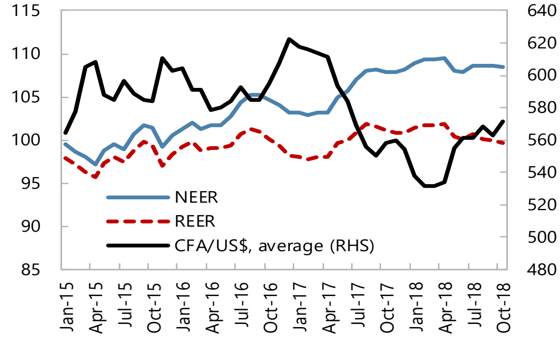



Sources: Cameroonian authorities; and IMF staff calculations.

## Figure 3. Cameroon: External Sector Developments, 2012-18

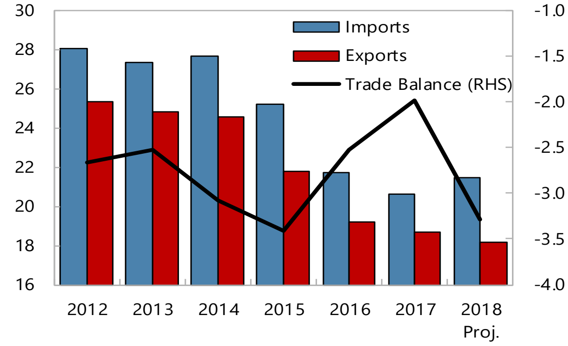
*Effective exchange rates have remained broadly unchanged since end-2017.*

**Effective Exchange Rate, 2015-18**
(2010=100)



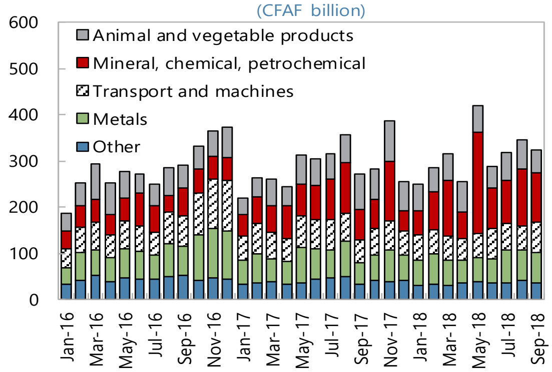

*The trade balance is likely to deteriorate due to worsening exports and rising imports.*

**Trade Balance, 2012-18**
(Percent of GDP)



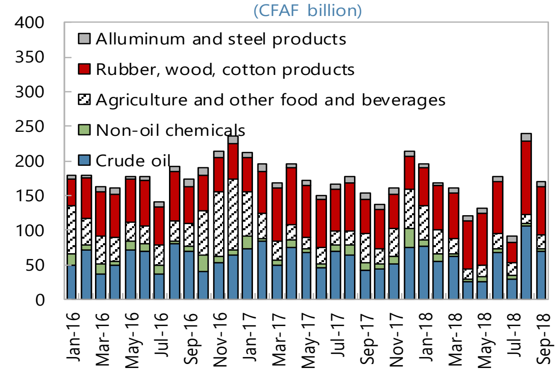

*The import increase is mainly driven by mineral products and investment goods…*

**Imports by Sector, 2016-18**
(CFAF billion)



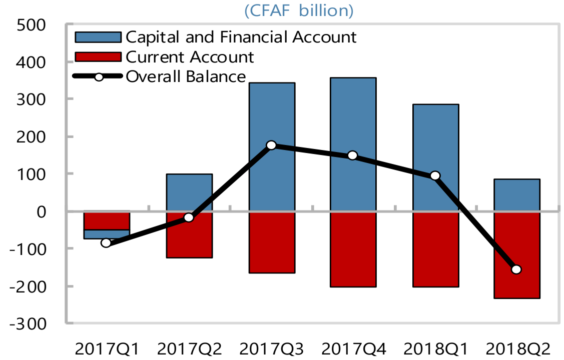

*…while the export decline is driven mainly by the agricultural products.*

**Exports by Sector, 2016-18**
(CFAF billion)



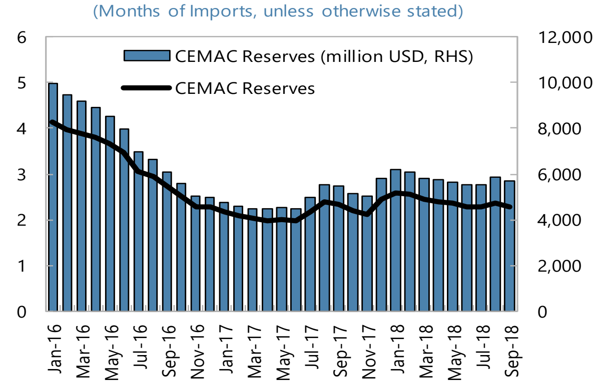

*The overall balance of payments deteriorated…*

**Balance of Payments, 2017Q1-18Q2**
(CFAF billion)




*…and BEAC reserves are not recovering to the anticipated level.*

**BEAC Reserves, 2016-18**
(Months of Imports, unless otherwise stated)

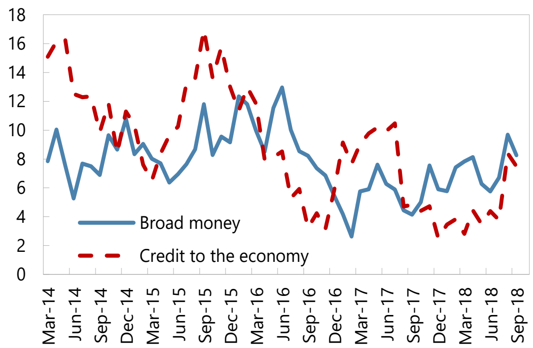



Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

## Figure 4. Cameroon: Monetary Developments, 2014-18

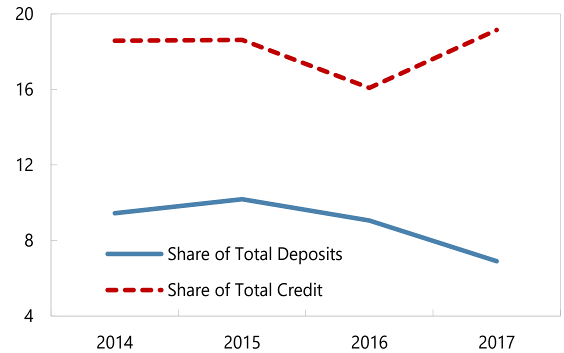
*Broad money and credit growth are trending down...*

**Broad Money and Credit, 2014-18**
(Percent change, y/y)



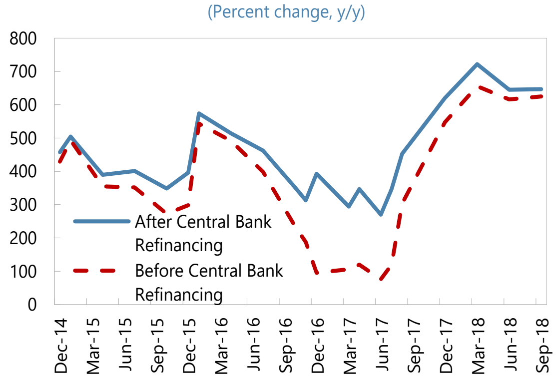

*...and SMEs' deposits have been falling while credit to SMEs starts to recover.*

**SMEs' Deposits and Credits, 2014-17**
(Percent)



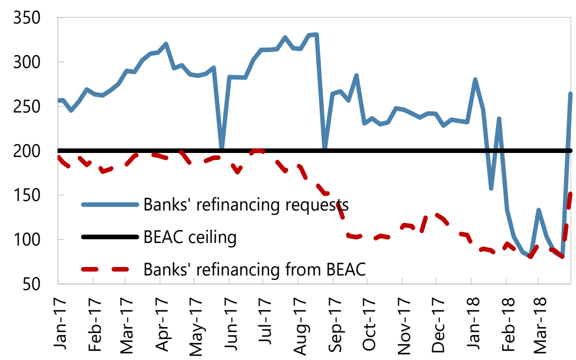

*Banks' liquidity improved from H2 2017 ...*

**Banks' Excess Liquidity at BEAC, 2014-18**
(Percent change, y/y)



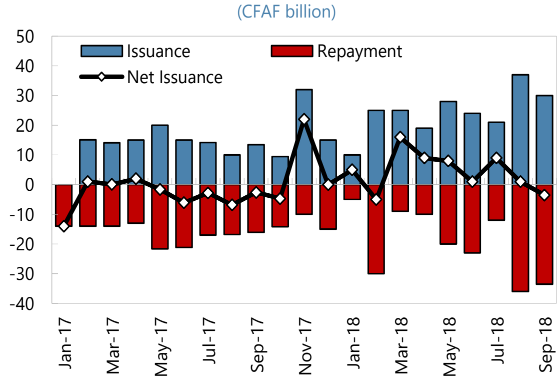

*...and refinancing from BEAC has declined, albeit with a peak in Q1 2018.*

**Banks' Refinancing from BEAC, 2017-18**
(CFAF billion)



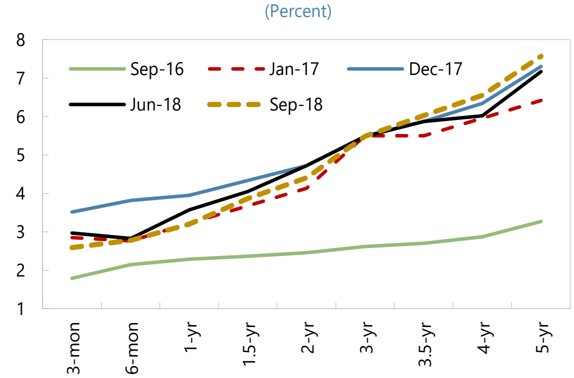

*This has helped improve the rollover of T-Bills...*

**Net Issuance of Treasury Bonds, 2017-18**
(CFAF billion)




*...and borrowing costs to decline.*

**Yield Curve, 2016-18**
(Percent)



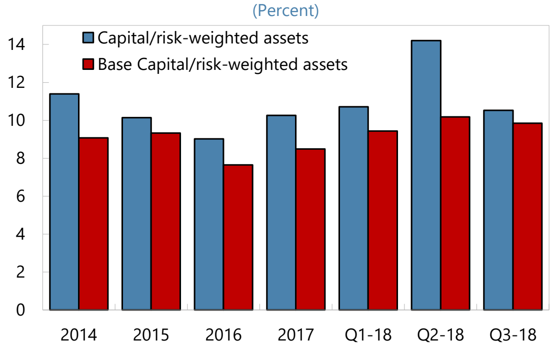

Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

## Figure 5. Cameroon: Financial Sector Developments, 2012-18

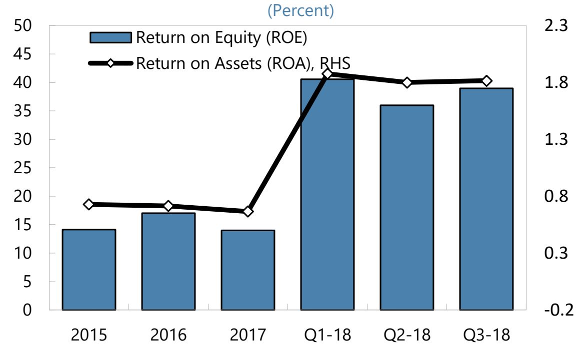
*Banks remain adequately capitalized…*

*…and profitable.*

**Capital Adequacy, 2014-18Q3**
(Percent)



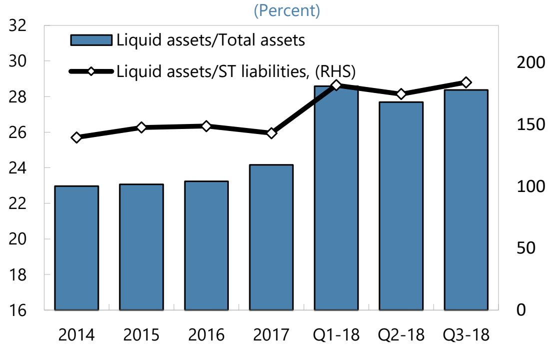

**Profitability, 2015-18Q3**
(Percent)



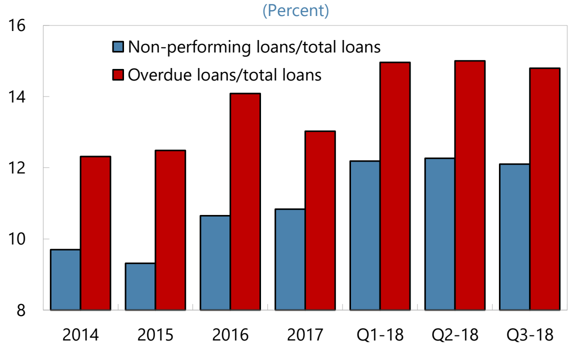

*Liquidity has recently improved…*

*…but asset quality remains poor and worsened in 2018.*

**Liquidity, 2014-18Q3**
(Percent)



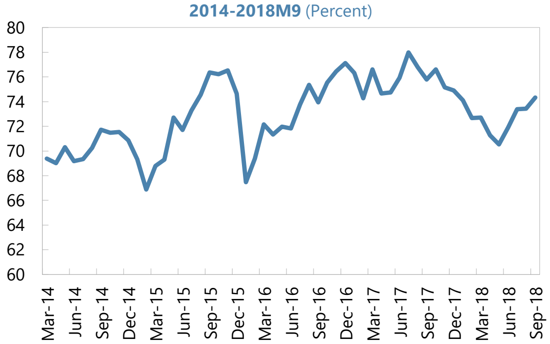

**Asset Quality, 2014-18Q3**
(Percent)



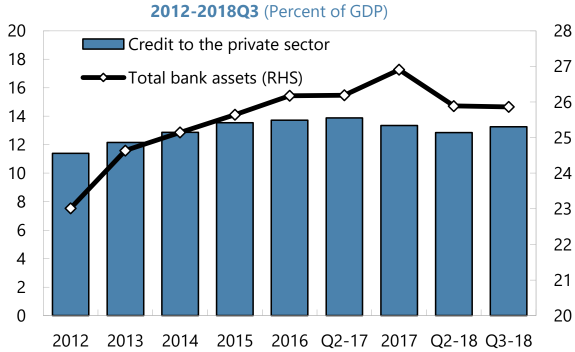

*The credit-to-deposit-ratio is declining…*

*… and financial deepening is slowing down.*

**Credit to the Private Sector to Deposit Ratio, 2014-2018M9** (Percent)




**Credit to the Private Sector and Total Bank Assets, 2012-2018Q3** (Percent of GDP)




Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

## Table 1. Cameroon: Selected Economic and Financial Indicators, 2016–23

| | 2016 | 2017 | | 2018 | | 2019 | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | CR 18/235 | Est. | CR 18/235 | Proj. | CR 18/235 | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Annual percentage change, unless otherwise indicated) | | | | | | | | | | |
| **National account and prices** | | | | | | | | | | | |
| GDP at constant prices | 4.6 | 3.2 | 3.5 | 4.0 | 3.8 | 4.5 | 4.4 | 4.7 | 4.9 | 5.2 | 5.4 |
| Oil GDP at constant prices | -3.6 | -17.2 | -16.4 | 1.0 | -9.3 | -2.1 | -6.6 | -5.0 | -5.8 | -5.9 | -6.2 |
| Non-Oil GDP at constant prices | 5.3 | 4.7 | 5.0 | 4.2 | 4.5 | 4.9 | 4.9 | 5.2 | 5.4 | 5.6 | 5.7 |
| GDP deflator | 1.1 | 0.4 | 1.5 | 0.5 | 1.5 | 1.3 | 1.4 | 1.5 | 1.6 | 1.6 | 1.6 |
| Nominal GDP (at market prices, CFAF billions) | 19,345 | 19,793 | 20,328 | 20,694 | 21,426 | 21,903 | 22,668 | 24,091 | 25,680 | 27,442 | 29,383 |
| Oil | 623 | 663 | 718 | 723 | 715 | 661 | 672 | 628 | 566 | 526 | 492 |
| Non-Oil | 18,722 | 19,130 | 19,610 | 19,971 | 20,711 | 21,242 | 21,997 | 23,463 | 25,114 | 26,916 | 28,891 |
| Oil output (thousands of barrels per day) | 92.8 | 76.5 | 76.5 | 76.9 | 72.1 | 76.9 | 70.6 | 65.6 | 62.1 | 58.7 | 54.8 |
| Consumer prices (average) | 0.9 | 0.6 | 0.6 | 1.1 | 0.9 | 1.3 | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Consumer prices (eop) | 0.3 | 0.8 | 0.8 | 1.1 | 1.1 | 1.3 | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| **External trade** | | | | | | | | | | | |
| Export volume | -6.0 | -0.3 | -0.3 | 4.1 | -4.0 | 3.8 | 6.2 | 5.3 | 4.2 | 4.2 | 4.6 |
| Oil sector 1/ | -3.1 | -19.8 | -19.8 | 1.0 | -4.0 | -2.1 | -6.6 | -5.0 | -5.8 | -5.9 | -6.2 |
| Non-oil sector | -6.9 | 5.3 | 5.3 | 4.8 | -4.0 | 5.1 | 9.0 | 7.3 | 5.8 | 5.7 | 6.0 |
| Import volume | -5.9 | -4.8 | -4.8 | 2.2 | 12.4 | 4.4 | 1.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| Nominal effective exchange rate (depreciation -) | 3.6 | … | … | … | … | … | … | … | … | … | … |
| Real effective exchange rate (depreciation -) | 2.0 | … | … | … | … | … | … | … | … | … | … |
| Terms of trade | 2.4 | -2.6 | -2.6 | -10.2 | 3.4 | -4.2 | -4.8 | -4.1 | -4.4 | -3.7 | -3.1 |
| Export price index | -6.0 | -1.5 | -1.5 | -6.3 | 7.0 | -4.7 | -3.2 | -5.2 | -5.3 | -4.6 | -3.7 |
| Non-oil export price index | 10.1 | -9.5 | -9.5 | -11.4 | -2.3 | -2.4 | -2.5 | -3.8 | -3.6 | -3.2 | -2.4 |
| Import price index | -8.2 | 1.1 | 1.1 | 4.4 | 3.5 | -0.5 | 1.6 | -1.1 | -0.9 | -0.9 | -0.6 |
| **Money and credit** | | | | | | | | | | | |
| Broad money (M2) | 5.5 | 5.9 | 5.9 | 5.5 | 6.4 | 5.8 | 6.0 | 6.1 | 6.7 | 7.1 | 8.1 |
| Net foreign assets 2/ | -14.0 | 6.1 | 6.1 | 0.9 | -0.5 | 0.4 | 0.5 | -0.6 | 1.3 | 2.4 | 1.6 |
| Net domestic assets 2/ | 19.5 | -0.2 | -0.2 | 4.6 | 6.9 | 5.4 | 5.6 | 6.7 | 5.4 | 4.7 | 6.4 |
| Domestic credit to the private sector | 7.2 | 2.3 | 2.3 | 4.6 | 5.6 | 5.8 | 6.5 | 7.1 | 7.6 | 8.4 | 9.5 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| Gross national savings | 25.2 | 23.4 | 25.5 | 23.8 | 26.4 | 24.3 | 27.1 | 28.0 | 28.9 | 29.8 | 30.5 |
| Gross domestic investment | 28.4 | 26.2 | 28.1 | 26.8 | 30.1 | 27.2 | 30.1 | 31.0 | 31.8 | 32.7 | 33.5 |
| Public investment | 8.3 | 8.8 | 8.6 | 6.2 | 6.0 | 6.1 | 5.9 | 5.8 | 5.8 | 6.0 | 6.1 |
| Private investment | 20.1 | 17.3 | 19.5 | 20.6 | 24.0 | 21.2 | 24.3 | 25.2 | 26.0 | 26.7 | 27.4 |
| **Central government operations** | | | | | | | | | | | |
| Total revenue (including grants) | 14.8 | 15.4 | 15.0 | 15.8 | 15.5 | 15.8 | 15.5 | 15.5 | 15.5 | 15.6 | 15.6 |
| Oil revenue | 2.2 | 1.9 | 1.9 | 2.1 | 2.2 | 1.9 | 2.0 | 1.7 | 1.5 | 1.4 | 1.2 |
| Non-oil revenue | 12.3 | 13.1 | 12.7 | 13.4 | 12.9 | 13.7 | 13.2 | 13.5 | 13.7 | 13.9 | 14.2 |
| Non-oil revenue (percent of non-oil GDP) | 12.7 | 13.5 | 13.2 | 13.8 | 13.4 | 14.1 | 13.5 | 13.9 | 14.0 | 14.2 | 14.4 |
| Total expenditure | 20.9 | 20.4 | 19.8 | 18.4 | 17.9 | 17.8 | 17.4 | 17.1 | 17.0 | 17.2 | 17.1 |
| Overall fiscal balance (payment order basis) | | | | | | | | | | | |
| Excluding grants | -6.4 | -5.3 | -5.2 | -2.9 | -2.7 | -2.2 | -2.3 | -1.9 | -1.8 | -1.9 | -1.7 |
| Including grants | -6.1 | -5.0 | -4.9 | -2.6 | -2.4 | -2.0 | -2.0 | -1.5 | -1.5 | -1.5 | -1.5 |
| Overall fiscal balance (cash basis) | | | | | | | | | | | |
| Excluding grants | -5.3 | -4.9 | -4.8 | -4.3 | -4.1 | -3.1 | -2.8 | -2.2 | -1.8 | -1.9 | -1.7 |
| Including grants | -5.1 | -4.6 | -4.5 | -4.0 | -3.8 | -2.9 | -2.4 | -1.9 | -1.5 | -1.5 | -1.5 |
| Non-oil primary balance (payment basis, percent of non-oil GDP) | -7.8 | -6.3 | -6.1 | -4.0 | -3.9 | -3.1 | -3.2 | -2.3 | -2.1 | -2.1 | -2.0 |
| **External sector** | | | | | | | | | | | |
| Current account balance | | | | | | | | | | | |
| Excluding official grants | -3.6 | -3.1 | -3.0 | -3.4 | -4.1 | -3.3 | -3.6 | -3.5 | -3.3 | -3.4 | -3.4 |
| Including official grants | -3.2 | -2.7 | -2.7 | -3.0 | -3.6 | -2.9 | -3.1 | -3.0 | -2.8 | -2.9 | -3.0 |
| **Public debt** | | | | | | | | | | | |
| Stock of public debt 3/ | 32.5 | 38.2 | 36.9 | 38.7 | 36.9 | 38.6 | 36.7 | 35.9 | 35.0 | 34.1 | 33.3 |
| *Of which:* external debt | 22.4 | 25.6 | 24.9 | 26.3 | 28.2 | 27.3 | 28.8 | 28.1 | 27.3 | 26.7 | 26.0 |

Sources: Cameroonian authorities; and IMF staff estimates and projections using updated nominal GDP

1/ Crude oil volumes are augmented as of 2018 with natural gas exports of 60 million standard cubic feet per year.

2/ Percent of broad money at the beginning of the period.

3/ Includes the cumulative financing gap.

## Table 2a. Cameroon: Central Government Operations, 2016–23

(CFAF billion, unless otherwise indicated)

| | 2016 | 2017 | | 2018 | | | 2019 | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | CR 18/235 | Est. | Rev. Bud. | CR 18/235 | Proj. | CR 18/235 | Proj | Proj. | Proj. | Proj. | Proj. |
| **Total revenue and grants** | **2,866** | **3,040** | **3,040** | **3,272** | **3,272** | **3,317** | **3,470** | **3,511** | **3,748** | **3,977** | **4,292** | **4,580** |
| Total revenue | 2,812 | 2,975 | 2,975 | 3,207 | 3,207 | 3,252 | 3,419 | 3,431 | 3,666 | 3,893 | 4,204 | 4,526 |
| Oil sector revenue | 425 | 386 | 386 | 444 | 444 | 479 | 426 | 450 | 405 | 381 | 382 | 360 |
| Non-oil sector revenue 1/ | 2,387 | 2,589 | 2,589 | 2,763 | 2,763 | 2,773 | 2,993 | 2,981 | 3,261 | 3,511 | 3,823 | 4,165 |
| Direct taxes | 636 | 575 | 575 | | 604 | 610 | 649 | 657 | 695 | 738 | 790 | 847 |
| Special tax on petroleum products | 106 | 122 | 122 | | 144 | 160 | 150 | 162 | 170 | 180 | 193 | 210 |
| Other taxes on goods and services | 868 | 1,346 | 1,346 | | 1,405 | 1,419 | 1,569 | 1,534 | 1,723 | 1,898 | 2,111 | 2,320 |
| Taxes on international trade | 348 | 399 | 399 | | 442 | 395 | 443 | 447 | 476 | 482 | 497 | 537 |
| Non-tax revenue | 135 | 148 | 148 | 168 | 168 | 189 | 183 | 181 | 196 | 213 | 232 | 253 |
| Total grants | 54 | 65 | 65 | 65 | 65 | 65 | 51 | 79 | 82 | 84 | 87 | 54 |
| Projects | 36 | 32 | 32 | | 36 | 36 | 28 | 29 | 31 | 33 | 35 | 38 |
| Other (debt relief) | 18 | 13 | 13 | | 29 | 29 | 23 | 50 | 51 | 52 | 52 | 16 |
| **Total expenditure** | **4,045** | **4,031** | **4,031** | **3,809** | **3,808** | **3,831** | **3,909** | **3,955** | **4,117** | **4,364** | **4,713** | **5,033** |
| Current expenditure | 2,407 | 2,279 | 2,279 | 2,517 | 2,517 | 2,519 | 2,581 | 2,646 | 2,731 | 2,880 | 3,067 | 3,244 |
| Wages and salaries | 948 | 1,006 | 1,006 | 1,024 | 1,024 | 1,004 | 1,069 | 1,038 | 1,091 | 1,147 | 1,207 | 1,270 |
| Goods and services | 829 | 743 | 743 | 842 | 841 | 821 | 811 | 887 | 857 | 909 | 960 | 1,030 |
| Subsidies and transfers | 485 | 356 | 356 | 477 | 476 | 519 | 505 | 524 | 557 | 595 | 654 | 712 |
| Interest | 145 | 174 | 174 | 175 | 175 | 175 | 196 | 198 | 226 | 228 | 247 | 233 |
| External | 131 | 136 | 136 | 126 | 126 | 126 | 149 | 151 | 169 | 184 | 201 | 198 |
| Domestic | 14 | 38 | 38 | 49 | 49 | 49 | 47 | 47 | 57 | 44 | 45 | 35 |
| Capital expenditure | 1,608 | 1,751 | 1,751 | 1,292 | 1,292 | 1,293 | 1,328 | 1,327 | 1,386 | 1,484 | 1,645 | 1,790 |
| Domestically financed investment | 1,070 | 961 | 961 | 659 | 658 | 509 | 676 | 671 | 681 | 725 | 825 | 882 |
| Foreign-financed investment | 489 | 773 | 773 | 596 | 596 | 746 | 613 | 617 | 662 | 714 | 772 | 855 |
| Rehabilitation and participation | 49 | 16 | 16 | 37 | 37 | 37 | 39 | 40 | 43 | 46 | 49 | 52 |
| Net lending | 30 | 0 | 0 | 0 | 0 | 19 | 0 | -19 | 0 | 0 | 0 | 0 |
| Adjustment to fiscal year spending | | | | | | | | | | | | |
| **Overall balance (payment order basis)** | | | | | | | | | | | | |
| Excluding grants | -1,233 | -1,055 | -1,055 | -602 | -601 | -579 | -491 | -523 | -451 | -471 | -508 | -508 |
| Including grants | -1,178 | -991 | -991 | -537 | -537 | -514 | -439 | -444 | -369 | -387 | -421 | -454 |
| **CEMAC reference fiscal balance** | **-1,025** | **-891** | -880 | | **-583** | **-585** | **-496** | **-512** | **-381** | **-364** | **-426** | **-457** |
| **Adjustment to cash basis 2/** | **201** | **76** | **76** | **-209** | **-294** | **-300** | **-197** | **-103** | **-85** | **0** | **0** | **0** |
| Unexecuted payment orders (-=reduction) 2/ | 203 | -106 | -106 | | -96 | -96 | 0 | 0 | 0 | 0 | 0 | 0 |
| Floats and arrears (- = reduction) | -2 | 182 | 182 | -209 | -198 | -204 | -197 | -103 | -85 | 0 | 0 | 0 |
| o/w Arrears (- = reduction) | -2 | -146 | -145 | | -94 | -94 | -94 | -103 | -85 | 0 | 0 | 0 |
| o/w Floats (- = reduction) | | 328 | 327 | | -104 | -110 | -104 | 0 | 0 | 0 | 0 | 0 |
| **Overall balance (cash basis)** | | | | | | | | | | | | |
| Excluding grants | -1,032 | -980 | -980 | -810 | -896 | -880 | -688 | -627 | -655 | -471 | -508 | -508 |
| Including grants | -977 | -915 | -915 | -746 | -831 | -814 | -636 | -548 | -453 | -387 | -421 | -454 |
| **Financing** | **978** | **915** | **915** | **412** | **497** | **431** | **303** | **163** | **411** | **387** | **421** | **454** |
| External financing, net | 340 | 785 | 785 | 324 | 343 | 511 | 289 | 249 | 325 | 364 | 430 | 422 |
| Amortization | -113 | -135 | -135 | -247 | -217 | -242 | -295 | -338 | -306 | -317 | -307 | -395 |
| Drawings | 453 | 920 | 920 | 571 | 560 | 753 | 585 | 588 | 631 | 681 | 737 | 817 |
| Domestic financing, net | 578 | 129 | 129 | 88 | 155 | -80 | 14 | -86 | 86 | 23 | -9 | 32 |
| Banking system | 610 | 166 | 166 | 136 | 132 | 28 | 88 | 99 | 123 | 108 | 52 | 39 |
| o/w statutory advances from BEAC | 93 | 346 | 346 | | 0 | 0 | 0 | 0 | 0 | 0 | -58 | -58 |
| Amortization of domestic debt | -237 | -36 | -36 | -308 | -102 | -45 | -62 | -87 | -29 | -27 | -26 | -26 |
| Other domestic financing | 205 | -1 | -1 | 260 | 125 | -64 | -13 | -98 | -8 | -58 | -35 | 19 |
| Errors and omissions | 59 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Financing gap** | **0** | **0** | **0** | **334** | **334** | **383** | **333** | **384** | **42** | **0** | **0** | **0** |
| Of which: IMF | | 0 | 0 | 86 | 81 | 85 | 80 | 86 | 42 | 0 | 0 | 0 |
| Of which: budget support (excl. IMF) | | 0 | 0 | 249 | 253 | 298 | 253 | 298 | 0 | 0 | 0 | 0 |
| AFDB | | 0 | 0 | | 118 | 216 | 112 | 98 | 0 | 0 | 0 | 0 |
| WB | | 0 | 0 | | 53 | 0 | 52 | 111 | 0 | 0 | 0 | 0 |
| France | | 0 | 0 | | 66 | 66 | 66 | 66 | 0 | 0 | 0 | 0 |
| EU | | 0 | 0 | | 16 | 16 | 23 | 23 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Memorandum items:*** | | | | | | | | | | | | |
| Floor of social spending | | 636 | 636 | | 668 | 668 | 711 | 711 | | | | |
| Primary balance (payment order basis, incl. grants) | -1,034 | -817 | -817 | -362 | -362 | -339 | -243 | -246 | -143 | -159 | -174 | -221 |
| Primary balance (cash basis, incl. grants) | -833 | -741 | -741 | -571 | -656 | -639 | -440 | -350 | -228 | -159 | -174 | -221 |
| Non-oil primary balance (payment order basis, incl. grants) | -1,459 | -1,203 | -1,203 | -806 | -806 | -818 | -668 | -696 | -548 | -540 | -556 | -581 |
| Non-oil primary balance (cash basis, incl. grants) | -1,258 | -1,127 | -1,127 | -1,015 | -1,100 | -1,118 | -866 | -800 | -633 | -540 | -556 | -581 |
| Unpaid government obligations | 596 | 710 | 711 | | 512 | 274 | 315 | 170 | 86 | 86 | 86 | 86 |
| Float | 101 | 429 | 429 | | 324 | 86 | 221 | 86 | 86 | 86 | 86 | 86 |
| Arrears 3/ | 495 | 282 | 282 | | 188 | 188 | 94 | 84 | 0 | 0 | 0 | 0 |

Sources: Cameroonian authorities; and IMF staff estimates and projections with updated nominal GDP.

1/ Historical and budget figures exclude direct, custom, and VAT taxes due by SONARA which were subject to cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2016 onward, projections for these taxes are made on a gross basis.

2/ Include adjustment for payment orders issued in 2016 for investment to be executed in 2017 and 2018.

3/ The end-2017 audit of the stock of demestic arrears incurred prior to 2016 resulted in the cancelation of CFAF 68 billion of arrears. In 2018, More arrears mainly related to unfunded subisidies, tranfers, and projects' conterpart funds were cancelled for about CFAF 233 billion.

## Table 2b. Cameroon: Central Government Operations, 2016–23

(Percent of GDP)

| | 2016 | 2017 | | 2018 | | | 2019 | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | CR 18/235 | Est. | Rev. Bud. | CR 18/235 | Proj. | CR 18/235 | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Total revenue and grants** | **14.8** | **15.4** | **15.0** | **15.8** | **15.8** | **15.5** | **15.8** | **15.5** | **15.6** | **15.5** | **15.6** | **15.6** |
| Total revenue | 14.5 | 15.0 | 14.6 | 15.5 | 15.5 | 15.2 | 15.6 | 15.1 | 15.2 | 15.2 | 15.3 | 15.4 |
| Oil sector revenue | 2.2 | 1.9 | 1.9 | 2.1 | 2.1 | 2.2 | 1.9 | 2.0 | 1.7 | 1.5 | 1.4 | 1.2 |
| Non-oil sector revenue 1/ | 12.3 | 13.1 | 12.7 | 13.4 | 13.4 | 12.9 | 13.7 | 13.2 | 13.5 | 13.7 | 13.9 | 14.2 |
| Direct taxes | 3.3 | 2.9 | 2.8 | | 2.9 | 2.8 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Special tax on petroleum products | 0.5 | 0.6 | 0.6 | | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Other taxes on goods and services | 4.5 | 6.8 | 6.6 | | 6.8 | 6.6 | 7.2 | 6.8 | 7.2 | 7.4 | 7.7 | 7.9 |
| Taxes on international trade | 1.8 | 2.0 | 2.0 | | 2.1 | 1.8 | 2.0 | 2.0 | 2.0 | 1.9 | 1.8 | 1.8 |
| Non-tax revenue | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Total grants | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| Projects | 0.2 | 0.2 | 0.2 | | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other (debt relief) | 0.1 | 0.1 | 0.1 | | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| **Total expenditure** | **20.9** | **20.4** | **19.8** | **18.4** | **18.4** | **17.9** | **17.8** | **17.4** | **17.1** | **17.0** | **17.2** | **17.1** |
| Current expenditure | 12.4 | 11.5 | 11.2 | 12.2 | 12.2 | 11.8 | 11.8 | 11.7 | 11.3 | 11.2 | 11.2 | 11.0 |
| Wages and salaries | 4.9 | 5.1 | 4.9 | 4.9 | 4.9 | 4.7 | 4.9 | 4.6 | 4.5 | 4.5 | 4.4 | 4.3 |
| Goods and services | 4.3 | 3.8 | 3.7 | 4.1 | 4.1 | 3.8 | 3.7 | 3.9 | 3.6 | 3.5 | 3.5 | 3.5 |
| Subsidies and transfers | 2.5 | 1.8 | 1.8 | 2.3 | 2.3 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.4 | 2.4 |
| Interest | 0.7 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 |
| External | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Domestic | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Capital expenditure | 8.3 | 8.8 | 8.6 | 6.2 | 6.2 | 6.0 | 6.1 | 5.9 | 5.8 | 5.8 | 6.0 | 6.1 |
| Domestically financed investment | 5.5 | 4.9 | 4.7 | 3.2 | 3.2 | 2.4 | 3.1 | 3.0 | 2.8 | 2.8 | 3.0 | 3.0 |
| Foreign-financed investment | 2.5 | 3.9 | 3.8 | 2.9 | 2.9 | 3.5 | 2.8 | 2.7 | 2.7 | 2.8 | 2.8 | 2.9 |
| Rehabilitation and participation | 0.3 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Net lending | 0.2 | 0.0 | 0.0 | | 0.0 | 0.1 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjustment to fiscal year spending | | | | | | | | | | | | |
| **Overall balance (payment order basis)** | | | | | | | | | | | | |
| Excluding grants | -6.4 | -5.3 | -5.2 | -2.9 | -2.9 | -2.7 | -2.2 | -2.3 | -1.9 | -1.8 | -1.9 | -1.7 |
| Including grants | -6.1 | -5.0 | -4.9 | -2.6 | -2.6 | -2.4 | -2.0 | -2.0 | -1.5 | -1.5 | -1.5 | -1.5 |
| **CEMAC reference fiscal balance** | **-5.4** | **-4.5** | **-4.3** | | **-2.8** | **-2.7** | **-2.3** | **-2.3** | **-1.6** | **-1.4** | **-1.6** | **-1.6** |
| **Adjustment to cash basis 2/** | **1.0** | **0.4** | **0.4** | **-1.0** | **-1.4** | **-1.4** | **-0.9** | **-0.5** | **-0.4** | **0.0** | **0.0** | **0.0** |
| Unexecuted payment orders (-=reduction) 2/ | 1.0 | -0.5 | -0.5 | | -0.5 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Floats and arrears (- = reduction) | | 0.9 | 0.9 | -1.0 | -1.0 | -1.0 | -0.9 | -0.5 | -0.4 | 0.0 | 0.0 | 0.0 |
| o/w Arrears (- = reduction) | | -0.7 | -0.7 | | -0.5 | -0.4 | -0.4 | -0.5 | -0.4 | 0.0 | 0.0 | 0.0 |
| o/w Floats (- = reduction) | | 1.7 | 1.6 | | -0.5 | -0.5 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance (cash basis)** | | | | | | | | | | | | |
| Excluding grants | -5.3 | -5.0 | -4.8 | -3.9 | -4.3 | -4.1 | -3.1 | -2.8 | -2.7 | -1.8 | -1.9 | -1.7 |
| Including grants | -5.1 | -4.6 | -4.5 | -3.6 | -4.0 | -3.8 | -2.9 | -2.4 | -1.9 | -1.5 | -1.5 | -1.5 |
| **Financing** | **5.1** | **4.6** | **4.5** | **2.0** | **2.4** | **2.0** | **1.4** | **0.7** | **1.7** | **1.5** | **1.5** | **1.5** |
| External financing, net | 1.8 | 4.0 | 3.9 | 1.6 | 1.7 | 2.4 | 1.3 | 1.1 | 1.3 | 1.4 | 1.6 | 1.4 |
| Amortization | -0.6 | -0.7 | -0.7 | -1.2 | -1.1 | -1.1 | -1.3 | -1.5 | -1.3 | -1.2 | -1.1 | -1.3 |
| Drawings | 2.3 | 4.6 | 4.5 | 2.8 | 2.7 | 3.5 | 2.7 | 2.6 | 2.6 | 2.7 | 2.7 | 2.8 |
| Domestic financing, net | 3.0 | 0.7 | 0.6 | 0.4 | 0.7 | -0.4 | 0.1 | -0.4 | 0.4 | 0.1 | 0.0 | 0.1 |
| Banking system | 3.2 | 0.8 | 0.8 | 0.7 | 0.6 | 0.1 | 0.4 | 0.4 | 0.5 | 0.4 | 0.2 | 0.1 |
| o/w statutory advances from BEAC | 0.5 | 1.7 | 1.7 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | -0.2 |
| Amortization of domestic debt | -1.2 | -0.2 | -0.2 | -1.5 | -0.5 | -0.2 | -0.3 | -0.4 | -0.1 | -0.1 | -0.1 | -0.1 |
| Other domestic financing | 1.1 | 0.0 | 0.0 | 1.3 | 0.6 | -0.3 | -0.1 | -0.4 | 0.0 | -0.2 | -0.1 | 0.1 |
| Errors and omissions | | | | | | | | | | | | |
| **Financing gap** | **0.0** | **0.0** | **0.0** | **1.6** | **1.6** | **1.8** | **1.5** | **1.7** | **0.2** | **0.0** | **0.0** | **0.0** |
| Of which: IMF | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 | 0.0 | 0.0 | 0.0 |
| Of which: budget support (excl. IMF) | 0.0 | 0.0 | 0.0 | 1.2 | 1.2 | 1.4 | 1.2 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| AFDB | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 1.0 | 0.5 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| WB | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.2 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| France | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| EU | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ***Memorandum items:*** | | | | | | | | | | | | |
| Floor of social spending | ... | 3.2 | 3.1 | | 3.2 | 3.1 | 3.2 | 3.1 | | | | |
| Primary balance (payment order basis, incl. grants) | -5.3 | -4.1 | -4.0 | -1.7 | -1.7 | -1.6 | -1.1 | -1.1 | -0.6 | -0.6 | -0.6 | -0.8 |
| Primary balance (cash basis, incl. grants) | -4.3 | -3.7 | -3.6 | -2.8 | -3.2 | -3.0 | -2.0 | -1.5 | -0.9 | -0.6 | -0.6 | -0.8 |
| Non-oil primary balance (payment order basis, incl. grants) | -7.5 | -6.1 | -5.9 | -3.9 | -3.9 | -3.8 | -3.1 | -3.1 | -2.3 | -2.1 | -2.0 | -2.0 |
| Non-oil primary balance (cash basis, incl. grants) | -6.5 | -5.7 | -5.5 | -4.9 | -5.3 | -5.2 | -4.0 | -3.5 | -2.6 | -2.1 | -2.0 | -2.0 |
| Unpaid government obligations | 3.1 | 3.6 | 3.5 | | 2.5 | 1.3 | 1.4 | 0.8 | 0.4 | 0.3 | 0.3 | 0.3 |
| Float | 0.5 | 2.2 | 2.1 | | 1.6 | 0.4 | 1.0 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Arrears 3/ | 2.6 | 1.4 | 1.4 | | 0.9 | 0.9 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Cameroonian authorities; and IMF staff estimates and projections with updated nominal GDP

1/ Historical and budget figures exclude direct, custom, and VAT taxes due by SONARA which were subject to cross-cancellations against fuel subsidies due to SONARA (i.e., the revenue is presented on a net basis). From 2016 onward, projections for these taxes are made on a gross basis.

2/ Include adjustment for payment orders issued in 2016 for investment to be executed in 2017 and 2018.

3/ The end-2017 audit of the stock of demestic arrears incurred prior to 2016 resulted in the cancelation of CFAF 68 billion of arrears. In 2018, More arrears mainly related to unfunded subisidies, tranfers, and projects' conterpart funds were cancelled for about CFAF 233 billion.

## Table 3. Cameroon: Balance of Payments, 2016–23

| | 2016 | 2017 | 2018 | | 2019 | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Est. | CR 18/235 | Proj. | CR 18/235 | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (CFA billion) | | | | | | | | | |
| **Current account balance** | **-613** | **-541** | **-615** | **-780** | **-637** | **-695** | **-719** | **-732** | **-796** | **-889** |
| Trade balance | -137 | -117 | -219 | -409 | -300 | -392 | -454 | -558 | -643 | -705 |
| Exports, goods | 2,725 | 2,675 | 2,610 | 2,747 | 2583 | 2,823 | 2,820 | 2,783 | 2,767 | 2,786 |
| Oil and oil products | 767 | 809 | 877 | 996 | 806 | 961 | 899 | 824 | 761 | 710 |
| Non-oil sector | 1,958 | 1,866 | 1,733 | 1,751 | 1777 | 1,862 | 1,921 | 1,959 | 2,006 | 2,076 |
| Imports, goods | -2,862 | -2,792 | -2,829 | -3,156 | -2883 | -3,215 | -3,274 | -3,341 | -3,409 | -3,491 |
| Services (net) | -351 | -286 | -350 | -294 | -324 | -278 | -312 | -272 | -281 | -245 |
| Exports, services | 986 | 1,120 | 1,117 | 1,142 | 1135 | 1,186 | 1,226 | 1,288 | 1,338 | 1,404 |
| Imports, services | -1,336 | -1,405 | -1,467 | -1,436 | -1459 | -1,464 | -1,539 | -1,560 | -1,619 | -1,648 |
| Income (net) | -331 | -385 | -316 | -338 | -289 | -319 | -265 | -231 | -221 | -268 |
| *Of which:* interest due on public debt | -105 | -136 | -114 | -119 | -131 | -140 | -131 | -127 | -136 | -191 |
| Transfers (net) | 205 | 246 | 269 | 260 | 278 | 294 | 312 | 329 | 349 | 328 |
| Inflows | 377 | 408 | 456 | 447 | 469 | 485 | 504 | 523 | 546 | 534 |
| Outflows | -171 | -161 | -187 | -187 | -191 | -191 | -192 | -193 | -197 | -205 |
| **Capital and financial account balance** | **-181** | **775** | **364** | **479** | **403** | **419** | **689** | **807** | **936** | **992** |
| Capital account | 36 | 66 | 36 | 36 | 28 | 29 | 31 | 33 | 35 | 38 |
| Capital transfers | 36 | 66 | 36 | 36 | 28 | 29 | 31 | 33 | 35 | 38 |
| *Of which:* private transfers | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Financial account | **-218** | **709** | **328** | **443** | **375** | **391** | **658** | **774** | **900** | **954** |
| Official capital | 345 | 785 | 343 | 511 | **289** | 249 | 325 | 364 | 430 | 422 |
| Long-term borrowing | 458 | 920 | 560 | 753 | 585 | 588 | 631 | 681 | 737 | 817 |
| *Of which:* SDR allocation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Principal not yet due rescheduled | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization | -113 | -135 | -217 | -242 | -295 | -338 | -306 | -317 | -307 | -395 |
| Principal not yet due (relief) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-official capital (net) | 232 | 473 | 475 | 437 | 485 | 481 | 503 | 520 | 541 | 562 |
| *of which:* Foreign direct investment | 220 | 459 | 803 | 423 | 760 | 467 | 489 | 505 | 525 | 546 |
| Oil sector (net) | 82 | 91 | 87 | 87 | 86 | 86 | 85 | 84 | 84 | 83 |
| Non-oil sector | 150 | 382 | 388 | 350 | 400 | 396 | 419 | 436 | 457 | 479 |
| Short-term private capital, net | -795 | -549 | -490 | -505 | -400 | -340 | -170 | -110 | -70 | -30 |
| **Errors and omissions** | **97** | **-20** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Overall balance** | **-697** | **214** | **-252** | **-301** | **-234** | **-276** | **-30** | **74** | **139** | **103** |
| **Financing** | **697** | **-214** | **252** | **301** | **234** | **276** | **30** | **-74** | **-139** | **-103** |
| Bank of Central African States 1/ | 697 | -363 | -68 | -67 | -86 | -94 | -12 | -74 | -139 | -67 |
| Use of IMF credit (net) | -18 | 150 | -15 | -15 | -14 | -15 | 0 | 0 | 0 | -35 |
| Financing gap | 0 | 0 | 334 | 383 | 320 | 384 | 42 | 0 | 0 | 0 |
| *Of which* : | | | | | | | | | | |
| Possible IMF financing | | 0 | 81 | 85 | 80 | 86 | 42 | 0 | 0 | 0 |
| Remaining financing gap | | 0 | 253 | 298 | 239 | 298 | 0 | 0 | 0 | 0 |
| AFDB | | 0 | 118 | 216 | 112 | 98 | 0 | 0 | 0 | 0 |
| WB | | 0 | 53 | 0 | 52 | 111 | 0 | 0 | 0 | 0 |
| France | | 0 | 66 | 66 | 66 | 66 | 0 | 0 | 0 | 0 |
| EU | | 0 | 16 | 16 | 23 | 23 | 0 | 0 | 0 | 0 |
| | (Percent of GDP) | | | | | | | | | |
| **Trade balance** | **-0.7** | **-0.6** | **-1.1** | **-1.9** | **-1.4** | **-1.7** | **-1.9** | **-2.2** | **-2.3** | **-2.4** |
| Oil exports | 4.0 | 4.0 | 4.2 | 4.6 | 3.7 | 4.2 | 3.7 | 3.2 | 2.8 | 2.4 |
| Non-oil exports | 10.1 | 9.2 | 8.4 | 8.2 | 8.1 | 8.2 | 8.0 | 7.6 | 7.3 | 7.1 |
| Imports | 14.8 | 13.7 | 13.7 | 14.7 | 13.2 | 14.2 | 13.6 | 13.0 | 12.4 | 11.9 |
| **Current account balance** | | | | | | | | | | |
| Including grants | -3.2 | -2.7 | -3.0 | -3.6 | -2.9 | -3.1 | -3.0 | -2.9 | -2.9 | -3.0 |
| Excluding grants | -3.6 | -3.0 | -3.4 | -4.1 | -3.3 | -3.6 | -3.5 | -3.3 | -3.4 | -3.4 |
| **Overall balance** | **-3.6** | **1.1** | **-1.2** | **-1.4** | **-1.1** | **-1.2** | **-0.1** | **0.3** | **0.5** | **0.3** |
| **Foreign direct investment** | **1.1** | **2.3** | **3.9** | **2.0** | **3.5** | **2.1** | **2.0** | **2.0** | **1.9** | **1.9** |
| | (Percentage change, unless otherwise indicated) | | | | | | | | | |
| Export volume | -6.0 | -0.3 | 4.1 | -4.0 | 3.8 | 6.2 | 5.3 | 4.2 | 4.2 | 4.6 |
| Crude oil | -3.1 | -19.8 | 1.0 | -4.0 | -2.1 | -6.6 | -5.0 | -5.8 | -5.9 | -6.2 |
| Nonoil | -6.9 | 5.3 | 4.8 | -4.0 | 5.1 | 9.0 | 7.3 | 5.8 | 5.7 | 6.0 |
| Import volume | -5.9 | -4.8 | 2.2 | 12.4 | 4.4 | 1.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| Terms of trade | 2.4 | -2.6 | -10.2 | 3.4 | -4.2 | -4.8 | -4.1 | -4.4 | -3.7 | -3.1 |
| Non-oil export price index | 10.1 | -9.5 | -11.4 | -2.3 | -2.4 | -2.5 | -3.8 | -3.6 | -3.2 | -2.4 |
| Export price index | -6.0 | -1.5 | -6.3 | 7.0 | -4.7 | -3.2 | -5.2 | -5.3 | -4.6 | -3.7 |
| Import price index | -8.2 | 1.1 | 3.6 | 3.6 | -0.6 | -0.6 | -0.2 | 0.8 | 0.2 | 0.1 |

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

1/ Excluding prospective IMF financing

## Table 4. Cameroon: Monetary Survey, 2016–23

(CFAF billion, unless otherwise indicated)

| | 2016 | 2017 | 2018 | | | | | | 2019 | | | | | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | CR 18/235 | Q2 | Q3 | CR 18/235 | Proj. | Q1 Proj. | Q2 Proj. | Q3 Proj. | CR 18/235 | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Net foreign assets** | **1,706** | **1,970** | **2,035** | **1,988** | **1,872** | **1,821** | **2,011** | **1,947** | **1,871** | **1,806** | **1,877** | **2,031** | **1,970** | **1,939** | **2,014** | **2,153** | **2,256** |
| Bank of Central African States (BEAC) | 1,106 | 1,322 | 1,414 | 1,367 | 1,255 | 1,229 | 1,323 | 1,319 | 1,242 | 1,178 | 1,248 | 1,342 | 1,341 | 1,311 | 1,385 | 1,525 | 1,627 |
| *Of which*: BEAC foreign Assets | 1,406 | 1,770 | 1,853 | 1,806 | 1,714 | 1,722 | 1,837 | 1,836 | 1,752 | 1,731 | 1,794 | 1,923 | 1,930 | 1,942 | 2,016 | 2,156 | 2,223 |
| *Of which:* IMF credit | -50 | -191 | -182 | -182 | -187 | -222 | -258 | -261 | -254 | -297 | -289 | -325 | -332 | -375 | -375 | -375 | -339 |
| Commercial banks | 601 | 648 | 621 | 621 | 616 | 593 | 688 | 628 | 628 | 628 | 628 | 688 | 628 | 628 | 628 | 628 | 628 |
| **Net domestic assets** | **2,639** | **2,632** | **2,593** | **2,679** | **2,762** | **2,917** | **2,845** | **2,948** | **3,018** | **3,157** | **3,100** | **3,110** | **3,221** | **3,567** | **3,863** | **4,141** | **4,546** |
| Domestic credit | 2,993 | 3,100 | 3,094 | 3,180 | 3,256 | 3,439 | 3,346 | 3,469 | 3,540 | 3,678 | 3,622 | 3,610 | 3,758 | 4,104 | 4,399 | 4,678 | 5,082 |
| Net claims on the public sector | 301 | 319 | 332 | 369 | 483 | 582 | 436 | 530 | 573 | 643 | 539 | 534 | 627 | 757 | 804 | 786 | 833 |
| Net credit to the central government | 419 | 585 | 566 | 646 | 681 | 768 | 798 | 698 | 773 | 856 | 773 | 967 | 883 | 949 | 1,057 | 1,108 | 1,147 |
| Central Bank | -11 | 129 | 91 | 136 | 175 | 258 | 243 | 116 | 217 | 306 | 260 | 374 | 326 | 306 | 354 | 373 | 371 |
| Claims | 281 | 768 | 759 | 759 | 763 | 799 | 835 | 838 | 831 | 874 | 866 | 901 | 909 | 952 | 952 | 894 | 801 |
| Credit under statutory ceiling | 231 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 577 | 519 | 462 |
| Counterpart of IMF credit | 50 | 191 | 182 | 182 | 187 | 222 | 258 | 261 | 254 | 297 | 289 | 325 | 332 | 375 | 375 | 375 | 339 |
| Deposits | -292 | -640 | -668 | -624 | -589 | -541 | -592 | -722 | -613 | -568 | -607 | -528 | -583 | -645 | -598 | -521 | -430 |
| Commercial Banks | 430 | 456 | 475 | 510 | 506 | 509 | 556 | 582 | 556 | 550 | 513 | 593 | 557 | 643 | 703 | 735 | 776 |
| Claims on the Treasury | 460 | 491 | 506 | 542 | 537 | 541 | 589 | 622 | 598 | 595 | 561 | 624 | 607 | 691 | 749 | 781 | 822 |
| Deposits | -30 | -35 | -31 | -32 | -31 | -31 | -33 | -40 | -43 | -45 | -48 | -31 | -50 | -48 | -46 | -46 | -46 |
| Deposits of other public entities | -302 | -448 | -453 | -484 | -483 | -445 | -546 | -438 | -471 | -485 | -509 | -616 | -533 | -478 | -533 | -603 | -573 |
| Credit to autonomous agencies | 22 | 37 | 35 | 36 | 15 | 18 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 41 | 43 | 43 | 43 |
| Credit to the economy 1/ | 2,853 | 2,925 | 2,945 | 2,982 | 3,042 | 3,099 | 3,054 | 3,170 | 3,200 | 3,269 | 3,319 | 3,220 | 3,368 | 3,592 | 3,833 | 4,129 | 4,465 |
| Credit to public enterprises | 161 | 144 | 183 | 170 | 270 | 241 | 144 | 231 | 232 | 234 | 236 | 144 | 237 | 245 | 237 | 237 | 216 |
| Credit to financial institutions | 39 | 67 | 68 | 69 | 90 | 51 | 70 | 73 | 74 | 75 | 76 | 72 | 77 | 77 | 77 | 77 | 73 |
| Credit to the private sector | 2,653 | 2,714 | 2,694 | 2,743 | 2,683 | 2,806 | 2,840 | 2,866 | 2,893 | 2,960 | 3,007 | 3,004 | 3,054 | 3,270 | 3,519 | 3,815 | 4,176 |
| Other items (net) | -354 | -468 | -501 | -501 | -494 | -522 | -501 | -522 | -522 | -522 | -522 | -501 | -537 | -537 | -537 | -537 | -537 |
| **Broad money** | **4,345** | **4,602** | **4,628** | **4,667** | **4,634** | **4,739** | **4,857** | **4,895** | **4,889** | **4,963** | **4,976** | **5,140** | **5,191** | **5,506** | **5,876** | **6,294** | **6,801** |
| Currency outside banks | 905 | 978 | 924 | 950 | 903 | 964 | 1,029 | 1,037 | 1,032 | 1,007 | 1,022 | 1,086 | 1,096 | 1,112 | 1,186 | 1,269 | 1,371 |
| Deposits | 3,440 | 3,624 | 3,704 | 3,718 | 3,731 | 3,775 | 3,827 | 3,858 | 3,857 | 3,956 | 3,955 | 4,055 | 4,095 | 4,395 | 4,691 | 5,024 | 5,431 |
| ***Memorandum items:*** | | | | | | | | | | | | | | | | | |
| Net borrowing from the central bank excluding IMF | -61 | -63 | -91 | -47 | -12 | 36 | -15 | -145 | -36 | 9 | -30 | 49 | -6 | -68 | -21 | -2 | 32 |
| Contribution to the growth of broad money (percentage points) | | | | | | | | | | | | | | | | | |
| Net foreign assets | -14.0 | 6.1 | … | … | … | … | 0.9 | -0.5 | … | … | … | 0.4 | 0.5 | -0.6 | 1.3 | 2.4 | 1.6 |
| Net domestic assets | 19.5 | -0.2 | … | … | … | … | 4.6 | 6.9 | … | … | … | 5.4 | 5.6 | 6.7 | 5.4 | 4.7 | 6.4 |
| *Of which*: net credit to the central government | 16.1 | 3.8 | … | … | … | … | 4.6 | 2.5 | … | … | … | 3.5 | 3.8 | 1.3 | 2.0 | 0.9 | 0.6 |
| Credit to the economy (annual percentage change) | 5.8 | 2.5 | 2.8 | 2.3 | 4.4 | 7.5 | 4.4 | 8.4 | 8.6 | 7.5 | 7.1 | 5.4 | 6.3 | 6.6 | 6.7 | 7.7 | 8.1 |
| Credit to the private sector | | | | | | | | | | | | | | | | | |
| Annual percentage change | 7.2 | 2.3 | 2.0 | 1.7 | -0.6 | 5.2 | 4.6 | 5.6 | 7.4 | 10.3 | 7.2 | 5.8 | 6.5 | 7.1 | 7.6 | 8.4 | 9.5 |
| In percent of GDP | 13.7 | 13.4 | 12.6 | 13.3 | 12.5 | 13.1 | 13.7 | 13.4 | 12.8 | 13.1 | 13.3 | 13.7 | 13.5 | 13.6 | 13.7 | 13.9 | 14.2 |
| Broad money (annual percentage change) | 5.5 | 5.9 | 7.8 | 6.5 | 5.8 | 8.3 | 5.5 | 6.4 | 5.6 | 7.1 | 5.0 | 5.8 | 6.0 | 6.1 | 6.7 | 7.1 | 8.1 |
| Currency outside banks | 12.8 | 8.1 | 9.4 | 14.6 | 9.0 | 12.6 | 5.2 | 6.0 | 11.7 | 11.5 | 6.0 | 5.5 | 5.7 | 1.4 | 6.7 | 7.0 | 8.0 |
| Deposits | 3.7 | 5.3 | 7.5 | 4.6 | 5.0 | 7.2 | 5.6 | 6.5 | 4.1 | 6.0 | 4.8 | 5.9 | 6.1 | 7.3 | 6.7 | 7.1 | 8.1 |
| Velocity (GDP/average M2) | 4.5 | 4.4 | 4.6 | 4.4 | 4.6 | 4.5 | 4.3 | 4.4 | 4.6 | 4.6 | 4.6 | 4.3 | 4.4 | 4.4 | 4.4 | 4.4 | 4.3 |

Sources: BEAC; and IMF staff estimates and projections.

1/ Credit to the economy includes credit to the public enterprises, financial institutions and private sector.

## Table 5. Cameroon: Financial Soundness Indicators, 2014–18
(Percent)

| | Cameroon | | | | | | | CEMAC | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | Q1-18 | Q2-18 | Q3-18 | 2014 | 2017 | Q1-18 | Q2-18 | Q3-18 |
| **Capital adequacy** | | | | | | | | | | | | |
| Capital/risk-weighted assets | 11.4 | 10.1 | 9.0 | 10.3 | 10.7 | 14.2 | 10.5 | 13.8 | 15.5 | 17.5 | 20.0 | 17.3 |
| Regulatory Tier 1 Capital / Risk-weighted assets 1/ | 9.1 | 9.3 | 7.6 | 8.5 | 9.4 | 10.2 | 9.8 | 12.6 | 14.5 | 21.4 | 22.2 | 21.9 |
| Non-performing loans less provisions/Equity 1/ | 10.3 | 8.9 | 12.1 | 6.0 | 15.0 | 15.9 | 11.5 | 15.8 | 33.6 | 37.8 | 35.2 | 33.4 |
| Capital/Assets 1/ | 8.4 | 8.3 | 7.5 | 7.8 | 8.3 | 8.2 | 8.4 | 9.1 | 14.8 | 14.7 | 14.5 | 14.6 |
| **Asset quality** | | | | | | | | | | | | |
| Overdue loans/total loans | 12.3 | 12.5 | 14.1 | 13.0 | 15.0 | 15.0 | 14.8 | 11.7 | 17.5 | 19.7 | 18.8 | 19.5 |
| Non-performing loans/total loans 1/ | 9.7 | 9.3 | 10.7 | 10.8 | 12.2 | 12.3 | 12.1 | 9.1 | 14.8 | 19.9 | 19.3 | 19.4 |
| Large exposures (> 25 % of equity)/equity | 125.3 | 162.1 | 157.1 | 157.8 | 168.7 | 170.0 | 187.0 | 116.4 | 160.5 | 155.0 | 150.0 | 162.0 |
| **Results and profitability** | | | | | | | | | | | | |
| Return on Assets (ROA) | 0.8 | 0.7 | 0.7 | 0.7 | 1.9 | 1.8 | 1.8 | 1.0 | 0.6 | 1.7 | 1.6 | 1.6 |
| Return on Equity (ROE) | 14.8 | 14.1 | 17.0 | 14.0 | 40.6 | 36.0 | 39.0 | 14.9 | 8.5 | 20.5 | 19.0 | 19.3 |
| **Liquidity** | | | | | | | | | | | | |
| Reserves/total deposits | 27.7 | 24.3 | 18.0 | 21.1 | 23.5 | 21.0 | 20.0 | 41.2 | 20.2 | 22.4 | 20.4 | 21.7 |
| Liquid assets/Total assets 1/ | 23.0 | 23.1 | 23.2 | 24.2 | 28.6 | 27.7 | 28.4 | 29.5 | 23.4 | 30.2 | 26.5 | 26.6 |
| Liquid assets/ST liabilities | 139.5 | 147.5 | 148.7 | 142.9 | 181.7 | 174.5 | 184.0 | 156.3 | 154.3 | 184.5 | 166.4 | 182.0 |
| Total deposits /Total loans | 141 | 128.9 | 128.2 | 134.8 | 136.2 | 136.2 | 137.0 | 149.8 | 124.6 | 125.0 | 128.2 | 127.0 |

Sources: BEAC; COBAC; and IMF Financial Soundness Indicators.

1/ Data from the IMF Financial Soundness Indicators database. August 2018 data is used for Q3.

## Table 6. Cameroon: Risk Assessment Matrix [1/]

| Source of Risks | Relative Likelihood | Impact if Realized | Recommended Policy Response |
|---|---|---|---|
| **Rising protectionism and retreat from multilateralism** | **High** | **Medium**<br>Global imbalances and fraying consensus about the benefits of globalization lead to escalating and sustained trade actions and spreading isolationism. This threatens the global trade system, regional integration, labor mobility, as well as global and regional policy and regulatory collaboration. In the short term, increased uncertainty about growth triggered by escalating trade tensions leads to increased financial market volatility. Negative consequences for growth are, in turn, exacerbated by adverse changes in market sentiment and investment. | Support CEMAC regional integration on free flow of goods and people; encourage further cooperation to remove obstacles for intra-regional trade; promote export diversification. |
| **Unsustainable macroeconomic policies** | **Medium** | **Medium**<br>Policies in systemically important countries to boost near-term activity beyond sustainable levels (due to domestic political pressures or in response to external policy spillovers) exacerbate underlying vulnerabilities and, in some cases, backfire by hurting confidence and global growth. | Improve CEMAC integration and economic relationship with Nigeria; improve business environment; implement structural reforms to improve competitiveness; support inclusive growth to enhance social cohesion. |
| **Sharp tightening of global financial conditions** | **High** | **Medium**<br>Sharp tightening of global financial conditions causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. Tighter financial conditions could be triggered by a sharper-than-expected increase in U.S. interest rates (prompted by higher-than-expected inflation) or the materialization of other risks. | Continue necessary fiscal consolidation and structural reforms to reduce external imbalances and boost investor confidence; enhance bank supervision and regulation to reduce risk exposure; encourage development of fintech platforms to expand access to finance. |
| **Weaker than projected global growth** | **Medium** | **High**<br>Structurally weak growth in key trading parterns in advanced economies (European Union, US), slowdown and potential sharp adjustment in large emerging economies (China) could reduce external demand, increase capital flow fluctuations and complicate Cameroon's adjusment efforts. | Improve regional integration and facilitate intra-regional trade; implement structural reforms to improve business climate and competitiveness. |
| **Intensification of the risks of fragmentation/security dislocation** | **High** | **High**<br>Intensification of the risks of fragmentation/security dislocation in parts of the Middle East, Africa, Asia, and Europe, leading to socio-economic and political disruptions. | Improve humanitarian situation of refugees and internally displaced persons (IDPs) and enhance social cohesion. |
| **Sizable deviations from baseline energy prices** | **Medium** | **High**<br>Risks to oil prices are broadly balanced. Prices could rise sharply due to steeper-than-anticipated export declines in some producers, possibly prompted by political disruptions, amid supply bottlenecks. Prices could drop significantly if downside global growth risks materialize or supply exceeds expectations, possibly due to faster-than-expected U.S. shale production growth, or, over the medium term, higher OPEC/Russia production. While, on aggregate, lower oil prices would benefit global growth, they would negatively affect oil exporters. | Widen the non-oil tax base, increase efficiency of the national oil refinery (SONARA) and spur competition in the oil import sector. |
| **Cyber attacks** | **Medium** | **Medium**<br>Cyber attacks on critical global financial, transport or communication infrastructure and broader private and public institutions trigger systemic financial instability or widespread disruptions in socio-economic activities. | Enhance investment in IT system and increase awareness of cyber security |
| **Spillovers from other CEMAC countries** | **High** | **High**<br>Worsening economic situation of other CEMAC countries could affect Cameroon through extra pressure in the payment and banking systems. | Coordinate with other CEMAC countries to build additional buffers through fiscal consolidation and structural reforms. |
| **Spillovers of the regional security situation** | **Medium** | **High**<br>A deterioration of the regional security situation would lead to an increase in displaced populations, a costlier security response, and decline of investment in affected regions. | Provide space for higher security expenditure in the budget by curtailing unproductive public investments; prepare contingency plans for refugees with UNHCR. |
| **Reform fatigue before elections** | **High** | **High**<br>The upcoming elections in the fall of 2018 could lead to unexpected spending overrun and delayed implementation of structural reforms. | Strengthen budget execution control and prepare contigent measures to stay on course of the agreed fiscal consolidation and reform agenda. |
| **Contingent risks from state-owned enterprises** | **Medium** | **High**<br>Contingent risks from state-owned enterprises could impose further pressures on public debt and the ongoing fiscal consolidation under the program. | Contain the risks by enhanced monitoring and timely reporting of the risks of the state-owned enterprises and developing strategies to reduce the state aid to these companies. |

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

## Table 7. Cameroon: External Financing Requirements, 2016–23
(CFAF billion, unless otherwise indicated)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| **1. Total financing requirement** | **28.4** | **1055.7** | **1103.9** | **1142.1** | **1038.0** | **1123.6** | **1242.5** | **1386.7** |
| Current account deficit | 613.0 | 541.3 | 780.2 | 695.4 | 719.4 | 732.4 | 796.3 | 888.9 |
| Debt amortization | 112.9 | 134.5 | 241.7 | 338.3 | 306.4 | 316.9 | 306.9 | 395.1 |
| Commercial banks | | | | | | | | |
| Corporate sector | | | | | | | | |
| Repayment to the Fund | 17.7 | 16.7 | 15.3 | 14.7 | 0.0 | 0.0 | 0.0 | 35.4 |
| Change in gross reserves (increase=+) | -715.2 | 363.2 | 66.7 | 93.6 | 12.1 | 74.2 | 139.3 | 67.3 |
| **2. Total financing sources** | **36.6** | **690.4** | **720.7** | **757.8** | **995.6** | **1123.6** | **1242.5** | **1386.7** |
| Capital transfers | 36.3 | 67.9 | 36.0 | 28.8 | 30.7 | 32.9 | 35.3 | 37.8 |
| Foreign direct investment (net) | 324.7 | 459.1 | 422.6 | 466.7 | 488.6 | 504.6 | 524.8 | 545.7 |
| Portfolio investment (net) | 12.3 | 14.0 | 14.0 | 14.4 | 14.9 | 15.3 | 15.8 | 16.2 |
| Debt financing | -336.8 | 169.2 | 248.0 | 247.8 | 461.4 | 570.8 | 666.7 | 786.9 |
| Public sector | 458.0 | 718.2 | 753.0 | 587.8 | 631.4 | 680.8 | 736.7 | 816.9 |
| Short-term debt | -794.8 | -549.0 | -505.0 | -340.0 | -170.0 | -110.0 | -70.0 | -30.0 |
| Errors and omissions | 0.0 | -19.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **3. Total financing needs** | **-8.1** | **365.3** | **383.3** | **384.3** | **42.4** | **0.0** | **0.0** | **0.0** |
| **Expected financing** | | **201.5** | **298.4** | **298.3** | | | | |
| AFDB | | | 216.4 | 98.4 | | | | |
| WB | | 116.3 | 0.0 | 111.4 | | | | |
| France | | 65.5 | 65.6 | 65.6 | | | | |
| EU | | 19.7 | 16.4 | 23.0 | | | | |
| **Residual financing gap** | | **167.1** | **84.9** | **86.0** | **42.4** | | | |
| IMF ECF financing 1/ | | 167.1 | 84.9 | 86.0 | 42.4 | | | |

Sources: IMF staff estimates and projections.

1/ IMF ECF loan disbursed CFAF 167.1 billion in 2017, and CFAF 42.5 billion in July 2018.

## Table 8. Cameroon: Gross Financing Needs, 2016–23

(CFAF billion, unless otherwise indicated)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | |
| A. Overall fiscal deficit (cash basis, including grants) | 977 | 915 | 814 | 548 | 453 | 387 | 421 | 454 |
| | | | | | | | | |
| B. Other financing needs | 394 | 570 | 365 | 440 | 336 | 344 | 344 | 456 |
| Amortization (including arrears) | 367 | 206 | 302 | 440 | 336 | 344 | 333 | 456 |
| External | 131 | 151 | 257 | 353 | 306 | 317 | 307 | 430 |
| o/w Amortization (excl. IMF) | 113 | 135 | 242 | 338 | 306 | 317 | 307 | 395 |
| o/w Repayment of IMF credit | 18 | 17 | 15 | 15 | 0 | 0 | 0 | 35 |
| Domestic | 237 | 55 | 45 | 87 | 29 | 27 | 26 | 26 |
| o/w Amortization of Tbills | 203 | 36 | 45 | 87 | 29 | 27 | 26 | 26 |
| o/w Amortization of Bonds | 33 | 19 | 0 | 0 | 0 | 0 | 0 | 0 |
| Moratorium debt | | | | | | | | |
| Other | | | | | | | | |
| Banking System | 27 | 364 | 63 | 0 | 0 | 0 | 11 | 0 |
| Repayment of statutory advances | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other deposits | 27 | 364 | 63 | 0 | 0 | 0 | 11 | 0 |
| Repayment of VAT arrears | | | | | | | | |
| Other (including restructuring costs) | | | | | | | | |
| Arrears on domestic amortization (reduction) | | | | | | | | |
| Bond amortization | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| C=A+B Total financing needs | 1372 | 1485 | 1179 | 988 | 789 | 731 | 765 | 910 |
| | | | | | | | | |
| D. Identified sources of financing | 1313 | 1485 | 797 | 604 | 747 | 731 | 765 | 909 |
| External | 453 | 920 | 753 | 588 | 631 | 681 | 737 | 817 |
| Drawing | 453 | 920 | 753 | 588 | 631 | 681 | 737 | 817 |
| o/w Project financing (ext.) | 453 | 742 | 753 | 588 | 631 | 681 | 737 | 817 |
| Domestic | 860 | 565 | 43 | 16 | 116 | 50 | 28 | 92 |
| Banking System | 655 | 566 | 107 | 114 | 123 | 108 | 63 | 74 |
| BEAC Statutory advances | 93 | 346 | 0 | 0 | 0 | 0 | 0 | 0 |
| IMF withdrawal | | 158 | | | | | | |
| Government deposits | 475 | 0 | 0 | 66 | 40 | 40 | 0 | 3 |
| Bank loans | 83 | 31 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other bank financing | 4 | 31 | 107 | 48 | 83 | 68 | 63 | 71 |
| Other non-bank financing | 205 | -1 | -64 | -98 | -8 | -58 | -35 | 19 |
| Privatization receipts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| E=C-D Financing gap | 59 | 0 | 383 | 384 | 42 | 0 | 0 | 0 |
| | | | | | | | | |
| Errors and omissions | 59 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| F. Exceptional external financing | | 0 | 298 | 298 | 0 | 0 | 0 | 0 |
| Multilateral 1/ | | 0 | 233 | 233 | 0 | 0 | 0 | 0 |
| Bilateral | | 0 | 66 | 66 | 0 | 0 | 0 | |
| | | | | | | | | |
| E-F Residual financing needs | | | | | | | | |
| IMF -ECF | | 0 | 85 | 86 | 42 | 0 | 0 | 0 |

Sources: IMF staff estimates and projections.

1/ For 2018, AfDB disbursed CFAF 118 billion in January, France disbursed CFAF 66 billion in July and IMF-ECF disbursed CFAF 42.5 billion in July.

## Table 9. Cameroon: Proposed Schedule of Disbursements Under the ECF Arrangement, 2017–20

| | Date of Availability | Amount (SDR million) | In percent of quota 1/ | Conditions for Disbursement |
|---|---|---|---|---|
| 1 | 6/26/2017 | 124.2 | 45 | Executive Board approval of the ECF arrangement. |
| 2 | 12/15/2017 | 82.8 | 30 | Observance of continuous and end-June 2017 performance criteria, and completion of the first review. |
| 3 | 6/30/2018 | 55.2 | 20 | Observance of continuous and end-December 2017 performance criteria, and completion of the second review. |
| 4 | 12/15/2018 | 55.2 | 20 | Observance of continuous and end-June 2018 performance criteria, and completion of the third review. |
| 5 | 6/15/2019 | 55.2 | 20 | Observance of continuous and end-December 2018 performance criteria, and completion of the fourth review. |
| 6 | 12/15/2019 | 55.2 | 20 | Observance of continuous and end-June 2019 performance criteria, and completion of the fifth review. |
| 7 | 5/31/2020 | 55.2 | 20 | Observance of continuous and end-December 2019 performance criteria, and completion of the sixth review. |
| | Total | 483.0 | 175 | |

Source: IMF staff calculations.

1/ Cameroon's current quota is SDR 276.0 million. As of October 31, 2018 the outstanding credit was SDR 281.037 million.

## Table 10. Cameroon: Capacity to Repay the Fund, 2016–32

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Projection | | | | | | | | | | | | | | | |
| **Fund obligations based on existing credit** (SDR millions) | | | | | | | | | | | | | | | | | |
| Principal | 21.5 | 20.7 | 19.9 | 18.8 | - | - | - | 41.4 | 52.4 | 52.4 | 52.4 | 52.4 | 11.0 | - | - | - | - |
| Charges and interest | - | 0.6 | 0.4 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| **Fund obligations based on existing and prospective credit** (SDR million) 1/ | | | | | | | | | | | | | | | | | |
| Principal | 21.5 | 20.7 | 19.9 | 18.8 | - | - | - | 41.4 | 69.0 | 91.1 | 96.6 | 96.6 | 55.2 | 27.6 | 5.5 | - | - |
| Charges and interest | - | 0.6 | 0.4 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| **Total obligations based on existing and prospective credit** | | | | | | | | | | | | | | | | | |
| SDR millions | 21.5 | 21.3 | 20.3 | 20.5 | 1.7 | 1.7 | 1.7 | 43.1 | 70.7 | 92.8 | 98.3 | 98.3 | 56.9 | 29.3 | 7.2 | 1.7 | 1.7 |
| CFA F billions | 17.7 | 17.2 | 15.6 | 16.0 | 1.3 | 1.3 | 1.3 | 32.5 | 53.3 | 70.0 | 74.1 | 74.1 | 42.9 | 22.1 | 5.4 | 1.3 | 1.3 |
| Charges and interest | - | 0.5 | 0.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Principal | 17.7 | 16.7 | 15.3 | 14.7 | - | - | - | 31.2 | 52.1 | 68.7 | 72.9 | 72.9 | 41.6 | 20.8 | 4.2 | - | - |
| Percent of government revenue | 0.6 | 0.6 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.7 | 1.1 | 1.3 | 1.3 | 1.2 | 0.7 | 0.3 | 0.1 | 0.0 | 0.0 |
| Percent of exports of goods and services | 0.5 | 0.5 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.8 | 1.2 | 1.5 | 1.6 | 1.5 | 0.8 | 0.4 | 0.1 | 0.0 | 0.0 |
| Percent of debt service 2/ | 9.7 | 7.4 | 5.9 | 5.2 | 0.4 | 0.4 | 0.4 | 6.2 | 9.7 | 11.7 | 14.6 | 14.0 | 8.2 | 4.1 | 1.0 | 0.2 | 0.2 |
| Percent of GDP | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of quota | 7.8 | 7.7 | 7.4 | 7.4 | 0.6 | 0.6 | 0.6 | 15.6 | 25.6 | 33.6 | 35.6 | 35.6 | 20.6 | 10.6 | 2.6 | 0.6 | 0.6 |
| Percent of gross reserves | 1.3 | 1.0 | 0.8 | 0.8 | 0.1 | 0.1 | 0.1 | 1.5 | 2.1 | 2.7 | 2.7 | 2.5 | 1.4 | 0.8 | 0.2 | 0.0 | 0.0 |
| **Outstanding Fund credit** | | | | | | | | | | | | | | | | | |
| SDR millions | 59.4 | 245.7 | 336.2 | 427.8 | 483.0 | 483.0 | 483.0 | 441.6 | 372.6 | 281.5 | 184.9 | 88.3 | 33.1 | 5.5 | 0.0 | 0.0 | 0.0 |
| CFA F billions | 49.0 | 198.4 | 258.5 | 333.3 | 371.3 | 369.1 | 366.0 | 333.2 | 281.1 | 212.4 | 139.5 | 66.6 | 25.0 | 4.2 | 0.0 | 0.0 | 0.0 |
| Percent of government revenue | 1.7 | 6.5 | 7.8 | 9.5 | 9.9 | 9.3 | 8.5 | 7.3 | 5.7 | 4.0 | 2.5 | 1.1 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 |
| Percent of exports of goods and services | 1.3 | 5.2 | 6.6 | 8.3 | 9.2 | 9.1 | 8.9 | 8.0 | 6.5 | 4.7 | 3.0 | 1.3 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 |
| Percent of debt service 2/ | 26.7 | 84.9 | 98.6 | 108.9 | 118.3 | 113.5 | 104.2 | 63.6 | 51.3 | 35.6 | 27.5 | 12.6 | 4.8 | 0.8 | 0.0 | 0.0 | 0.0 |
| Percent of GDP | 0.3 | 1.0 | 1.2 | 1.5 | 1.5 | 1.4 | 1.3 | 1.1 | 0.9 | 0.6 | 0.4 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of quota | 21.5 | 89.0 | 121.8 | 155.0 | 175.0 | 175.0 | 175.0 | 160.0 | 135.0 | 102.0 | 67.0 | 32.0 | 12.0 | 2.0 | 0.0 | 0.0 | 0.0 |
| Net use of Fund credit (SDR millions) | -21.5 | 186.3 | 90.5 | 91.6 | 55.2 | 0.0 | 0.0 | -46.9 | -69.0 | -91.1 | -96.6 | -96.6 | -49.7 | -27.6 | -5.5 | 0.0 | 0.0 |
| Disbursements | - | 207.0 | 110.4 | 110.4 | 55.2 | - | - | - | - | - | - | - | - | - | - | - | - |
| Repayments and repurchases | 21.5 | 20.7 | 19.9 | 18.8 | - | - | - | 46.9 | 69.0 | 91.1 | 96.6 | 96.6 | 49.7 | 27.6 | 5.5 | - | - |
| *Memorandum items:* (CFA F billions) | | | | | | | | | | | | | | | | | |
| Nominal GDP | 19,345 | 20,328 | 21,426 | 22,693 | 24,117 | 25,708 | 27,471 | 29,415 | 31,562 | 33,873 | 36,354 | 39,020 | 41,890 | 44,978 | 48,302 | 51,881 | 55,734 |
| Exports of goods and services | 3,710 | 3,794 | 3,889 | 4,009 | 4,047 | 4,071 | 4,105 | 4,190 | 4,349 | 4,522 | 4,715 | 4,960 | 5,227 | 5,518 | 5,836 | 6,207 | 6,613 |
| Government revenue | 2,866 | 3,040 | 3,317 | 3,517 | 3,754 | 3,984 | 4,299 | 4,588 | 4,907 | 5,282 | 5,681 | 6,111 | 6,551 | 7,025 | 7,573 | 8,164 | 8,761 |
| Debt service 2/ | 183.1 | 233.6 | 262.2 | 306.1 | 313.8 | 325.3 | 351.1 | 523.8 | 548.3 | 597.2 | 506.6 | 528.0 | 522.4 | 544.9 | 560.8 | 585.4 | 629.1 |
| CFA francs/SDR (period average) | 823.9 | 807.4 | 768.7 | 779.0 | 768.7 | 764.2 | 757.7 | 754.4 | 754.4 | 754.4 | 754.4 | 754.4 | 754.4 | 754.4 | 754.4 | 754.4 | 754.4 |

Source: IMF staff estimates and projections.

1/ On October 3, 2016, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF till end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter.

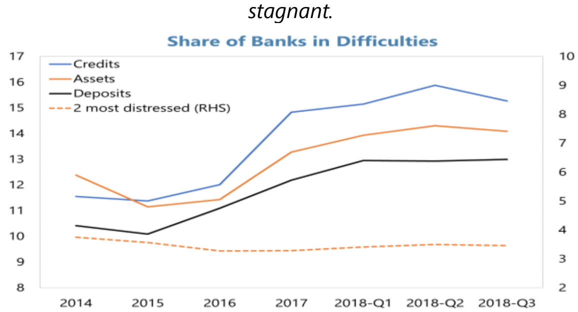
2/ Total debt service includes IMF repurchases and repayments.

# Annex I. Progress in Financial Sector Reforms

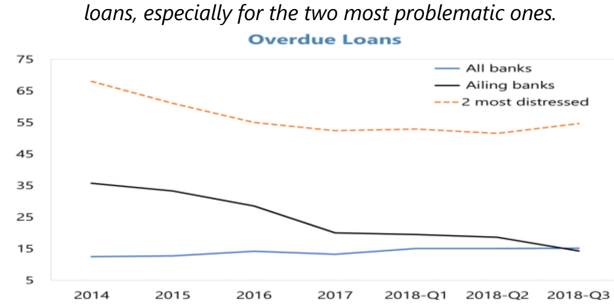
1. **Cameroon's financial sector remains resilient, albeit shallow and weakened by a few ailing banks and an elevated level of overdue loans. Cameroon's banking sector is the largest in the CEMAC and has been more resilient to the oil price shock, thanks to greater economic diversification**. However, the country experiences low levels of credit penetration (14.4 percent of GDP at end-2017), combined with a low access to financial services: about 35 percent of the adult population has an account (41 percent for the average SSA ).[1] Whereas most banks appear adequately capitalized, profitable and liquid, overall asset quality is weak with a high level of overdue loans. Four ailing banks[2] (about 13-14 percent of total bank assets, Annex I, Figure 1) have long been present in the financial sector, with a fifth small bank recently experiencing losses.

## Annex I. Figure 1. Cameroon: Ailing Banks-Key Financial and Prudential Indicators 1/

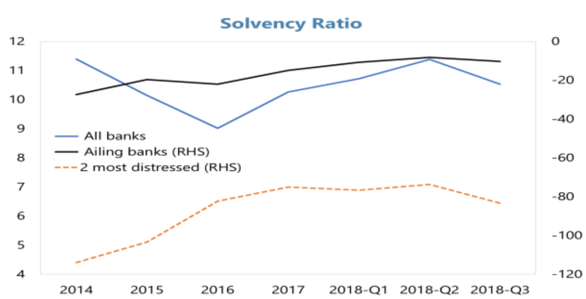
*The ailing banks with clear resolution plans are gaining market shares, while the two most problematic ones are stagnant.*



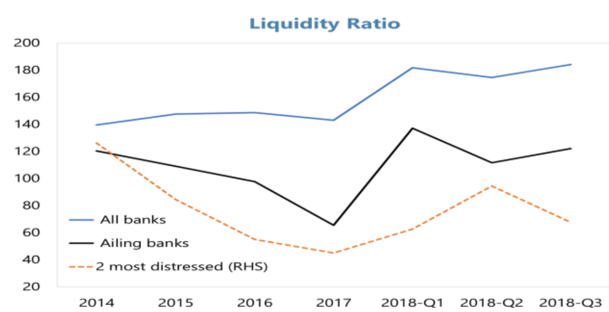

*Overdue loans have been declining owing to: the transfer of NPLs of the nationalized ailing bank to the SRC and the increase of loans, especially for the two most problematic ones.*




*The solvency ratio of ailing banks is improving. All but one recorded positive net earnings at end-2017.*




*However, the liquidity conditions of ailing banks, especially the most troubled ones, have been weak despite recent improvement.*




Sources: COBAC; and IMF staff calculations.

1/ Before 2016 there were 3 ailing banks, the newly-created bank was added since 2016 but represents less than 0.4 percent of bank total assets).

[1] FINDEX 2017.

[2] Two of the 4 ailing banks have resolution plans approved by COBAC. One bank was nationalized with its impaired assets transferred to the SRC and the private owner of the other has decided to recapitalize the bank by 2020.

**2. To address these issues and promote private sector-led inclusive growth, strengthening financial sector stability while boosting access to financial services are key objectives of Cameroon's ECF program**. The program includes several financial sector structural benchmarks to be implemented with the support of other development partners, focusing in three areas: (i) resolving the ailing banks at least fiscal cost and strengthening the management of the public bank to enhance financial stability; (ii) addressing the structurally-high overdue and non-performing loans to boost credit provision; and (iii) removing barriers to access to financial services to strengthen financial inclusion and boost private investment.

**3. However, progress in implementing the financial reforms has been uneven due to a combination of factors**. Specifically,

- The NPLs' reduction strategy prepared at end-2017 is being implemented. An inventory of NPLs in the banks was conducted; 20 judges and 10 court clerks are being trained in banking and credit litigations, and will be deployed in major business centers (end-2018 SB); a study of out-of-court restructuring of NPLs is being conducted; and several bills have been drafted including: for the creation of case preparation chamber, for enhancing credit discipline, and for establishing commercial courts to be adopted by June 2019.
- Reforms to enhance access to financial services are ongoing. The authorities timely granted access to the creditor database to all MFIs. The computerization of the movable collateral registry, supported by the World bank, should be effective by end-2018 (SB).
- The decision process for the resolution of two private ailing banks has been slow. The initial resolution plan, prepared with delay, lacked financial projections and sound valuation of the NPLs, whose transfer to the SRC was central to the plan. The IMF TA report updating the SRC pricing methodology (June 2018 SB) was sent to the authorities in August 2018. With World Bank's support the authorities are in the process of adopting a sound resolution plan to be fully implemented by end-August 2019.
- The performance contract of the resolved public bank signed in July did not reflect staff's comments (July-2018 SB), thus required an amendment to strengthen its governance, transparency, and define proper incentive mechanisms, that was signed in October. The government will provide to the bank an independent governance structure by end-June 2019 when the terms of existing board members expire.
- The draft business model for the SME bank (August-2018 SB) did not provide long-term viability for the bank. Following staff's recommendations, the SME bank conducted its first shareholder meeting in November adopting (i) a consolidation strategy to break even over the coming quarters and (ii) steps to strengthen governance and compliance. Its revised business model geared towards indirect lending shall be finalized by end-March 2019 (new SB) following a study of SMEs financing needs by end-January 2019.

**4. Staff maintains a close dialogue with the authorities and other partners to ensure progress with financial sector reforms**. The World bank has recently approved a one-year financial stability project to support the SRC and the resolution of the private ailing banks, and to strengthen the management of the resolved public bank. Staff is in contact with other development partners to expedite the definition of a viable business model for the SME bank.

# Annex II. Corruption and Governance in Cameroon

**1. Despite improvements over time, weak governance and corruption contribute to the difficult business environment and hamper private sector development**. According to the Worldwide Governance Indicators, perception of Cameroon's regulatory quality and government effectiveness has improved over the last twenty years and lies close to the average for sub-Saharan Africa (see Annex Figure 1). However, perceptions regarding the rule of law and the control of corruption remain weak and almost half of Cameroon's households perceived corruption as having increased over the previous year in the latest household survey from 2014. The business census from 2016 suggests that corruption is less of an obstacle than in 2009, but incidence and depth of bribes for firms remain above the sub-Saharan African average according to the World Bank Enterprise Survey.

**2. Cameroon has taken steps to address corruption and has put in place key anti-corruption institutions**.

- The 1996 Constitution includes an obligation for both elected and appointed officials to declare their assets and property (Article 66), which was translated into law in 2006. However, neither the constitutional nor statutory provisions for asset disclosure are in force, owing to the absence of an implementation decree.
- In 2016, a new Penal Code was adopted which internalized some of the offences provided for in the Merida Convention.
- After the United Nations Convention Against Corruption (UNCAC) went into force in 2006, Cameroon set up the National Agency for Financial Investigations (NAFI), the country's financial intelligence unit, and the National Anti-Corruption Commission (CONAC) to complement existing institutions. From 2015 to 2016 Cameroon was assessed in cycle I of a two-cycle peer review mechanism.[1] The CONAC publishes an annual status report that describes the activities carried out by all anti-corruption stakeholders.[2] CONAC received 2,400 denunciations in 2016 and key investigations included regional treasury accounts, customs,[3] the National Cocoa and Coffee Board and road projects. Recent initiatives by CONAC comprised the introduction of a free hotline for denunciations as well as a public awareness campaign to highlight that public services in Cameroon are free for citizens.
- The customs general directorate has also taken measures, by introducing a code of conduct, a hotline to report corruption cases, and an independent Ethics and Governance Committee.

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[1] Cycle 1 assessed the implementation of Chapter III (Criminalization and law enforcement) and Chapter IV (International cooperation). Cycle II began in 2016 and will run until 2020 assessing the implementation of Chapter II (Preventive measures) and Chapter V (Asset recovery).

[2] These include control institutions, courts, ministries, public administrative institutions, public and semi-public companies and private sector and civil society.

[3] The report documented multiple cases of illicit enrichment by customs officials.

- However, according to Global Integrity's Africa Integrity Indicators of 2016 the judiciary and supreme audit institution operated under executive influence and anti-corruption bodies are not effective or independent. The CONAC produces anti-corruption reports and investigates corruption cases, but there is no automatic follow-up nor prosecution. The constitutional and statutory provisions on asset and property declaration are not in force, and the Chamber of Auditors is not independent.

**3. Cameroon has made meaningful progress in implementing the 2016 EITI Standard but needs to take important corrective actions to avoid suspension.** A 2005 decree provides the legal basis for EITI implementation and established the EITI multi-stakeholder group. Validation against the 2016 EITI Standard found that meaningful progress was made in implementation in June 2018, but that Cameroon is failing on a significant number of mandatory clauses. Three areas were flagged with inadequate progress (MSG governance, subnational transfers and SOE quasi-fiscal expenditures) and 14 corrective actions were outlined that Cameroon needs to address by December 29th, 2019 (see below). Failure to achieve meaningful progress would result in suspension.[4] In response to the assessment, the government set up a committee to monitor the implementation of the standard in July and plans to revise its three-year working plan to include the corrective measures. FAD has provided technical assistance in extractive industries' taxation in 2016 but the uptake is unclear.

**4. The ECF program supports the country's efforts in enhancing governance and reducing corruption through advice, capacity building, quantitative targets and structural benchmarks**. The program addresses issues in key state functions guided by the new Governance Framework for Enhanced Fund Engagement, which was adopted in April 2018.

## A. Fiscal Governance

**5. Main weaknesses:** Weaknesses in fiscal governance are multifold and lead to potential inefficiencies in the use of public resources and rent-seeking and corruption, within the government or in transactions with the private sector.

- On the revenue side, complex and sometimes manual procedures, lack of reconciliations between the tax and customs administrations, and inadequate risk management create incentives for corruption and fraud.
- A 2017 PEFA update found significant weaknesses in public financial management, including (i) significant resort to nontransparent exceptional spending procedures including SNH direct interventions and treasury advances, (ii) inadequate supervision and monitoring of public institutions and local and regional authorities, (iii) an inefficient control system that does not meet international recommendations and standards and (iv) insufficient access to information on public procurement and lack of separation between functions in the procurement process.

[4] In accordance with the EITI Standard, Cameroon's MSG may request an extension of this timeframe, or request that Validation commences earlier than scheduled.

- Personnel records and payroll data are not integrated and there are irregularities on the reconciliation of budget and treasury data. There was also a lack of transparency as fiscal data (budget execution reports or fiscal statistics) were not published until mid-2017. While a single treasury account exists, it does not cover the full central government.
- The recent EITI assessment from June 2018 found gaps on a significant number of mandatory clauses and has asked for 14 corrective actions. These include public data provision on (i) licenses pertaining to oil and gas companies, (ii) extractives companies in which the government, or any SOE, holds equity and the specific level of government ownership, (iii) the production value of each mineral commodity, and (iv) volumes collected as the state's in-kind revenues, volumes sold and related revenues. The assessment also calls for the role of SOEs, including transfers between SOEs and other government agencies, being comprehensively and publicly addressed. Moreover, Cameroon needs to ensure that there is a clear public indication of which extractive industry revenues are recorded in the national budget and clarify the allocation of revenues not recorded in the national budget. It should undertake a more explicit assessment of the materiality of subnational transfers prior to data collection and ensure that the specific formula for calculating transfers to individual local governments be disclosed.
- The constitutional and statutory provisions on asset and property declaration by elected and appointed officials are not enforced.

**6. Program measures***:* The second pillar of the ECF program focuses on structural fiscal reforms to improve institutional frameworks and practices, supporting greater transparency and enhanced governance in the collection and use of public resources.

- Program measures seek to enhance practices in tax and customs administration through e.g., strengthening controls by cross-checking taxpayer information between customs and tax administrations, not clearing import declarations if the importer is not registered with the tax administration, regular reconciliation of declared import values and customs receipts, and implementation of the biometric taxpayer identification.
- Weaknesses in public financial management are addressed by enhancing the credibility and transparency of the budget and strengthening treasury management. Measures include among others publication of quarterly budget execution reports since June 2017; strict limitation of non-transparent exceptional spending procedures (prior action for 2$^{nd}$ review, IT, SB), the transposition of CEMAC directives into national law (prior action for 2$^{nd}$ review), which importantly provides for strengthening the Chamber of Auditors, and broadening the scope of the Single Treasury Account to address the proliferation of accounts of public entities in commercial banks with little accountability over the use of resources. Indicative targets have been set on the amounts of SNH direct interventions and resort to other exceptional procedures. Monthly regularization of SNH direct interventions (new SB for 3$^{rd}$ review) will also enhance budget transparency.
- Investment planning and execution improvements will be supported by the update and implementation of the project selection and maturation guide, and the preparation of procurement plans in cooperation with the AfDB and the World Bank. In particular, the Ministry

of Economy's capacity to review and assess projects could be strengthened through training or hands-on review of projects together with World Bank and AfDB experts. The World Bank is supporting efforts to integrate personnel records and payroll data and increase transparency and equity of the civil service pay system. The World Bank has also supported adoption of a new procurement code in 2018, and of two laws governing state-owned enterprises in 2017. These measures are expected to enhance governance and lower the scope for corruption.

## B. Market Regulation

**7. Main weaknesses**: Burdensome and often unclear regulations, complex tax and border compliance procedures and a lack of transparency hamper competitiveness and increase the scope for corruption. For example, the World Bank enterprise survey finds that 24 percent of firms surveyed were expected to give gifts for an import license (compared to 17 percent for peers) and 48 percent for an operation license (compared to 18 percent). In addition, trade facilitation indicators suggest complex procedures and a lack of transparency as major obstacles to trade (see annex IV in Country report 18/235). Customs exemptions have also incentivized rent-seeking behavior as documented in the 2016 CONAC report. According to the World Bank's 2017 Global Indicators of Regulatory Governance regulatory agencies do develop forward regulatory plans and solicit comments, but they are not available to the general public, nor is there any legal obligation to publish the text of proposed regulations before their enactment. There are also no impact assessments of proposed regulations.

**8. Program measures**: *Measures* under the program aim to enhance regulatory frameworks through e.g., easier physical and electronic access, and simpler forms for tax declarations. Staff has also advised the authorities to phase out tax and customs exemptions, which should start with the 2019 budget, and to narrow eligibility under the investment incentives law. These policies will likely lower opportunities for undue discretion and rent-seeking behavior and promote private investment.

## C. Rule of Law

**9. Main weaknesses**: Most serious issues are related to contract enforcement, which incentivizes dishonest behavior and discourages investment. In particular, the amount of days to enforce contracts stood at 800, the costs were 47 percent of the claim and the quality of the judicial process scored low at 6 out of 18 possible points according to the World Bank's Doing Business Report 2018. In the same report, Cameroon also scored low with regards to protecting minority investors and resolving insolvency. In addition, the peer review of chapter III (criminalization and law enforcement) of the UNCAC in 2016 found significant shortfalls from treaty commitments and identified a range of gaps that needed to be addressed (including the need of keeping records and addressing corruption in procurement).

**10. Program measures**: The program includes measures on capacity building in business law for judges, clerks, lawyers and bailiffs to ensure better monitoring of judicial procedures and execution of final judicial decisions. Target areas are training in banking disputes, the concentration of bank court cases with an appropriate number of judicial participants, and appointment of a pre-trial judge for civil and commercial cases. Moreover, the authorities are working on a bill for enhancing credit discipline. Computerization of the movable collateral registry and the cadaster are planned for end-December 2018 under the program. These policies will enhance the protection of contractual and property rights and ameliorate the timeliness of their enforcement.

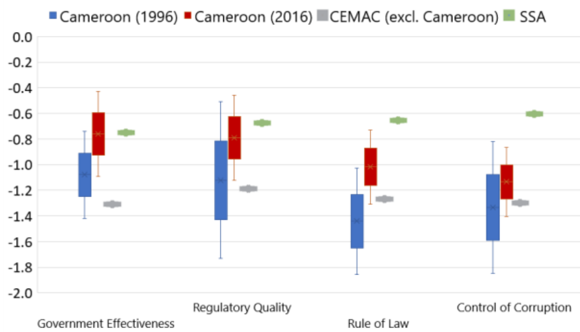
## D. AML/CFT

**11. Main weaknesses**: Corruption has been identified among the key proceeds-generating crimes in Cameroon, and the AML/CFT framework needs strengthening to effectively prevent and deter the laundering of the proceeds of corruption. In this regard, major shortcomings relate to the weak monitoring of transactions performed by politically exposed persons, the lack of transparency of companies enabling their misuse for money laundering, and the absence of dissuasive sanctions. Cameroon's last assessment by the Task Force on Money Laundering in Central Africa (GABAC) took place in 2008 but was limited to technical compliance to the Financial Action Task Force (FATF) standards of the time.

**12. Program measures**: Cameroon will undergo an AML/CFT assessment by GABAC in September 2019 (postponed from January) against the 2012 FATF standard on the basis of the 2013 assessment methodology, which emphasizes a risk-based approach to the implementation of the standards and ensuring effectiveness in risk-mitigation. Staff noted slow progress on the implementation of the 2012 FATF standards. A National Risk Evaluation will be launch in November 2018 with support of the World Bank to identify current weaknesses. The authorities will need to take steps to address identified deficiencies in Cameroon's AML/CFT regime ahead of the next AML/CTF assessment in September.

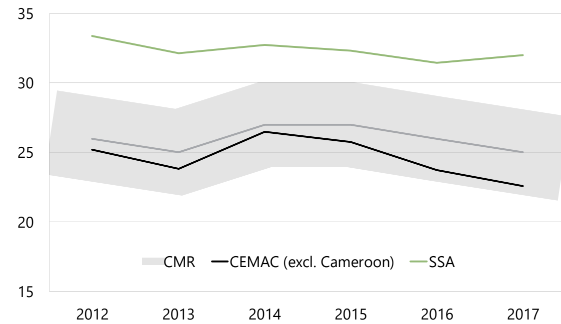
## Annex Figure 1. Cameroon: Governance and Corruption 1/

### Perceptions of Governance and Corruption
(ranges from -2.5 (weak) to 2.5 (strong) governance performance)



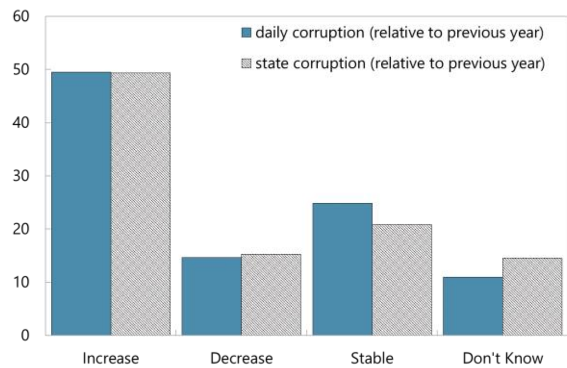

Source: Worldwide Governance Indicators.

### Corruption Perceptions Index
(a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean)



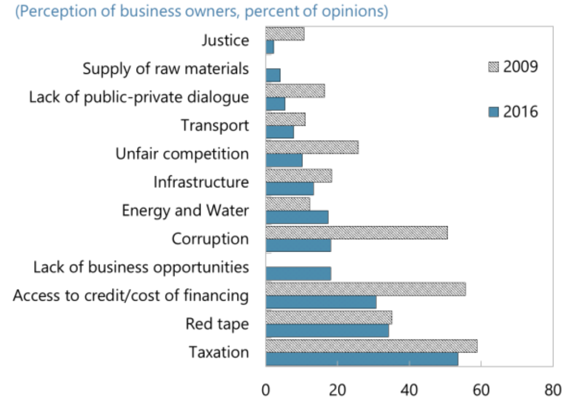

Source: Transparency International.

### Cameroon: Perceptions of Corruption, 2014
(Percent of respondents)



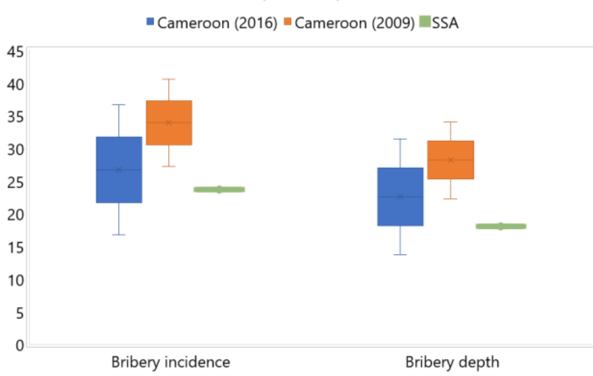

Source: Fourth Cameroon Household Survey (ECAM 4), 2014.

### Principal obstacles to entrepreneurship
(Perception of business owners, percent of opinions)



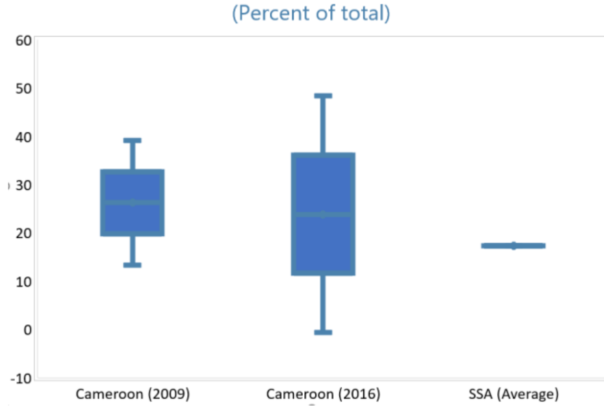

Source: Institut National de la Statistique (INS).

### Bribery Incidence and Depth for Firms 2/
(Percent)




Source: World Bank Enterprise Survey.

### Firms Expected to Give Gifts to Get an Import License
(Percent of total)




Source: World Bank Enterprise Survey.

1/ Data for Cameroon uses the 95 percent -confidence interval where available.

2/ Bribery incidence is percent of firms experiencing at least one bribe payment request. Bribery depth is percent of public transactions where a gift or informal payment was requested.

# Appendix I. Letter of Intent

December 6, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431 U.S.A.

Madam Managing Director,

The Government of Cameroon is continuing to implement the measures laid out in its economic and financial program supported by a three-year arrangement under the International Monetary Fund's Extended Credit Facility (ECF) for the period 2017–20 under difficult economic and security conditions.

Fiscal consolidation continued during the first half of 2018. All performance criteria at end-June were met, except the ceiling on government borrowing from the central bank which was slightly exceeded. All indicative targets were also met, except the floor on non-oil revenues which was slightly below the target. All indicative targets at end-September were met, except the ceiling on government borrowing from the central bank. The successful issuance of the infrastructure bond initially planned for the third quarter would allow to meet this target at end-2018. Besides, fourteen out of the eighteen structural benchmarks between June and November were completed.

The government is committed to successfully implementing the program for the rest of this year, despite risks weighing on non-oil revenue due to the difficulties encountered by SONARA in honoring its tax obligations in a context of rising global oil prices. However, the non-oil revenue shortfall would be partially offset by the end of the year through a better-than-anticipated performance of non-tax revenues, as well as additional measures taken by the tax and customs administrations. The acceleration of externally financed capital spending owing to the need to complete major investment projects and to the preparations for the African Cup of Nations could also lead to an overrun of the corresponding planned budget allocation. However, the government is committed to create equivalent fiscal space, mainly on domestically-financed capital spending.

All these measures would enable the government to meet the program's quantitative criteria and indicative targets (ITs) at end-December, except for the ceiling on SNH direct interventions that was exceeded in October due to the need to enhance security measures over the recent months. A simplified emergency spending mechanism in the budget will make it possible to contain direct interventions to the level of the last ten months of this year. The government also commits to catch up with the delays in meeting some structural benchmarks, and to implement key measures before end-December, notably reforms aimed at maintaining financial sector stability.

In addition, the Minister of Finance, President of the CNDP, adopted a time bound action plan for validating and reducing non-performing SENDs identified jointly with the various donors. The draft 2019 budget law submitted to Parliament for approval on November 15, 2018, is in line with program objectives. It notably includes measures aiming at reducing tax exemptions and widening the tax base.

The government continues to implement policies aimed at preserving regional external stability, which requires the replenishment of BEAC exchange reserves. Therefore, the government supports the efforts of BEAC and COBAC to enhance compliance with the foreign exchange regulation. To that end, the government will honor its obligations on the repatriation of export earnings, including oil revenues. In addition, in line with its regional commitments, the government will submit to the CEMAC Commission, by the end of the year, its three-year convergence plan for 2019-21.

The memorandum of economic and financial policies (MEFP) attached to this letter of intent describes the economic and financial situation in 2018, sets out the economic and financial policies that the government plans to implement for the rest of the year and for 2019, and establishes the quantitative criteria, structural benchmarks and reforms, as well as indicative targets through end-December 2019.

The government requests a waiver of nonobservance of the end-June quantitative performance criterion on the ceiling on net government borrowing of the central government from the central bank excluding IMF financing on the grounds that the deviation is minor. The government also requests the modification of (i) the end-December quantitative performance criterion on the ceiling on net borrowing of the central government from the central bank excluding IMF financing; and (ii) the continuous performance criterion on new non-concessional external debt contracted or guaranteed by the government (adjustor modified to take into account non-concessional budget support disbursements). The government also requests the modification end-March 2019 ITs as indicated in Table 1 of the MEFP.

Based on progress under the program to date, as well as the commitments set out in the MEFP, the government requests the completion of the third review under the ECF arrangement and the disbursement of SDR 55.2 million.

The government is convinced that the policies and measures set out in the MEFP will enable it to meet the program targets. The government is committed to take any further measures to that end. The Cameroonian authorities will consult with the Fund on such additional measures in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund’s policy on such consultations. To facilitate program monitoring and evaluation, the government undertakes to regularly report all required information to IMF staff in a timely manner and in accordance with the attached Technical Memorandum of Understanding (TMU).

Finally, the government confirms that it agrees to the publication of this Letter, the MEFP, the Technical Memorandum of Understanding (TMU), and the IMF Staff Report on this program.

Sincerely yours,

/s/

Philemon Yang
Prime Minister, Head of Government

Attachments: Supplementary Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

# Attachment I. Supplementary Memorandum of Economic and Financial Policies, 2017–19

December 2018

## I. INTRODUCTION

1. **The Government of Cameroon is continuing to implement its economic and financial program supported by the International Monetary Fund (IMF) under difficult socioeconomic circumstances.** Five out of six performance criteria at end-June 2018 were met, as well as four out of five indicative targets, and 12 out of 18 structural benchmarks were implemented within the established time frame between end-June and end-October, whereas 2 were delayed. The difficult security context still weighs significantly on the country's socioeconomic situation. However, the government remains firmly committed to the successful implementation of the program during the rest of the year and next year and will take the necessary measures to honor its commitments.

## II. RECENT ECONOMIC DEVELOPMENTS

2. **Economic growth has been less sustained than anticipated, owing mainly to the sharp decline in oil production.** Contraction of real oil GDP would reach 9.3% in 2018 (against 1 percent growth previously projected) and 6.6 percent in 2019. Despite an increase in gas production, crude oil production is expected to decline, owing to the depletion of some oil wells and low investment following price fall over the previous years. In the non-oil sector, growth in the primary sector is expected to drop, owing notably to slowdown in industrial and agriculture exports, resulting mainly from security challenges in the South West region, one of the major cocoa production basins. However, activities in the non-oil sector will remain buoyant, due to increased activity in trade, hotel and catering, relative to the organization of the CAN. This favorable trend should also be observed in the construction sector, following completion and operation of first-generation projects in the road and energy sectors. Non-oil sector growth is expected to reach 4.5 percent in 2018 (against program projection of 4.2 percent) and 4.9 percent in 2019. Inflation remains low, averaging 1 percent in 2018 and 1.2 percent in 2019.

3. **Budget implementation in the first half of the year remains in line with program objectives.** The overall fiscal deficit (payment order basis, including grants) reached 0.5 percent of GDP, against 0.9 percent projected in the program, mainly due to slower execution of non-wage recurrent spending. Oil revenues remain in line with projections, with the negative effects of the production decline offset by the price increase. Non-oil revenues were slightly below projections, in particular owing to SONARA's tax arrears (CFAF 36 billion), due to delays in the payment of its subsidies. Preliminary end-September estimates indicate that non-oil revenues are significantly above the indicative floor. The underperformance of tax and customs revenue due to the non-payment of SONARA has been partly compensated by other non-tax revenues. The non-oil primary

deficit target (payment order basis, including grants), has been met. The acceleration of recurrent spending has been compensated by a slowdown of investment expenditures, notably domestically-financed investment.

**4. The current account deficit is widening.** Weaker than projected agriculture exports and higher imports of refined petroleum products (SONARA interrupted production over the period April-November for technical reasons) and capital goods related to the Africa Cup of Nations (CAN) organization resulted in a goods trade deficit of CFAF 293 billion in the first half of the year. Increasing volatility in international financial markets also contributed to capital outflows. Consequently, Cameroon's net foreign assets (NFA) declined from CFAF 1,970 billion at end-2017 to CFAF 1,821 billion at end-September 2018, with Cameroon contributing to 47 percent of the CEMAC's under-performance regarding net foreign assets' accumulation. The current account deficit is expected to widen from 2.7 percent of GDP in 2017, to 3.6 percent of GDP in 2018, and to stabilize at 3 percent of GDP in the medium term.

**5. Private sector credit growth started to rebound in the third quarter on the back of improved liquidity conditions.** Broad money increased by 8.3 percent and deposits by 7.2 percent at end-September (y/y) driven by a significant increase in credit to public enterprises (71 percent), an increase in net claims to the government (33 percent) and the recovery of private sector credit during the third quarter (5 percent compared with – 0.6 percent at end-June). The rescheduling of the treasury bond issuance to the last quarter led to weaker-than-projected accumulation of government deposits. Bank reserves remained high, representing 20 percent of deposits, and their net foreign assets increased by 2.4 percent (y/y).

**6. Public debt remains sustainable but with a high risk of debt distress.** The stock of public debt was estimated at around 32.6 percent of GDP at end-September 2018, compared with 27.4 percent at end-2016, representing an increase of 5 percentage points of GDP in 21 months, owing mainly to the acceleration of disbursements on externally-financed projects and the conversion of BEAC statutory advances into long-term debt. This estimate includes the SONARA debt to crude oil suppliers, which represents 0.2 percent of GDP.[1]

## III. IMPLEMENTATION OF THE ECONOMIC AND FINANCIAL PROGRAM

**7. Performance criteria and benchmarks:**

- **All performance criteria at end-June were met, except the ceiling on net central government borrowing from the central bank which was slightly exceeded.** (Table 1). The overrun is marginal. All indicative targets were also met except the one floor on non-oil revenue,

[1] In its macroeconomic framework and debt sustainability analysis, the IMF includes the Treasury float and the other SONARA debts in these amounts, which brings total public and publicly guaranteed debt to 36.8 percent of GDP at end-September 2018.

which was missed by 0.1 percent of GDP mainly owing to the failure by SONARA to pay its taxes and customs duties.

- All indicative targets at end-September were met, except the ceiling on net central government borrowing from the central bank.
- However, at end-October 2018, SNH direct interventions amounted to CFAF 175 billion, above the annual indicative target of CFAF 156 billion, owing mainly to the worsening of the security shock over the recent months. The government intends to contain SNH direct interventions at this level by the end of the year, through simplified expenditure procedures at the General Directorate of the Budget for the execution of urgent and sovereignty-related expenditures.

**8. Progress was made on structural benchmarks, with 12 out of 18 benchmarks met on time between June and November 2018** (Table 2). All benchmarks related to fiscal reforms and revenue mobilization were met. Most of the public financial management benchmarks were also met, as well as the measure aimed at the quarterly payment of the utility bills of major public entities.

**9. However, structural benchmarks related to debt management and financial sector stability were not met or were delayed:**

- *Adoption by the Ministers of Finance and Economy of a plan to reduce the stock of SENDs stemming from immature projects, which provides for measures to reduce the stock of SENDS (non-performing) by at least one-third by end-2018* (August structural benchmark that becomes a prior action). A more detailed analysis of non-performing SENDs showed an amount of CFAF 200 billion that could potentially be cancelled. The Minister of Finance who is also the President of the National Public Debt Committee (CNDP) adopted a time-bound action plan in November for the validation of non-performing SENDS, together with development partners, and the reallocation of certain funds to priority projects and the preparation of a disbursement plan in line with the medium-term macroeconomic framework.
- *Close all correspondent accounts for non-resources generating entities (mainly public entities such as line ministries and public agencies); the transfer of new budgetary appropriations to these accounts continues to be prohibited*. (August structural benchmark, not met). Correspondent accounts are no longer provisioned using budgetary appropriations. They will be closed gradually after verification of current commitments on the remaining balance (benchmark to be reprogramed in June 2019).
- *Reduce to two months the deadline for processing bills, between commitment and transmission to the treasury for payment* (June structural benchmark, implemented in October). The average processing time has been reduced to around 21 days. However, there are still some significant time lags between the different phases of the expenditure chain. The circular on the implementation of the 2019 budget will set the processing time for each actor of the expenditure chain and will ensure compliance by all concerned.
- *Sign a performance contract with the management of the public bank.* (July 2018 benchmark, implemented in October). A performance contract was signed on 12 July 2018 and presented to

Board members on 27 September 2018. The revised contract was signed on 24 October 2018, taking into account certain aspects related to governance, profit-sharing and publication.

- *Assess (cost and feasibility) options for the resolution of ailing banks* (August structural benchmark, implementation ongoing). The World Bank provided technical assistance in September 2018 to help the government consider these options. The government's options, taking into account World Bank technical assistance and the report will be transmitted to the IMF by end-December 2018.
- *Decide on the economic model of the SMEs bank* (August 2018 structural benchmark, not met). The government proposed to extend the deadline for this benchmark to March 2019. It was agreed with IMF staff to assess the financing needs of high-performing SMEs in Cameroon, and to analyze the appropriate financing instruments, including indirect financing. Given the bank's significant losses, measures have been taken to reduce spending and contain credit risks. To reach profitability as soon as possible, the Board of Directors has adopted a consolidation strategy in November 2018.

# IV. ECONOMIC AND FINANCIAL PROGRAM IN 2018–19 AND THE MEDIUM TERM

## A. Program Objectives

**10. Notwithstanding the difficult socio-political context, the government reiterates its firm commitment to achieving the program objectives.** This involves pursuing public financial management reforms, widening the tax base for non-oil revenues, enhancing the stability of the banking sector, improving the control and efficiency of public investment, and addressing bottlenecks to private sector development and diversification of the economy. Also, to pursue fiscal consolidation aiming at building fiscal and external buffers, while preserving social spending and other social safety net, the government is committed to strengthening fiscal discipline by achieving the objectives of the 2018 supplementary budget as well as the 2019 budget, and by meeting the quantitative objectives and structural benchmarks of the program.

## B. Macroeconomic Framework

**11. Economic growth prospects remain positive.** Growth is expected to improve in 2018, rising to at least 3.8 percent against 3.5 percent in 2017. Growth projections have been adjusted slightly downward, owing to the sharp drop in economic activities in regions with heightened security problems and anticipated drop in oil production. The finalization of construction works related to the CAN and significant improvement in electricity supply should benefit the construction sector and manufacturing and agricultural industries in 2019. In the medium term, growth will pick up and stabilize at around 5-5.5 percent, driven by the completion of large infrastructure projects (such as road and energy projects).

**12. Meeting the 2018 and 2019 fiscal objectives remains essential to restore macroeconomic stability in Cameroon and the region.** Fiscal consolidation and tighter monetary policy will support improvements in the current account and the rebuilding of the foreign exchange reserves. The current account deficit should stabilize at around 3 percent of GDP in the medium term and net foreign assets at around CFAF 2,256 billion by 2023 against CFAF 1,706 billion in 2016. These efforts are essential to curb public debt increases and keep debt service at sustainable levels. Slippages could lead to unsustainable debt levels, resulting from a rapid accumulation of non-concessional debt given an insufficiently-diversified export base.

**13. Risks associated with the baseline scenario remain broadly unchanged with respect to the second review**. Progress made with economic stabilization in the CEMAC and the increase in oil prices could accelerate economic growth and revenue mobilization. However, delays in adjustment within CEMAC, persistent setbacks in the finalization of economic reform programs with other CEMAC countries and the worsening security situation in the North West and South West regions could weigh on some sectors of the economy and pose fiscal risks, with an impact on investment and growth.

## C. Fiscal Policy

**Fiscal Policy Objectives at End-2018**

**14. The government commits to comply with the floor on the non-oil primary balance at end-2018 (3.9 percent of GDP) and the overall deficit objective (2.4 percent of GDP, payment order basis).** Based on preliminary budget outturn of the first ten months of the year, it is critical to improve non-oil revenue mobilization efforts and strengthen control of current and capital spending to achieve program objectives at end-2018. Oil revenues stood at 0.2 percent of GDP above projections. However, at end-October, non-oil revenues were slightly below target, owing to the delayed payments of taxes and custom duties by SONARA caused by higher-than-anticipated subsidy needs following the increase in oil prices. The following measures will be implemented to offset the shortfalls in non-oil revenue:

- The Directorate General of Taxation (DGI), will ensure close monitoring of contentious tax claims and tax disputes, expedite ongoing controls, and transfer the excess revenue of some public entities to the budget, which should help reduce the projected gap by CFAF 23 billion.
- The Directorate General of Customs ( DGD) will strengthen administrative measures to optimize revenue collection, including through improving the clearance of imported goods, with better utilization of scanned imports and exports at the ports of Douala and Kribi, pursuing the reconciliation of SGS-DGD-GUCE (single electronic trade platform) data, streamlining tax exemptions, increasing the share of current revenue, improving the recovery of tax arrears vis-à-vis public entities, accelerating public auctions at the Douala port, finalizing ex-post controls, intensifying measures to combat fraud and contraband through the HALCOMI operation.

**15. The government will continue to rationalize current expenditures, while preserving social spending**. This allows to create space to cover the overrun in direct interventions (at least

CFAF 20 billion at end-October) and part of the non-budgeted SONARA losses (estimated at around CFAF 60 billion). The government committed to maintain the 20 percent freeze of current spending, generate additional savings on wages and salaries, stopped spending commitments 15 days before the end-November time limit, and will close complementary period operations at end-February 2019.

**16. The acceleration of externally-financed investment will be offset by savings on domestically financed investments.** At end-October, disbursements on externally-financed projects amounted to CFAF 583 billion, and an additional amount of CFAF 218.8 billion remained to be disbursed. Given the risk of overrun in disbursements of external financing in 2018, the government has established a platform to control the disbursements of non-concessional financing, except the CAN related infrastructure. This platform includes all the structures involved in management of external financing and approves issuance of new disbursement requests on non-concessional loans, except those linked to infrastructures related to the CAN. This approach will continue in fiscal year 2019 to ensure better control of disbursements. The government will further regulate public investments (domestic and externally-financed) to align with the 2018 supplementary budget objectives.

**17. The projected overall cash deficit of 3.8 percent of GDP will also be met thanks to measures to limit the stock of arrears and float at end-2018**, including:

- Limitations on provisional commitments;
- clearance of arrears, while complying with the objective of accumulation of government deposits at the BEAC;
- prohibiting the transfer of budget appropriations to correspondent accounts;
- cancelling unjustified balances upon the inventory of arrears and ensuring consistency with the overall treasury accounts balance.

### Fiscal Policy Objectives for 2019 and the Medium Term

**18. The draft 2019 budget submitted to the National Assembly is in line with program objectives**. The framework targets a reduction of the overall fiscal deficit (payment order basis) from 2.4 percent of GDP in 2018 to 2 percent of GDP in 2019, owing to an increase in non-oil revenues of at least 0.3 percent of GDP, spending adjustments of 0.5 percent of GDP, and a drop in domestic arrears of 0.5 percent of GDP. The medium-term budgetary framework hinges on the improved non-oil revenue mobilization, and the rationalization of public investment. This would help reduce gradually the overall fiscal deficit and meet the CEMAC convergence criteria by 2021.

**19. The government intends to implement tax policy measures to improve non-oil revenue mobilization.** The following measures are envisaged in the 2019 draft budget:

- Improving the collection of the land tax by extending the tax amnesty on the land tax and inheritance rights.

- The action plan to gradually reduce tax exemptions will be implemented starting from the 2019 budget, and will yield at least 0.1 percent of GDP in additional revenues (about CFAF 22 billion).
- The payment of taxes and custom duties, in particular the VAT on the execution of externally or jointly-financed public investment starting in January 2019.
- An increase in registration fees on public contracts;
- The suppression of VAT exemptions on life and health insurance contracts and commissions subscribed by companies and individuals.
- The limitation of VAT exemptions on the social portion of water and electricity consumption exclusively to households with moderate consumption.
- Suppression of VAT exemptions on local processing of timber.
- The reduction from 25 percent to 10 percent of the discounted tax base for duties on beer with 5.5 or less alcohol degree, and further redefinition of the tax base for excise taxes.
- The introduction of specific excise tax on imported sodas and other non-alcoholic beverages.
- An increase in excises on tobacco and alcoholic beverages.
- The elimination of certain tax base discounts.
- The improvement of custom duties collection on imported mobile phones and certain softwares.
- Reinforcing the taxation of exported goods.

**20. The 2019 budget is in line with the fiscal consolidation aiming at reducing the non-oil primary deficit.** The following measures are planned:

- The cleanup of the payroll will be pursued in 2019, to reduce ghost workers and generate budgetary savings on the wage bill. The government also intends to improve transparency and rationalize allowances and other non-wage compensations related to committees by prohibiting cash payments and reclassifying the related spending under "other personal spending".
- Efforts will be pursued to reduce goods and services' expenditures, based on the circular of the Prime Minister. The reduction of mission allowances, operating costs of commissions and the strict application of the revised official price list could yield 0.1 percent of GDP of additional savings. The precautionary freeze will also be maintained and capped at CFAF 30 billion, to pursue the consolidation objective and the reduction of the non-oil primary deficit.
- The prioritization of domestically-financed capital spending and enhancing compliance with budget execution rules, notably with the limitation of provisional commitments, will help reduce capital spending.
- The government will continue to strengthen the programming and monitoring of externally-financed capital spending, in particular the non-concessional financing, to reduce the overall deficit and limit the accumulation of public debt. Quarterly disbursement plans will be prepared for all investment projects, in conjunction with financial partners, and this will serve as the basis for disbursement requests. Effective disbursements and disbursement requests will be

monitored on a monthly basis. The government has committed to perform the necessary arbitrations to keep executed capital spending within the overall budget limit.

- SNH direct interventions will be limited, in line with security challenges facing the country. However, to improve budget execution predictability, these direct interventions will be limited to a maximum of CFAF 140 billion in 2019.
- Risks to budget execution may arise from the difficult security context, the impact of oil price increase and the completion of the 2019 CAN related projects. The government has committed to build fiscal buffers to meet program objectives should the risks materialize.

**21. In the medium term, the government will pursue the fiscal consolidation while preserving priority social spending.** For 2019-20, under the growth and employment strategy, the government will implement bold actions to pursue poverty and inequalities reduction. Starting in 2019, the implementation of the national social protection strategy aims at scaling up the social safety net program, with CFAF 4.5 billion of budget resources allocated to the program and made available to program managers. The government will increase resources allocated to health and education and improve their quality, notably through the allocation of sufficient resources (at least 15 percent of the 2018 budget of the Ministry of Public Health) to the performance-based health spending program. The 2019-20 floor on social spending will gradually rise to reach 4 percent of GDP in 2020.

## D. Structural Public Financial Management Reforms

**22. Regarding budget management, the enforcement of current measures to strengthen budget execution control will continue:**

- The measures of the complementary circular 002 (19 June 2018) aimed at reducing and gradually eliminating exceptional spending procedures (such as provisional commitments, treasury advances, cash advances) and improving fiscal reporting will be pursued, with the 2019 budget execution circular. In particular, spending through exceptional procedures will be limited to 5 percent of domestically-financed spending (excluding debt service). Cash advances and provisional commitments will be eliminated and replaced with regulated advances ("*régies d'avances*"). In addition, starting in January 2019, the government will start monthly regularization of SNH direct interventions. A mechanism has been implemented to identify and regularize direct interventions by nature. The simplified spending mechanism will help reduce direct interventions (new structural benchmark).
- The law on transparency and good governance of public financial management and the law on the financial regime of the State and other public entities were approved by Parliament in June 2018. The government is accelerating the effective implementation of these laws for the 2019 budget law.
- The use of correspondent accounts to safeguard budget appropriations will be prohibited, and the management of counterpart funds will be improved. Public entities' non-revenue generating accounts will be closed. The transfer of new budget appropriations to these accounts remains

prohibited, and the reduction of existing balances will be pursued. This measure previously programmed for August 2018, will be fully implemented in June 2019.

- The complementary period will be shortened to one month starting from fiscal year 2019.

**23. The government will pursue the medium-term reforms aimed at improving the quality of expenditure and treasury management, in line with the public finance reform program.** The main focuses of these reforms are:

a. Acceleration of the transposition of CEMAC directives into national law and their implementation. The draft decrees for the transposition of the four remaining directives into national law will be finalized by end-March 2019.

b. The treasury management reforms will continue and be expanded. In particular, the government will continue to expand the scope of the Treasury single account by closing all non-active accounts and repatriate their balances to the TSA, while avoiding the opening of new accounts. Moreover, the government will ensure that the closing and repatriation of the public entities and CAA accounts (including "idle resources") are effective. The government also plans to pursue dialogue with donors on the possibility of centralizing in a single account opened at the BEAC all counterpart funds for new joint projects. Management of the accounts already opened for existing projects will continue until the finalization of the related studies (management of counterpart funds) while taking into account the requirements of the various donors. The single treasury account will be fully operational in September 2019.

c. Strengthening the financial reporting system to ensure the comprehensiveness, accuracy, reliability, and timeliness of the budgetary and accounting information. In particular, starting in September 2019, the central government fiscal operation tables (TOFE) will be produced using automatic links with the Treasury's general balances of account and will be available 20 days maximum after the end of each month.

d. To improve the efficiency and quality of capital spending, the ministry in charge of public investments will conduct an independent assessment of the maturity of large-scale projects that involve a degree of complexity or strategic challenges, in line with the PEFA recommendations. Moreover, the 2017 assessment of the current spending associated with domestically financed capital expenditures will be expanded to externally financed capital expenditures. This will allow to include in the public investment program only projects contributing to gross fixed capital formation. Options will be proposed for considering these expenditures under the current budget envelop. In the meantime, a mechanism identifying projects that could potentially generate idle resources in commercial banks will be established before end-March 2019.

e. Continued improvement of the monitoring of contingent liabilities and consolidation of the financial situation of the main loss-making SOEs, in order to limit fiscal risks. In particular, the government will accelerate the adoption and implementation of the 2017 laws on the strategy to reform SOEs and other public entities. The government also plans to amend the

PPP law to improve the transparency and avoid non-priority projects. The CNDP will systematically review all PPP project proposals.

**24. The DGI and DGD will continue the efforts initiated to improve non-oil revenue collection, combat fraud and tax evasion, and ensure the integrity of the taxpayers' database and IT systems.**

- The DGI will focus on:

  a. The strengthening of tax audits by strengthening collaboration with the DGD and using the Tax Inspectors without Borders initiative. Based on these results, we intend to tap the tax potential to improve non-oil revenue mobilization by accelerating (i) the taxation of importers who have not submitted their tax returns in 2017, and (ii) the control the companies that carried out sales in 2017 but did not file in their tax returns, and (iii) taxation of companies who didn't pay their company taxes' advance to customs.

  b. Improving the VAT yield through the operationalization of the medium-size entreprises' tax centers, and the recovery of VAT arrears of public enterprises, increasing the VAT threshold and simplifying the tax regime for small businesses; and improving the VAT credit refund mechanism, in particular by enhancing the electronic tracking of VAT credits refund, the gradual clearing of the VAT credits accumulated prior to the establishment of the VAT credits refund escrow account, and the gradual increase of the monthly budget appropriations for VAT credits refund.

  c. Finalize the connection between the active taxpayers' database (FISCALIS) and the tax management tool "MESURE". To date, the connection between FISCALIS and MESURE has been completed. The work towards the development of a module in MESURE for the automatic updates (transfers, closures, mergers, suspensions, creations) and its migration to an online version will be completed by end-June 2019, including for tax centers yet to be computerized.

  d. Continuing the simplification and automation of procedures by introducing electronic payments for big-size and medium-size enterprises, the electronic filing of tax returns (DSF) and the tax registration of legal documents, the automation of tax disputes monitoring and deferment, as well as the management and monitoring of tax arrears.

  e. Broadening risk management through the implementation of an integrated risk management system within the DGI which ensures identification, evaluation, prioritization and mitigation of tax evasion, while mitigating institutional and operational risks.

  f. Improving the recovery of taxes and duties following tax audits, in particular by raising the required deposit at the legal dispute phase, starting in 2019.

- **The DGD will pursue the following measures:**

  a. Securing of tax and customs duties through the quarterly reconciliation of import declarations and scanning images validated by the SGS and the assessed customs duties. A first reconciliation report was prepared in September. For subsequent reports we are planning to amend the reconciliation procedure to increase the effectiveness of this measure, including through (i) the extension of reconciliation at the customs office of the of Yaounde-Nsimalen airport, and to the export operations under the Export Monitoring Sector Program (PSSE); (ii) the verification of all non-reconciled declarations excluded from the scope of the first report (search for RVC, DI, f.o.b. values and images scanning images); (iii) the reconciliation of tax and duties assessed by SGS on imports of used vehicles and the assessed customs duties; (iv) verification of the transit regime by requiring the declaration of final destination; (v) verification of the regimes in PVI by listing f.o.b. values, fully-loaded container and justifications of tax exemptions; (vi) making mandatory and blocking the report on the value and tariff classification (RVC) in import declarations; (vii) presentation of detailed data of the import declarations, notably by separating each type of product.

b. Monthly reconciliations between taxes and custom duties collected by Customs and revenues transferred to the Treasury (in the context of the TABORD Committee at the DAE, which reconciles revenue agencies data);

c. Pursue the reduction of the tax exemptions in collaboration with the DGI;

d. Operationalize at the latest in the first quarter of 2019 the CIVIC Program at borders in at least 3 (three) regions of Cameroon other than Douala;

e. Improve revenue collection through the simplification of procedures, further expansion of electronic payments and harmonization of tax bases throughout the country;

f. Strengthen the fight against fraud and illicit trafficking through the HALCOMI operation;

g. Strengthen protection of the information system by securing user profiles and interconnection with other partners through the enhancement and securing of ASYCUDA++. Concurrently, finalize modernization of the DGD IT system (CAMCIS) and operationalize certain modules by 1 April 2019.

**25. The joint DGI/DGD work on the data of the "FUSION" software will continue and is expected to improve data collection and information sharing between the two administrations.** Actions will continue to focus on: (i) the continuation of cleaning-up of the taxpayer database using the results of crosschecking between the customs and tax databases, (ii) harmonization and simplification of procedures; (iii) streamlining of tax exemptions, particularly the April 2013 law on tax incentives, and the assessment of tax expenditures, particularly by cleaning-up the lists of goods and equipment to be imported and the use of experts for the validation of types and quantities of equipment and other goods to be approved, and the acceleration of verifications by joint DGI-DGD audits of enterprises having benefited from exemptions, (iv) securing exemptions by requiring the transmission without delay of the document signed by MINFI to the department of legislation and litigation for management and inclusion into a database established at the central services of the DGD, (v) enhanced information sharing between DGD and DGI, particularly the transfer of the tax returns of big-size and medium-size enterprises to the FUSION platform, and the provision of comprehensive information on purchases of tax stickers to allow effective crosschecking during audits; and (v) more effective joint audits and investigations to further improve revenue mobilization.

## E. Debt Policy and Cross-Debt Management

**26. The government's debt policy remains focused on the need to avoid debt distress and to keep public debt on a sustainable path.** The government will continue to prioritize concessional financing and to limit non-concessional borrowing to priority projects for which no concessional financing is available, and according to the limits set out in the program in accordance with the findings of the public debt sustainability analysis.

**27. The government firmly adheres to the borrowing limits of the program.** Of the 31 new loans that were envisaged in the 2018 borrowing plan, 10 were contracted, including 5 non-concessional loans for a total amount of CFAF 267.1 billion, and 5 concessional loans for an amount of CFAF 88.8 billion. The others were not yet contracted due to delays in project appraisal. These projects will, in principle, be signed by the end of the year (Text Table 1).

**28. The 2019 non-concessional borrowing has been capped at CFAF 500 billion in the draft budget**. The 2019 non-concessional borrowing plan was elaborated in consultation with donors based on medium-term development priorities, in order to also prioritize projects with high economic and social return and financially less expensive. Regarding concessional debt, the government intends to borrow CFAF 150 billion at a very advanced state of preparation, with many already approved by the boards of partner institutions (Table Text 2).

**29. The government is implementing measures to permanently contain the SENDs.** As specified in the plan to reduce SENDs, disbursements related to ongoing projects will be carried out in line with the fiscal policy objectives and the government will, after consultation with development partners, prepare a detailed SENDs disbursement plan for 2019-20 by March 2019, (new structural benchmark) to avoid the risk of debt distress and safeguard debt servicing capacity.

**30. Moreover, the government intends to gradually expand the collection and analysis of public debt data to SOEs and other public entities, including cross debts.** Regarding public utility companies (ENEO, CAMWATER, CAMTEL, SONARA), the Treasury will proceed to quarterly payments on the basis of the annual budget allocations to limit the accumulation of cross-debts, and will reconcile these payments with actual consumption at the end of the year. In turn, these companies will honor their tax obligations.

## Text Table 1. Cameroon: Revised 2018 Borrowing Plan

| N° | Project | Creditor | Amount (CFAF billion) | Status |
|---|---|---|---|---|
| | **Prioritised Concessional Loans Under the Borrowing Target** | | | |
| 1 | Project for the construction of a bridge across the Logone River and adjoining developments | AfDB | **21.9** | Signed (05/24/2018) |
| 2 | Project for the construction of a bridge across the Logone River and adjoining developments | ADF | **7.8** | Signed (05/24/2018) |
| 3 | Rural electrification project by the OPEC Fund for International Development | OFID | **7.8** | Signed (05/25/2018) |
| 4 | Cameroon Mining Sector Technical Assistance project | WB | **16.6** | Signed (06/20/2018) |
| 5 | Agricultural infrastructure and value chain development project in Cameroon (RUMPI 2) | IsDB | **34.7** | Signed and send to IsDB for signing |
| 6 | Feasibility study for the Ngaoundére-Djamena railway route | AfDB | **1.6** | Pending authorization decree |
| 7 | Study on the Rural Water Supply and Sanitation Program | AfDB | **3.5** | Pending authorization decree |
| 8 | Strengthening Public Sector Effectiveness and Statistical Capacity Project | WB | **17.4** | Pending authorization decree |
| 9 | Project for the construction of the Nanga Eboko Vocational Training Center | Raiffeisen Bank | **3.3** | Pending authorization decree |
| 10 | Community Development Program Support Response to Forced Displacements | WB | **4.5** | Pending authorization decree |
| 11 | Health System Performance Reinforcement - Additional Financing | WB | **3.3** | Pending authorization decree |
| 12 | Social Safety Nets for Crisis Response | WB | **19.9** | Pending authorization decree |
| 13 | Education Reform Support Project | WB | **55.0** | Pending authorization decree |
| 14 | Project in Support of the Elimination of Mother-to-Child HIV Transmission in Cameroon | IsDB | **12.4** | Pending authorization decree |
| 15 | Project for the modernization of the DGI | KFW | **9.8** | Pending authorization decree |
| 16 | Hydropower Development on the Sanaga River Technical Assistance Project | WB | **17.7** | Pending CNDP's opinion |
| 17 | Project for the interconnection of the electricity networks of Cameroon and Chad, Study | ADF | **4.7** | Pending the compliance report |
| | **Total** | | **241.9** | |
| | **Prioritised Non-concessional Loans Under the BorrowingTarget** | | | |
| 18 | Project for the rehabilitation of the Roumde-adja Stadium, construction of the auxiliary stadium and a 4-star hotel in Garoua | BMCE Bank international | **32.0** | Signed (03/19/2018) |
| 19 | Project for the expansion of the intelligent urban video surveillance system nationally (Phase I, 1,500 cameras) | BANK OF CHINA | **23.0** | Signed (02/22/2018) |
| 20 | Imports of crude oil by SONARA | ITFC/IsDB | **50.0** | Signed (02/19/2018) |
| 21 | Project for the stabilization and improvement of the electricity networks in the city of Douala | SG Paris | **108.6** | Signed (03/07/2018) |
| 22 | Water supply project for nine cities, Phase II: Dschang, Garoua-boulai, Garoua, Maroua and Yabassi | Eximbank China | **53.5** | Signed (03/22/2018) |
| 23 | Feasibility and design studies for the project to supply water to the cities of Buea, Tiko and Mutenguene | SG Paris | **3.0** | Authorization decree signed (01/29/2018) |
| 24 | Project for the construction of the Ebolowa-Kribi (225 KV) and Mbalmayo-Mekin (90 KV) transmission lines and related works | BANK OF CHINA | **33.3** | Pending authorization decree |
| 25 | Project for the purchase of rolling stock for CAMRAIL (Phase 1) | Standard Chartered Bank | **8.0** | Pending authorization decree |
| 26 | Line of credit for the financing of a fertilizer import operation for SODECOTON | ABEDA | **15.6** | Pending authorization decree |
| 27 | Project to increase the capacity of the SODECOTON plants | ABEDA | **5.3** | Pending authorization decree |
| 28 | Regional project for the socioeconomic reintegration of young people | AfDB | **6.2** | Pending authorization decree |
| 29 | Agricultural inputs import operation for the 2017, 2018 cotton season | ITFC | **64.3** | Pending authorization decree |
| 30 | Project 25 wagons | Deutsche Bank | **13.0** | Pending the compliance report |
| 31 | Construction of the 225 KV Electric Power Transmission Line for the Supply of the KRIBI Industrial Port Complex (Phase 1) | China Dev Bank | **18.0** | Pending the compliance report |
| | **Total** | | **433.7** | |
| | **Potential Substitute for Non-concessional Loans** | | | |
| 32 | Project for the rehabilitation of the CRTV | Eximbank China | **15.0** | Pending the compliance report |
| 33 | Phase II PLANUT "Fisheries and Livestock" Component | Deutsche Bank Spain | **32.4** | Pending the compliance report |
| | **Total** | | **47.4** | |

## Text Table 2. Cameroon: Borrowing Plan 2019

| N° | Project | Creditor | Project Manager | Amount (CFAF billion) | Status |
|---|---|---|---|---|---|
| | **Prioritised Concessional Loans Under the Borrowing Target** | | | | |
| 1 | Additional financing of the project PEA-JEUN | IFAD | MINEPAT | **14.9** | Pending CNDP's opinion |
| 2 | Project for the Development of Inclusive and Resilient Cities | WB | MINHDU | **93.6** | Pending CNDP's opinion |
| 3 | Project for the Interconnection of Electricity Networks between Cameroon and Chad | AfDF | MINEE | **4.8** | Pending the compliance report |
| 4 | West Africa Agricultural Transformation Project | WB | MINADER | **33.0** | Pending the compliance report |
| | **Total** | | | **146.3** | |
| | **Prioritised Non-concessional Loans Under the BorrowingTarget** | | | | |
| 5 | Project for the expansion of the intelligent urban surveillance system at national level (Phase I, 1,500 cameras) | Bank of China | DGSN | **23.0** | Authorization decree signed, Phase II of the agreement that was signed in 2018 |
| 6 | Project for the Construction of the Ebolowa-Kribi (225 KV) and Mbalmayo-Mekin (90 KV) transmission lines and related works | Bank of China | MINEE | **45.3** | Phase II of the agreement that was signed in 2018 |
| 7 | Project for the Construction of the Olama-Kribi Road (Section Bingambo-Grandzambi) | AfDB | MINTP | **7.5** | Pending CNDP's opinion |
| 8 | Project for the Construction of the Olama-Kribi Road (Section Bingambo-Grandzambi) | Kuweit Fund | MINTP | **8.5** | Pending CNDP's opinion |
| 9 | Project for the Construction and Equipment of the Annex Building of the Mbalmayo Regional Hospital | BADEA | MINSANTE | **6.4** | Pending CNDP's opinion |
| 10 | Project for the Development of the Value Chain in Lifestock and Fish Breeding | AfDB | MINEPIA | **54.4** | Pending CNDP's opinion |
| 11 | Construction of 225 KV Transmission Lines Between N'Gaoundéré and Tibati | ICBC | MINEE | **45.0** | Pending CNDP's opinion |
| 12 | Project for the Interconnection of Electricity Networks between Cameroon and Chad | AfDB | MINEE | **141.2** | Pending the compliance report |
| 13 | Project for the Renovation of the National Center for the Rehabilitation of Disabled Persons (CNRPH) - Cardinal Paul Emile LEGER | BMCE Bank international | MINAS | **35.0** | Pending the compliance report |
| 14 | Menchum Hydroelectric Development Project | ICBC | MINEE | **50.0** | Pending the compliance report |
| 15 | Development Works of the Logistics Zone of the Kribi Port | China Dev Bank | PAK | **36.0** | Pending the compliance report |
| 16 | Road Program Phase 3 (Ring Road) | AfDB | MINTP | **12.0** | Pending the compliance report |
| 17 | Project for the Construction of 2,412 drinking water drilling Equipped with Human-Powered Pumps in the Northern Regions of Cameroon (PLANUT) | Standard Chartered Bank | MINEE | **32.1** | Pending the compliance report |
| | **Total** | | | **496.3** | |
| | **Potential Substitutes for Concessional Loans** | | | | |
| 18 | Project in Support to the Elimination of Mother-to-Child HIV Transmission in Cameroon | IsDB | MINSANTE | **14.1** | Phase II of the agreement that was signed in 2018 |
| 19 | Development of the Value Chain for Rice | IsDB | ... | **40.0** | Pending the compliance report |
| | **Total** | | | **54.1** | |
| | **Potential Substitute for Non-concessional Loans** | | | | |
| 20 | Project for the Competitiveness of Cotton and Food Crops | IsDB | MINADER | **30.0** | Pending the compliance report |
| 21 | Construction of the 225 KV Electric Power Transmission Line for the Supply of the KRIBI Industrial Port Complex (Phase 1) | China Dev Bank | PAK | **18.0** | Pending the compliance report |
| 22 | Projets for the Rehabilitation of the CRTV | Eximbank China | CRTV | **25.0** | Pending the compliance report |
| | **Total** | | | **73.0** | |

**31. The government will take steps to ensure the financial viability of SONARA.** This entails:

a. revision of the petroleum products price structure by adjusting before April 2019:
   - the transport equalization payment and
   - the liberalized items of the price structure (overhead costs, transport losses);

b. revision of the gas price structure to control spending due to revenue losses on LPG and SONARA production. Also, CSPH supply contracts should be revised to optimize the cost of LPG through competitive bidding, the validation of GPL shortfalls by the committee in charge of validation of SONARA shortfalls, and the regular transfer of CSPH cash surpluses to the Treasury (new structural benchmark for January 2019);

c. the launch of a communication campaign on the costs of oil prices subsidies and the need for a gradual adjustment of pump prices in response to fluctuations to international prices;

d. buyback of SONARA securities (OTZ) by the government to repay the 2013 crude oil suppliers debt that would result in a reduction of financial costs and the restoration of confidence;

e. monthly clearance of the revenue shortfalls and the settlement of amounts due within a maximum period of 90 days;

## F. Regional Monetary Policy and Financial Sector Stability

**32. The government commits to implement policies that are consistent with maintaining the stability of the monetary arrangement, which requires the stabilization and restoration of BEAC reserves.** Specifically, the non-repatriation of all export earnings, including oil revenues, contributes to the slower-than-expected replenishment of BEAC's reserves. In this regard, the government undertakes to support the efforts of BEAC and COBAC to strengthen the implementation of exchange regulations, including:

a. ensuring that oil companies comply with the provisions of Articles 64, 65, 66, and 67 of the foreign exchange regulation in force on the domiciliation of export/import transactions, the full repatriation of export earnings, as well as the reporting of all their accounts abroad to the BEAC. To this end, the government will provide by end-2018 to the BEAC copies of all contracts and agreements signed with extractive industries companies;

b. the government will ensure, without prejudice to trade activities, that all competent government services, including the customs administration, strictly control exporters' domiciliation of all their export earnings in resident commercial banks and that they communicate information on all export documents to BEAC;

c. the government will ensure that all public entities (including State-owned extractive industries) repatriate and deposit all their foreign exchange earnings with resident commercial banks, do not keep accounts abroad without an authorization from BEAC and, where they have accounts authorized by BEAC, they should regularly give the situation of such accounts to BEAC;

d. the government will, by end-June 2019, and in collaboration with BEAC, put the oil and mining codes in conformity with the exchange regulations;

e. moreover, and in accordance with its obligations under the regional convergence framework, the government will, by the end of the year, submit its three-year convergence plan for 2019-21 to the CEMAC Commission. This plan will be in line with commitments under the IMF-supported program and will include an arrears clearance plan.

**33. The government commits to accelerating reforms aimed at strengthening financial sector stability.** Regarding the two distressed banks, the government will, finalize the (cost and feasibility) assessment of the resolution options of distressed banks with the support of technical and financial partners by end-2018 and will implement the option adopted by August 2019 (new structural benchmark. Following the August 2018 IMF technical assistance, the government will validate by end-November 2018 the SRC valuation methodology in order to systematically use it for all the non-productive assets that will be transferred to the State and will be given to it for recovery. The amendment to the contract of the public capital bank was signed in October. The authorities will ensure strict implementation thereof, in particular, the establishment by end-June 2019 of a mostly independent board of directors and a system of governance, committees and internal audit excluding the influence of the shareholder in the management of the bank, with a view to privatizing the bank by 2020. A selective credit policy, in line with market development, will be put in place starting 2019 to strengthen the bank's financial situation. Regarding the SME Bank, its economic model is currently under review. Authorities will decide on a new model by end-March 2019 (structural benchmark) after consultation with IMF and on the basis of the findings of the study on the evaluation and the level of satisfaction of the financing needs of SMEs in good standing in Cameroon.

**34. The government is pursuing the implementation of the plan to reduce non-performing loans**. The plan includes (i) the training of 20 judges and 10 court clerks from the main centers of judicial activities, which will begin early December 2018 to conclude its first cycle by end- December 2018, on banking and credit repayment disputes (structural benchmark at end-December 2018) and a continuous training program will be developed by end-June 2019 in cooperation with banks and the national school of magistracy; (ii) the installation of pre-trial judges for civil and commercial cases by August 2019; (iii) the detailed situation of non-performing loans now available; the authorities will get in touch with COBAC to share their findings by end-December 2018. The law on the establishment of commercial courts will be adopted by June 2019 to enable the creation of commercial courts in Yaoundé and Douala by end-June 2020. There will be a review of the situation of arbitration by end-January 2019, in order to encourage its use. In addition, the preliminary draft law on the penalization of non-repayment of credit was forwarded to the Prime Minister’s Office which will considers the comments of the IMF as well as its smooth incorporation into the national and regional legal framework in force. The order establishing the national computerized registry of movable assets, was signed by the Minister of Finance in October 2018 and banks are required to register their sureties starting from the establishment of the registry by end-December 2018 to ensure that a complete database is available by end-March 2019 (reprogrammed structural benchmark).

## G. Competitiveness and Private Sector Development

**35. The government is committed to accelerating the implementation of measures designed to support the development of the private sector and diversification of the economy.** In addition to the lack of infrastructure, the main obstacles to greater economic competitiveness are the unfavorable business climate and the weak private sector's access to financial services. Several reforms, including in coordination with the regional authorities, are under way to improve the competitiveness and attractiveness of the Cameroonian economy for foreign direct investment and trade. The costs and delays related to foreign trade remain very high, exceeding those observed in the region, and firm measures have been undertaken to reduce the congestion in the port of Douala and to facilitate trade. Further, the government will continue to implement the following measures:

a. The government is implementing the 14 recommendations of the Extractive Industries Transparency Initiative (EITI) Committee so that Cameroon can be declared compliant with the 2016 standard by end-2019;

b. A National Risk Assessment (NRA), a preparatory step for the GABAC assessment of our anti-money laundering and combatting the financing of terrorism framework (AML/CFT) scheduled for September 2019, will be conducted in November 2018 with World Bank support. In order to enhance implementation of AML/CFT regulations, the National Agency for Financial Investigation (NAFI) will remind banks, members of regulated professions and relevant authorities including regional institutions of their suspicious transaction reporting obligations and conduct training sessions in the first half of 2019. The Ministry of Justice will compile statistics on AML/CFT-related cases starting in 2019;

c. The review of the new CEMAC Customs Code has been completed and validated by the Member States within the framework of the dedicated Sub-Regional Committee. The draft reviewed Customs Code will be submitted for adoption at the next session of the Council of Ministers of CAEU. Besides, the CEMAC Customs Tariff according to the 2017 version of the Harmonized System has been adopted by the Council of Ministers of CAEU according to the Regulation No. 10/17-UEAC-CM-010-A-30-SE of 29 October 2017;

d. Expansion of geographic coverage of the electronic payment platform, e-manifest and e-force at certain land and sea borders including Idenau, Bota, Cape Limboh, Gaschiga and Dourbeye, and further extension of the one-stop shop for payment of all the royalties of other foreign trade actors;

e. Improvement of the quality of customs services through implementation of the risk management system with four control circuits including two immediate control circuits (yellow and red), two post-removal control circuits (green and blue). As a reminder, to date 16 operators are benefiting from the green circuit facility;

f. Securing and facilitating transit through the Single Transit Document (STD) already operational for cargo in transit for the sub-region;

g. Creation of a warehouse of used vehicles of less than 10 (ten) years of age;

h. Respect of concession agreements signed by the State and improvement of public-private dialogue.

**36. The government will also continue to implement measures aimed at simplifying tax collection procedures.** For this purpose, the regime of assessment for small and micro enterprises will be simplified. The implementation of the telepayment of duties and taxes will be finalized by end-2019.

## V. PROGRAM ARRANGEMENTS

**37. The government will take all measures needed to achieve the objectives and meet the criteria, as presented in Tables 1 and 2 of this memorandum.** The program will be subject to semiannual reviews and performance criteria, indicative targets and structural benchmarks as set out in Tables 1 and 2 of this Memorandum and in the attached Technical Memorandum of Understanding (which also sets out the requirements for reporting the data to Fund staff). The fourth program review will be based on end-December 2018 targets and is expected to be completed on or after June 15, 2019, and the fifth review will be based on end-June 2019 targets and is expected to be completed on or after December 15, 2019.

# Table 1. Cameroon: Quantitative Performance Criteria and Indicative Benchmarks (March 2018–December 2019)

(CFAF billion, cumulative for each fiscal year)

| | 2018 | | | | | | | | | | | | | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar | | | | Jun | | | | Sep | | | | Dec | | Mar | | Jun | | Sep | Dec |
| | IT | Adj. IT | Act. | Status | 2nd Rev., Rev. PC | Adj. PC/IT | Act. | Status | 2nd Rev. IT | Adj. PC/IT | Prel. | Status | 2nd Rev. PC | Prop. new PC | 2nd Rev. IT | Prop. new IT. | 2nd Rev. Proj. | Prop. PC | Prop. IT | Proj. |
| **A. Quantitative performance criteria and indicative targets 1/** | | | | | | | | | | | | | | | | | | | | |
| Floor on the non-oil primary fiscal balance (payment order basis) | -53 | -53 | 33 | Met | -320 | -320 | -203 | Met | -477 | -477 | -446 | Met | -872 | | -46 | -123 | -278 | -417 | -574 | -673 |
| Ceiling on the net domestic financing of the central government excluding IMF financing 2/ | -43 | -161 | -146 | Not met | -25 | 8 | -90 | Met | -96 | -113 | -201 | Met | -8 | | -13 | -51 | -26 | -10 | -101 | 18 |
| Ceiling on net borrowing of the central government from the central bank excluding IMF financing 2/ | -304 | -422 | -92 | Not met | -47 | -14 | -10 | Not met | -46 | -63 | 36 | Not met | -15 | -70 | 0 | -36 | 48 | 9 | -30 | -6 |
| Ceiling on the disbursement of non-concessional external debt 7/ | 350 | 350 | 73 | Met | 350 | 350 | 252.8 | Met | 596 | 596 | 371 | Met | 596 | | 324 | 353 | 324 | 353 | 588 | 588 |
| **B. Continuous quantitative performance criteria 3/** | | | | | | | | | | | | | | | | | | | | |
| Ceiling on the accumulation of new external payments arrears | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| Ceiling on new non-concessional external debt contracted or guaranteed by the government 4/; 5/ | 436 | 554 | 363 | Met | 436 | 554 | 370 | Met | 436 | 620 | 436 | Met | 436 | | 500 | 500 | 500 | 500 | 500 | 500 |
| **C. Indicative Targets** | | | | | | | | | | | | | | | | | | | | |
| Floor on non-oil revenue | 689 | 689 | 621 | Not met | 1,331 | 1,331 | 1,305 | Not met | 1,968 | 1,968 | 1,994 | Met | 2,680 | | 746 | 669 | 1,442 | 1,385 | 2,102 | 2,892 |
| Ceiling on the net accumulation of domestic payment arrears | 0 | 0 | 239 | Not met | 0 | 0 | -101 | Met | 0 | 0 | -75 | Met | -94 | | 0 | 0 | 0 | 0 | 0 | -103 |
| Floor on social spending | 144 | 144 | 143 | Not met | 288 | 288 | 301 | Met | 460 | 460 | 462 | Met | 657 | | 156 | 164 | 312 | 325 | 497 | 749 |
| Ceiling on direct interventions of SNH | 156 | 156 | 44 | Met | 156 | 156 | 95 | Met | 156 | 156 | 149 | Met | 156 | | 152 | 140 | 152 | 140 | 140 | 140 |
| Share of spending executed through exceptional procedures on authorized (payment order) spending 8/ | | | | | | | | | 10 | 10 | 10 | Met | 10 | | 5 | 5 | 5 | 5 | 5 | 5 |
| **Memorandum items:** | | | | | | | | | | | | | | | | | | | | |
| 1. Cumulative external budget support, excluding IMF (earliest disbursement) | 0 | 0 | 118 | | 151 | 151 | 118 | | 167 | 167 | 184 | | 253 | 298 | 0 | 55 | 151 | 88 | 219 | 298 |
| 2. New concessional external debt contracted or guaranteed by the government 6/ | 152 | 152 | 0 | | 152 | 152 | 45 | | 245 | 245 | 70 | | 245 | | 150 | 150 | 150 | 150 | 150 | 150 |
| 3. Balance of the special account for the unused statutory advances | | | | | 247 | 247 | 247 | | 247 | 247 | 255 | | 227 | | 227 | 214 | 227 | 202 | 189 | 177 |

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

Note: The terms in this table are defined in the TMU.

1/ Program indicators under A are performance criteria at end-December and end-June; indicative targets otherwise.

2/ The ceiling on net domestic financing (excluding payment of arrears) of the budget and the ceiling on the net borrowing from the central bank will be adjusted if the amount of disbursements of external budgetary assistance excluding IMF financing, falls short of or exceeds program forecasts. If disbursements are less (higher) than the programmed amounts, the ceiling will be raised (reduced) pro tanto, up to a maximum of CFAF 120 billion at the end of each quarter.

3/ The targets are set from the beginning of the year.

4/ Excluding ordinary credit for imports and debt relief obtained in the form of rescheduling or refinancing.

5/ For 2018, the ceiling will be adjusted upwards by the amount of non-concessional budget support excluding IMF financing for debt management operations, up to the amounts specified in memorandum item No. 1 below excluding budget support grants. Starting 2019 the adjustment will be equal to the amount of non-concessional budget support approved up to a maximum of CFAF 275 billion.

6/ On a contracting basis in accordance with the IMF's debt limits policy: http://www.imf.org/external/np/pp/eng/2014/111414.pdf.

7/The PC on the disbursement of non-concessional external debt contracted as of the date of program approval is modified starting September 2018 to include all non-concessional project loans.

8/ This refers to payments made by the Treasury without prior authorization (issuance of payment orders, such as cash advances, provisional budget commitments, and advance funds), excluding debt service payments.

## Table 2. Cameroon: Prior Actions and Structural Benchmarks, 2018-19

| | | Timetable | Indicator | Status |
|---|---|---|---|---|
| ***Prior Actions*** | | | | |
| 1 | submitting to Parliament a 2019 budget in line with program objectives. | | Transmission letter of the 2019 budget to parliament | |
| 2 | Adoption by the by MINFI and MINEPAT of a time-bound action plan to validate and reduce identified non-performing SENDs through cancellation of already-closed projects or reallocation to new priority investment needs. | | Action plan signed by the President of the CNDP | |
| ***Fiscal policy and revenue mobilization*** | | | | |
| 1 | Include the total petroleum receipts of national oil company SNH and direct interventions in the monthly table of government financial operations (TOFE). | From Jun-17 | Monthly TOFE | Met, proposed to be moved to the TMU as required information |
| 2 | Publish the petroleum product price structure on a monthly basis. | From Jun-17 | Publication online and in newspapers | Met, proposed to be moved to the TMU as required information |
| 3 | Publish quarterly budget execution reports. | From Q2-2017 | Publication online and in newspapers | Met, proposed to be moved to the TMU as required information |
| 4 | Strengthen information sharing between the Directorate General of Taxes (DGI) and the Directorate General of Customs (DGD). The two administrations will jointly prepare quarterly reports identifying, inter alia, results in terms of the identification of fraud and additional revenue collected. | From Q2-2017 | Report submitted to Fund staff | Met, proposed to be moved to the TMU as required information |
| 5 | Publish a communiqué conditioning the customs clearance operations of the goods to the existence of the professional taxpayers in the active file of the DGI. | Jul-18 | Communiqué published in the press and online | Met |
| 6 | Implement the interface between the active taxpayers' database (FISCALIS) and the tax management application (MESURE). | Jul-18 | Report submitted to Fund staff | Met |
| 7 | Prepare quarterly reconciliation of import declarations and scanner images validated by SGS and the assessed customs values. | Quarterly starting in Sep-18 | Quarterly verification reports submitted to Fund staff | Met |
| 8 | Improve collection of the property tax by linking it to the electricity distribution system, and share the revenue from the tax between the central government and the decentralized local governments. | Dec-18 | 2019 budget law | Not met |
| ***Public finance and debt management*** | | | | |
| 9 | Disclose the type and volume of contingent liabilities in an annex to the budget law, including the firm and contingent liabilities of all existing public-private partnerships (PPPs). | Annual beginning Oct-2017 | Annexed to the budget law | Met |
| 10 | Monthly monitoring report of disbursement requests and actual disbursements. | Monthly starting in Jul-18 | Report submitted to Fund staff | Met |
| 11 | Produce a quarterly report on balances payable and arrears for prior fiscal years. | Quarterly, starting in Jul-18 | Report submitted to Fund staff | Met |
| 12 | Adoption by MINFI and MINEPAT of a plan to reduce SENDs related to projects that are not mature, that includes measures to reduce SENDs linked to non-performing projects by at least one-third by end-December 2018. | Jul-18 | Plan submitted to Fund staff | Not met, set as prior action for the third review |
| 13 | As part of the strategy to expand the Treasury Single Account (TSA), establish a calendar for the closure and repatriation of the Bank accounts of the EPAs and some of the accounts of CAA. | Jul-18 | Calendar for accounts closure identifying different accounts submitted to Fund staff | Met |
| 14 | Close all correspondent accounts for non-revenue generating entities (mainly public administrations such as sectoral ministries and public agencies), and stop the transfer of new budget appropriations to these accounts. | Aug-18 | Accounting statements confirming the closure of the accounts | Not met, proposed to be reset to June-2019 |

## Table 2. Cameroon: Prior Actions and Structural Benchmarks, 2018-19 (concluded)

| | | Timetable | Indicator | Status |
|---|---|---|---|---|
| ***Financial sector stability and private sector led growth*** | | | | |
| 15 | Reduce processing lags for invoices to two months between the commitment date and coverage by the treasury. | Jun-18 | Report from the Directorate General of the Budget and the Directorate General of Treasury | Not met, completed in November 2018 |
| 16 | Sign a performance contract with the management of the state-owned bank. | Jul-18 | Contract signed and submitted to Fund staff | Not met, completed at end-October |
| 17 | Evaluate (cost and feasibility) the resolution options of the troubled banks. | Aug-18 | Evaluation report finalized in consultation with Fund staff | Not met |
| 18 | Decide the business model of the SME bank. | Aug-18 | The revised business model is submitted to Fund staff | Not met, proposed to be reset to Mar-2019 |
| 19 | Quarterly payment of utility bills (ENEO, CAMWATER, CAMTEL, SONARA) based on annual budget allocations. | Quarterly, starting in Sep-18 | Accounting and budgetary statement indicating the monthly payments will be sent to Fund staff | Met |
| 20 | Provide training in banking disputes' resolution for commercial court judges in the major business centers. | Dec-18 | At least 10 judges trained in the fiscal year | In progress, the TOR is prepared and training programmed |
| 21 | Computerize the register of movable collateral. | Dec-18 | Register available online | I progress, the legal framework has been set-up |
| **Proposed new structural benchmarks** | | | | |
| 1 | Allow open bids for LPG fuel purchases, validate compensations needed for LPG fuel in committee and regularly transfer of cash surpluses of the Hydrocarbon Prices Stabilization Agency (CSPH) to the Treasury. | Jan-19 | Prime Minister Decree | |
| 2 | Put in place a mechanism to identify the nature and reconcile the direct interventions of the SNH to ensure their monthly regularization according to the different natures of the expenditure. | Jan-19 | Set up a reconciliation committee and present a table of SNH interventions by type of expenditure | |
| 3 | Decide the business model of the SME bank. | Mar-19 | The approved business model is submitted to Fund staff | |
| 4 | Finalize the movable collateral database by entering all movable collaterals detained by the banks. | Mar-19 | Register with all movable collaterals detained by the banks available | |
| 5 | Prepare a dibursement plan for the SENDs for 2019-20 follwing the discussions with development partners. | Mar-19 | A disbursement plan for the SENDs is sent to Fund staff | |
| 6 | Close all correspondent accounts for non-revenue generating entities (mainly public administrations such as sectoral ministries and public agencies), and stop the transfer of new budget appropriations to these accounts. | Jun-19 | Accounting statements confirming the closure of all the accounts | |
| 7 | Resolve the two ailing banks | Aug-19 | The two banks are recapitalized or resolved | |
| 8 | Complete the Treasury single account by closing all public accounts eligible to the TSA in the commercial banks and consolidate those in the Treasury and BEAC to fewer accounts. | Sep-19 | The TSA is functional and central government and EPA accounts are closed in commercial banks | |

# Attachment II. Technical Memorandum of Understanding

## Provisions of the Extended Credit Facility (ECF) 2017–20

**1. This Technical Memorandum of Understanding (TMU)** defines the quantitative performance criteria and indicative objectives that will be used to assess performance in connection with Cameroon's program supported by the Extended Credit Facility (ECF) approved in June 2017. The ECF establishes the framework and deadlines for reporting data to be used by IMF staff to assess program implementation.

### Conditionality

**2. The quantitative performance criteria and indicative objectives from end-December 2018 to end-September 2019** are provided in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent. The structural benchmarks defined in the program are provided in detail in Table 2 of the MEFP.

### Definitions

**3. The Government**: Unless otherwise noted, "government" is defined as the central government of the Republic of Cameroon, which includes all implementing agencies, institutions, and any organizations receiving special public funds, whose powers are included in the definition of central government under the 20*01 Government Finance Statistics Manual (GFSM 2001,* paragraphs 2.48–50). This definition does not include local governments, the central bank, and any other public entity belonging to the government that has autonomous legal status and whose operations are not included in the government financial operations table (TOFE).

**4. A public enterprise is a commercial or industrial unit fully or partially owned by the government or its bodies, that sells goods and services to the public on a large scale.**

### Revenue

**5. Total government resources** are comprised of tax and nontax budget revenue (as defined under Chapter 5 of *GFSM 2001*) and grants. Revenue is recorded in the accounting system on a cash basis. Proceeds from the sale of assets and privatization revenue (defined in paragraph 8) are not considered government revenue.

**6. Oil revenue** is defined as the total transferable balance of the SNH (*Société nationale des hydrocarbures*), the national hydrocarbons company, and income tax on petroleum companies and gas operators. The authorities will notify IMF staff of any changes in the tax systems that may occur that would lead to changes in revenue flows. Oil revenue is recorded in the accounting system on a cash basis.

**7.** **Non-oil revenue** includes all the government's (tax and nontax) revenue, with the exception of oil revenue as defined under paragraph 6. Value-added tax (VAT) is recorded net of VAT reimbursements. Pipeline fees paid by Cameroon Oil Transportation Company (COTCO) are recorded under nontax revenue.

**8.** **Privatization revenue** includes all funds paid to the government in connection with the sale or transfer of the management of a public enterprise (concession), agency, or facility to one or more private enterprises (including enterprises fully controlled by one or more foreign governments), one or more private entities, or one or more individuals. The proceeds from privatizations also include, inter alia, all funds deriving from the sale of shares held by the government in private companies or public enterprises. All privatization revenue must be recorded on a gross basis. Any costs that may be involved in the sale or concession must be recorded separately under expenditure.

### Expenditure

**9.** **Total government expenditure and net lending** include are all wage and salary expenditure for civil servants, goods and services, transfers (including subsidies, grants, social security benefits, and other expenditure), interest payments, and capital expenditure, all of which are recorded in the accounting system on a payment authorization basis, unless otherwise indicated, and net lending (defined in *GFSM 2001*). Total government expenditure also includes expenditure items executed without prior authorization that are pending regularization.

**10.** **Spending advances [*interventions directes*] by SNH** (National Hydrocarbon Society) are part of government expenditure, and include emergency payments made by SNH on behalf of the government, substantially to cover exceptional security and sovereignty outlays.

**11.** **Social expenditure** includes public expenditure recorded in the government budget in connection with priority programs to accelerate attainment of the government's social development objectives. This item includes (i) for the education sector, total (current and capital) expenditure of the Ministries of Elementary Education, Secondary Education, and Employment and Professional Training; (ii) for the health sector, current expenditure of the Ministry of Public Health; and (iii) for the other social sectors, current expenditure of the Ministries of Labor and Social Security, Youth and Citizenship Education, Social Affairs, and Promotion of Women and the Family.

### Balance and Financing

**12.** **Primary balance**: The primary balance is defined as the difference between total government revenue (defined in paragraph 5) and total government expenditure and net lending (defined in paragraph 9) not including interest payments in connection with external and domestic debt.

**13.** **Debt:** The definition of "debt" is set out in paragraph 8 (a) of the Guidelines on Public Debt Conditionality in Fund Arrangement attached to the Executive Board Decision 15688–(14/107), but also includes commitments contracted or guaranteed, for which value has not been received. For purposes of these guidelines, "**debt”** is understood to mean a direct, i.e., non-contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including monetary assets) or services, and under which the debtor to is also required to undertake to make one or more payments in the form of assets (including monetary assets) or services, according to an established schedule. These payments will discharge the debtor of the principal and/or interest liabilities undertaken in connection with the contractual arrangement. In accordance with the foregoing definition of debt, any penalties or damages awarded by a court as a result of the nonpayment of a contractual obligation that constitutes debt are debt.

**14.** **External debt,** in the assessment of the relevant criteria, is defined as any borrowing or debt service in a currency other than the CFA franc. This definition also applies to debt between countries of the Central African Economic and Monetary Community (CEMAC). The relevant performance criteria apply to external debt of the government, public enterprises that receive transfers from the government and other public entities in which the government holds more than 50 percent of the capital, or any other private debt for which the government has offered a guarantee that should be considered to constitute a contingent liability. **Guaranteed debt** refers to any explicit legal obligation incumbent on the government to reimburse a debt in the event of payment default by the debtor (whether the payments must be made in cash or in kind).

**15.** **Concessional external debt**: External debt is considered concessional if it comprises a grant component of at least 35 percent.[1] The grant component is the difference between the face value of the loan and its present value expressed as a percentage of the face value. The present value of debt at the date on which it is contractually arranged is calculated by discounting to present value of the debt service payments at the date on which the debt was arranged.[2] A discount rate of 5 percent is used for that purpose.

**16.** **Domestic debt** is defined as all of the government's debts and obligations in CFA francs. This item includes unreimbursed balances, advances from the Bank of Central African States (BEAC), Treasury bills and bonds, structured debt, nonstructured debt, domestic payment arrears, and debt to SONARAs suppliers.

- **Structured debt** is defined as debt that has been subject to a formal agreement [*convention*] or securitization [*titrisation*]. Under the program, structured bank debt is included in net bank credit and structured nonbank debt is reflected in nonbank financing.

  i. ***Structured bank debt*** is defined as all claims of local banks on the government, with the exception of treasury bills and bonds. This item involves securitized bank debt, the outstanding balance of which at end-2016 was CFAF 86.36 billion, plus direct advance arrangements.

[1] The link to the IMF website below refers to an instrument used to calculate the grant component for a broad range of financial arrangements: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality reflects all aspects of the loan agreement, including the maturity, grace period, schedule of maturities, commitment fees, and management fees. The calculation of the concessionality of Islamic Development Bank (IsDB) loans will reflect the existing agreement between the IsDB and the IMF.

ii. ***Structured nonbank debt*** is defined as all of the government's balances payable in connection with local nonbank institutions or individuals or the CEMAC, that have been securitized of subject to a formal reimbursement agreement according to a clearly defined schedule.

- **Nonstructured debt** is defined as all balances payable transferred to the national amortization fund [*Caisse Autonome d'Amortissement*] *(*CAA) that have not been subject to a formal reimbursement agreement or securitization arrangement. The outstanding balance of nonstructured debt was CFAF 113.96 billion at end-2016. In connection with the program, the stock of nonstructured debt is part of the stock of domestic payment arrears. Accordingly, any payments in connection with nonstructured debt will be deducted from the stock of domestic payment arrears and will therefore have an impact on the primarily balance on a cash basis.

**17. Net domestic financing of the government**: is defined as the sum of (i) net bank credit to the government; and (ii) net nonbank financing.

- Net bank credit to the government is equal to the change in the balance between government's liabilities and assets with the national banking system. These assets include (i) cash resources on hand with the treasury; (ii) treasury deposits with the central bank, not including the Heavily Indebted Poor Counties (HIPC) account and the Debt Reduction and Development Contract (C2D) account; and (iii) the credit balance of the accounts of the *Caisse Autonome d'Amortissement* with commercial banks earmarked for reimbursement of the government's debt obligations. The government's outstanding balances include (i) financing from the central bank, and specifically statutory advances; net IMF financing (disbursements net of reimbursements), refinancing of guaranteed bonds, and treasury paper held by the central bank; and (ii) financing from commercial banks, and specifically direct advances and loans, securities, and bills and bonds of the treasury held by local banks. Net bank credit to the government is calculated based on the data provided by the BEAC. These data should be subject to monthly reconciliations between the treasury and the BEAC.
- Net nonbank financing of the government includes (i) the change in the outstanding balance of government securities (treasury bills and bonds) issued in CFA francs on the regional financial market and not held by the local banking system; (ii) the change in the outstanding balance of structured nonbank domestic debt (defined in paragraph 16); (iii) privatization revenue (defined in paragraph 8); (iv) the change in the balance of correspondent bank accounts (including Account 42) and consignment accounts; and (v) the change in the balance of outstanding claims on the government abandoned by the private sector. The government's net nonbank financing is calculated by the public treasury.

**18. Domestic payment arrears** are the sum (i) of *payment arrears on expenditure and (ii) payment arrears on domestic debt:*

- **Payment arrears on expenditure** are defined as "balances payable" for which the payment lag exceeds the regulatory period of 90 days. **Balances payable** reflect the government's unpaid obligations. They are defined as expenditure items for which the normal expenditure execution procedures (commitment, validation, and authorization) has been followed until they were undertaken by the public treasury, but that are still pending payment. These obligations also include invoices due and not paid with public and private enterprises, but they exclude domestic financial debt service (principal and interest). Balances payable under 90 days represent **payments in progress.** Information used to determine the amount of balances payable is provided in Table 3 of the management indicators (TABORD). The treasury will monitor this information on a monthly basis to identify expenditure arrears in the stock of balances payable.

- **Payment arrears on domestic debt** are defined as the difference between the amount due under a domestic debt arrangement (defined in paragraph 11) or the reimbursement of treasury securities, bills, or bonds matured and the amount effectively paid after the payment deadline indicated in the agreement or after the maturity date of the treasury securities, bills, or bonds.

**19. External payment arrears** are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

## I. QUANTITATIVE PROGRAM OBJECTIVES

**20. The quantitative objectives (QO)** listed below are as specified in Table 1 of the MEFP. Unless otherwise noted, all quantitative objectives will be assessed on a cumulative basis from the beginning of the calendar year to which the quantitative objectives apply. The quantitative objectives and details for their assessment are provided below.

### A. Non-Oil Primary Balance

**Performance Criteria**

**21. A floor for the non-oil primary balance (commitment basis) is defined as a quantitative objective in Table 1 of the MEFP**. The non-oil primary balance is defined as the difference between the primary balance defined in paragraph 12 and oil revenue defined in paragraph 6.

**22. To ensure consistency among data** from different sources used to prepare the government financial operations table (TOFE), and particularly between the data on budget operations reported by the treasury and data on financing reported by the BEAC, the CAA, and the treasury, the cumulative level of miscellaneous expenditure not otherwise classified (including errors and omissions in the TOFE) for a given month should not exceed 5 percent of the cumulative expenditure for that month, in absolute value. Should this limit be exceeded, a comprehensive reconciliation exercise for all TOFE source data will be undertaken in consultation with IMF staff.

### Cutoff Dates for Reporting Information

23. **The detailed data on government financial operations** indicating the primary balance, oil revenue, and the level of miscellaneous expenditure not otherwise classified will be transmitted on a monthly basis within six weeks from the end of the month.

## B. Net Domestic Financing of the Government Excluding Net Financing from the IMF

### Performance Criteria

24. **A ceiling on net domestic financing of the government excluding net financing from the IMF is defined as a quantitative objective in Table 1 of the MEFP.** For program requirements, net domestic financing of the government excluding net IMF financing will be net domestic financing of the government defined in paragraph 17, not including net IMF financing.

### Adjustment

25. **The ceiling on net domestic financing of the government** excluding net financing from the IMF will be adjusted if the disbursements in connection with external budget support net of external debt service and the payment of external arrears are below the programmed levels.

26. **At the end of each quarter**, if disbursements of external budget support are below (above) the programmed amounts, the relevant quarterly ceilings will be adjusted upward (downward) commensurately, within the limit of CFAF 120 billion starting from 2017 Q4 onwards. This ceiling may be revised to reflect the rate of budget aid disbursements during the year.

### Cutoff Dates for Reporting Information

27. **The detailed data on net domestic financing of the government** (bank and nonbank) and the status of budget support disbursements, reimbursement of external debt service, and the status of external arrears (to be monitored continuously) will be submitted on a monthly basis within six weeks after the end of the month.

## C. Disbursement of Non-Concessional External Debt

### Performance Criteria

28. **A ceiling on disbursements of non-concessional external debt** is defined as a quantitative objective in Table 1 of the MEFP. This performance criterion is applicable to contractual debt for projects' financing. This performance criterion is based on external debt as defined in paragraph 14 and uses the concept of concessionality defined in paragraph 15 of this Technical Memorandum.

### Cutoff Dates for Reporting Information

**29. Detailed information on disbursements of external debts contracted by the government** must be reported within six weeks after the end of the month, indicating the date the loans were signed and making the distinction between concessional and non-concessional loans.

## D. Net Borrowing of the Central Government from the Central Bank

### Performance Criteria

**30. A ceiling on net claims of the central government from the BEAC is defined as a quantitative objective in Table 1 of the MEFP.** This criterion is defined as the difference between, on the one hand, the Central Bank's claims on the government, excluding IMF financing, in particular: unpaid balances of the consolidated statutory advances, refinancing of guaranteed bonds, and treasury securities held by the Central bank, and on the other hand the cash balances and total deposits of the Treasury with the Central Bank including the balance of the special account of the unused statutory advances. The balance of this special account will be regularly monitored in order to maintain the targets defined in Table 1 of the MEFP.

**31. The ceiling on net borrowing of the central government from the BEAC** will be adjusted if the disbursements in connection with external budget support are below the programmed levels.

**32. At the end of each quarter**, if disbursements of external budget are below (above) the programmed amounts, the relevant quarterly ceilings will be adjusted upward (downward) commensurately, within the limit of CFAF 120 billion starting from 2017 Q4 onwards. This ceiling may be revised to reflect the rate of budget aid disbursements during the year.

### Cutoff Dates for Reporting Information

**33.** The detailed information on all financing from the BEAC to the government and the balance of the special account of the unused statutory advances must be reported within six weeks after the end of the month.

## E. Non-Accumulation of External Payment Arrears

### Performance Criteria

**34. A ceiling of zero on the accumulation of external payment arrears** is defined as a continuous quantitative objective in Table 1 of the MEFP. This performance criterion applies to the accumulation of new external arrears as defined in paragraph 19 of this Memorandum. In connection with the program, the government undertakes not to accumulate any new external payment arrears on its debt, with the exception of arrears subject to rescheduling. The government's non-accumulation of arrears is a performance criterion to be observed on a continuous basis. This PC would be measured on a cumulative basis from the time of approval of the program.

### Cutoff Dates for Reporting Information

**35. The data on balances, accumulation, and reimbursement of external arrears will be reported within six weeks after the end of each month.** This PC is monitored continuously by the authorities and any occurrence of new external arrears should be immediately report to the Fund.

## F. New Non-Concessional External Debt Contracted or Guaranteed by the Government

### Performance Criteria

**36. A ceiling on new non-concessional external debt contracted or guaranteed by the government** is defined as a continuous quantitative objective in Table 1 of the MEFP. The government undertakes on an ongoing basis not to contract or to guarantee any non-concessional external debt above the ceiling indicated in Table 1 of the MEFP. This performance criterion is applicable to external debt as defined in paragraph 14 of this Memorandum. It uses the concept of concessionality as defined in paragraph 15 of this Memorandum. This performance criterion is also applicable to any debt guaranteed by the government that constitutes a contingent liability as defined in paragraphs 14 and 15 of this Memorandum. Moreover, this criterion is applicable to public enterprises defined in paragraph 4 that receive transfers from the government, to municipalities, and other entities of the public sector (including agencies of general government and professional, scientific and technical organizations). However, this performance criterion is not applicable to borrowing arranged in CFA francs, treasury bills and bonds issued in CFA francs on the CEMAC regional market, regular short-term loans from suppliers, regular import credits, or to loans from the IMF, and debt relief obtained in the form of rescheduling or refinancing. This commitment is a performance criterion to be met on an ongoing basis. The ceiling on new non-concessional external debt set out in Table 1 of the MEFP will apply to new debt contracted or guaranteed per calendar year and not on a cumulative basis from the date of program approval.

### Adjustment

**37. The ceiling on new non-concessional external debt contracted or guaranteed by the government will be adjusted upwards** to accommodate the non-concessional budget support from the World Bank, the AFDB, and France for debt management operations. For 2019, the projected amount of non-concessional budget support and the maximum amount of the adjustor will be CFAF 275 billion. The debt management operations are those that improve the overall profile of public debt (as per para 35 of the guidance note on debt limits SM/15/125).

### Cutoff Dates for Reporting Information

**38. The monthly situation of on all loans (conditions and creditors) contracted by the government** must be reported within six weeks after the end of the month. The same obligation is applicable to guarantees issued by the government. This PC is monitored continuously by the authorities and any contracting or guaranteeing of debt should be immediately reported to the Fund.

## II. OTHER INDICATIVE QUANTITAVE OBJECTIVES

### A. Non-Oil Revenue

**39. A floor on non-oil revenue as defined in paragraph 7** is defined as an indicative objective in Table 1 of the MEFP.

### B. Net Accumulations of Domestic Payment Arrears

**40. A ceiling on net accumulations of domestic payment arrears is defined as an indicative objective in Table 1 of the MEFP.** Domestic payment arrears are defined in paragraph 18.

### C. Social Expenditure

**41. A floor on social expenditure as defined in paragraph 11** is defined as an indicative objective in Table 1 of the MEFP. This expenditure is monitored regularly in connection with program implementation.

**Cutoff Dates for Reporting Information**

**42. The data on the government's financial position** as presented in the government financial operations table, the detailed listing of revenue highlighting oil revenue, domestic payment arrears, and the status of social expenditure execution must be reported within six weeks after the end of the month.

### D. Share of Exceptional Expenditures on Total Authorized Expenditures Excluding Debt

**43. A ceiling on the share of exceptional expenditures on total authorized expenditures excluding debt** is defined as an indicative target in Table 1 of the MEFP. This target will be calculated based on the ratio between exceptional expenditures (expenditures excluding debt service paid without prior authorization which include cash advances, provisional budget commitments, and advance funds) and the total authorized expenditures excluding debt service that are domestically financed (including salaries). Exceptional expenditures will be monitored regularly as part of the program implementation.

**Cutoff Dates for Reporting Information**

**44.** Monthly accounting statements showing the amount of cash advances, provisional budget commitments, and advance funds must be reported to IMF staff within 3 weeks of the end of each month. The authorization spending presented in the table M1 of the TABORD will be used to compute this ratio.

## III. DATA SUBMISSION REQUIREMENTS

**45. The quantitative data on the government's quantitative and indicative objectives will be reported to IMF staff with the periodicity described in Table 1 below.** Moreover, all data revisions will be reported immediately to IMF staff. The authorities undertake to report to IMF staff any information or data not specifically addressed in this TMU, but required for program implementation, and to keep IMF staff abreast of the situation in terms of achieving the program objectives.

| Table 1. Cameroon: Summary of Data Reporting Requirements | | | |
|---|---|---|---|
| **Information** | **Responsible institution** | **Frequency of the data** | **Reporting Lag** |
| ***Government finances*** | | | |
| The government financial operations table (TOFE) and customary annex tables; (data on execution of investments financed with external grants and loans must be available in a timely manner so that the quantitative objectives of the program can be determined as scheduled. If information on physical execution of externally financed projects is not available, the information on requests to withdraw funds from the donors will be used). | Ministry of Finance (MINFI) | Monthly | 6 weeks |
| Domestic budget financing (net bank credit to the government, stock of treasury bills and bonds pending reimbursement, domestic debt reimbursement status, privatization revenue, and abandoned claims) | MINFI/BEAC | Monthly | 6 weeks |
| Implementation status of social expenditure defined in Paragraph 11 | MINFI | Monthly | 6 weeks |
| Status of balances payable for the current fiscal year (orders unpaid) making the distinction between those over 90 days and those under 90 days | MINFI | Monthly | 6 weeks |
| Domestic debt reimbursement status | MINFI/BEAC | Monthly | 6 weeks |
| Statistics on external debt contracted and guaranteed (detailed listing of external debt service matured/paid, list of new loans specifying the financial conditions, loans guaranteed and external arrears, and list of arrangements in the process of negotiation) | MINFI/CAA | Monthly | 6 weeks/ The contracting or guaranteeing of external debt, and the occurrence of external arrears should be immediately reported |
| A quarterly report on the consistency of (i) monetary statistics reflecting the net treasury position with data from the TOFE on net domestic financing from the banking system and (ii) data on external debt produced by the CAA and on net external financing from the TOFE | MINFI/BEAC | Quarterly | 8 weeks |

| Table 1. Cameroon: Summary of Data Reporting Requirements (continued) | | | |
|---|---|---|---|
| **Information** | **Responsible institution** | **Frequency of the data** | **Reporting Lag** |
| Data on implementation of the public investment program, including a detailed listing of financing sources | MINFI/ Ministry of Economy, Planning and Regional Development (MINEPAT)/CAA | Quarterly | 6 weeks |
| Accounting statements showing the amount of cash advances, provisional budget commitments, and advance funds | MINFI | Monthly | 3 weeks |
| Monthly report on the validation of the TABORD and the balance of accounts based on a contradictory checking by the different administrations | MINFI | Monthly | 6 weeks |
| Prices, consumption, and taxation of petroleum products, including: (i) the current price structure for the month in question; (ii) the detailed calculation of the price structure based on the free on board price (or the ex-refinery price from SONARA) to obtain the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONARA), with the distinction between retail sales and sales to industries; and (iv) a breakdown of tax revenue on petroleum products—customs duty, excise tax on petroleum products (TSPP), and value-added tax (VAT)—and unpaid subsidies | MINFI | Monthly | 4 weeks |
| Publish the petroleum product price structure | MINFI | Monthly | 1st week of the current month |
| Monthly statement of the correspondent accounts (including Account 42) and consignment deposits with the treasury broken down into major categories (administrative services, public enterprises, public administration enterprises, international organizations, private depositors, and other) | MINFI | Monthly | 6 weeks |
| Provide revenue forecasts for the Directorate General of Taxes; Directorate General of Customs; and Directorate General of Treasury, Financial, and Monetary Cooperation by type of tax on an annual basis and on a monthly basis, and outturn as compared with forecasts | DGI, DGD, DGTCFM | Monthly | 6 weeks |

| Table 1. Cameroon: Summary of Data Reporting Requirements (continued) | | | |
|---|---|---|---|
| **Information** | **Responsible institution** | **Frequency of the data** | **Reporting Lag** |
| VAT reimbursement balance (requests for reimbursement, payments made, and status of the VAT reimbursement account) | MINFI/DGI | Monthly | 6 weeks |
| DGI/DGD collaborative joint quarterly reports identifying, inter alia, results in terms of the identification of fraud and additional revenue collected | DGI/DGD | Quarterly | 6 weeks |
| Status of the SNH, including volumes exported, prices, exchange rates, operating costs, spending advances, commitments to the government, and the balance transferable to the Treasury | MINFI | Monthly | 6 weeks |
| Include the total petroleum receipts of national oil company SNH and direct interventions in the monthly table of government financial operations (TOFE) | MINFI | Monthly | 6 weeks |
| Budgetary and accounting statement showing the payment of utility bills to utility companies (ENEO, CAMWATER, CAMTEL, SONARA) | MINFI | Monthly | 3 weeks |
| The situation of payments of subsidies and tax liabilities of public enterprises | MINFI | Quarterly | 6 weeks |
| Publish quarterly budget execution reports. | MINFI | Quarterly | 6 weeks |
| ***Monetary sector*** | | | |
| Consolidated balance sheet of monetary institutions | BEAC | Monthly | 6 weeks |
| Provisional data on the comprehensive monetary survey | BEAC | Monthly | 6 weeks |
| Final data on the comprehensive monetary survey | BEAC | Monthly | 10 weeks |
| Government net position | BEAC | Monthly | 6 weeks |
| The balance of the special account of the unused statutory advances | BEAC | Monthly | 6 weeks |
| Intervention rate and borrowing and lending interest rates | BEAC | Monthly | 6 weeks |

| Table 1. Cameroon: Summary of Data Reporting Requirements (concluded) | | | |
|---|---|---|---|
| **Information** | **Responsible institution** | **Frequency of the data** | **Reporting Lag** |
| Any revision of the balance of payments data (including services, private transfers, official transfers, and capital transactions) | BEAC/MINFI | On revision | 2 weeks |
| ***Real sector*** | | | |
| Provisional national accounts and any revision of the national accounts | INS | Annual | 7 months after year-end |
| Quarterly national accounts | INS | Quarterly | 3 months |
| Disaggregated consumer price indices (Yaoundé and Douala) | INS | Monthly | 2 weeks |
| Quarterly inflation note | INS | Quarterly | 3 months |
| ***Structural reforms and other data*** | | | |
| Any official report or study devoted to Cameroon's economy, from its date of publication or finalization | MINEPAT | | 2 weeks |
| Any decision, decree, law, order, or circular having economic or financial implications, from its publication date or effective date. | MINFI/MINEPAT | | 2 weeks |

INTERNATIONAL MONETARY FUND

# CAMEROON

December 6, 2018

## THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

| **Cameroon**<br>**Joint Bank-Fund Debt Sustainability Analysis** | |
|---|---|
| **Risk of external debt distress** | *High* |
| **Overall risk of debt distress** | *High* |
| **Granularity in the risk rating** | *Sustainable* |
| **Application of judgement** | *No* |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*Cameroon remains at high risk of external and overall public debt distress, but for the time being debt still appears sustainable. Cameroon's debt carrying capacity is assessed at medium under the new Composite Index (CI) methodology based on updated data and projections from the October 2018 WEO and the 2017 CPIA. However, with expanded public debt coverage compared with the 2nd ECF review DSA, early breaches of the two thresholds for external debt service under the baseline are due to inclusion of the state oil refinery's (SONARA) service of short-term supplier debt, while later breaches of the debt service to export ratio are caused by the Eurobond's maturation from 2023 to 2025. Fiscal consolidation and the ECF-supported reforms, coupled with the increasing share of concessional new borrowing, would improve the debt profile over time. However, mitigating risks to public debt requires a number of policy actions including: (i) a resolute and effective fiscal consolidation; (ii) a shift in the composition of new borrowing towards concessional loans; (iii) enhanced control of externally-financed investment projects at all levels of government; (iv) implementation of policies to boost growth and non-oil exports; (v) restoration of SONARA's financial viability; and (vi) a strengthening of public debt management, including careful review and management of all signed-but-undisbursed loans.*

# PUBLIC DEBT COVERAGE

**1. The coverage of public debt for the purpose of this DSA has been expanded compared to the recent 2017 DSA.**[1] Specifically, as in the 2017 DSA the debt stock covers the central government, the expenditure float, contingent liabilities linked to some of the external debt of SOEs,[2] guarantees and SONARA, including its supplier debt (Text Table 1). In addition, SONARA's debt is now also included in the debt service schedule as well as its revenue, which was not the case in the 2017 DSA. External debt is mainly defined based on currency but is adjusted for residency where data is available.[3]

**Text Table 1. Cameroon: Public Debt Coverage Under the Baseline Scenario**

| | Subsectors of the public sector | Sub-sectors covered |
|---|---|---|
| 1 | Central government | X |
| 2 | State and local government | |
| 3 | Other elements in the general government | |
| 4 | o/w: Social security fund | |
| 5 | o/w: Extra budgetary funds (EBFs) | |
| 6 | Guarantees (to other entities in the public and private sector, including to SOEs) | X |
| 7 | Central bank (borrowed on behalf of the government) | X |
| 8 | Non-guaranteed SOE debt | X |

**2. Debt of SOEs not yet covered by the DSA remains significant.** According to the recently published annex to the 2019 budget law, SOE debt decreased slightly from 13.1 percent of GDP at end-2016 to 13.0 percent of GDP at end-2017. However, about 2.4 percent of GDP are owed to the government and the DSA already includes SONARA's debt (2.4 percent of GDP). This suggests that the existing stock of SOE debt not included in the debt stock amounts to at most 8.2 percent of GDP. Staff and the authorities have agreed not to include other SOEs in the debt stock at the moment given the need to clarify certain liabilities, but would work towards expanding debt coverage to include all non-financial SOEs. The DSA also does not cover local government debt and extra budgetary funds due to lack of data.

**3. The contingent liability stress test accounts for the stock of SOE debt that is not included in the debt stock as well as risks from ongoing PPPs and financial markets.** As discussed above, SOE debt is estimated at 8.2 percent of GDP for end-2017 and is reflected in the contingent liability stress test (Text Table 2). The value of PPPs has so far been small at 2.1 percent of GDP but is estimated to have increased to about 5.5 percent of GDP with the signing of the Nachtigal hydroelectric power project (Box1). This has been incorporated in the DSA and raises the contingent liability shock by 2 percent of GDP

[1] The year in the title of the DSA refers to the latest year with actual data. Thus, the previous DSA from the staff report for the 2018 article IV consultation is the 2017 DSA. This DSA will be referred to as the updated 2017 DSA.

[2] These include an amount of Euro 8.9 million related to a supplier credit to a SOE, and a compensation claim of Euro 6.2 million on a SOE for termination of contract. Given the high likelihood that these contingent liabilities materialize, they are included in the coverage of the debt stock under the DSA.

[3] Borrowing from the Development Bank of the Central African States (BDEAC) in CFAF is classified as external debt (CFAF 19.9 billion at end-September). Treasury bills in domestic currency held by non-residents are also part of external debt (CFAF 38.1 billion at end-September).

(corresponding to 35 percent of the total PPP stock). Contingent liabilities from financial markets are set at the minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in a LIC since 1980. Estimates for other elements not covered are currently not available.

**Text Table 2. Cameroon: Coverage of the Contingent Liabilities' Stress Test**

| | | Default | | Used for the analysis | Reasons for deviations from the default settings |
|---|---|---|---|---|---|
| 1 | The country's coverage of public debt | The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt | | | |
| 2 | Other elements of the general government not captured in 1. | 0 | percent of GDP | 0.0 | |
| 3 | SoE's debt (guaranteed and not guaranteed by the government) 1/ | 2 | percent of GDP | 8.2 | Estimate of SOE debt not included in debt stock |
| 4 | PPP | 35 | percent of PPP stock | 2.0 | |
| 5 | Financial market (a minimum starting value of 5 percent of GDP) | 5 | percent of GDP | 5.0 | |
| | Total (2+3+4+5) (in percent of GDP) | | | 15.1 | |

1/ The default shock of 2% of GDP will be triggered for countries, whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

# BACKGROUND

## A. Debt

**4. Public debt has increased in the first three quarters of 2018**. After reaching CFAF 7,507 billion at end-2017, preliminary data suggest that public debt has further increased to around CFAF 7,874 billion as of September 2018 (Text Table 3). This was largely due to a rise in external debt to CFAF 5,802 billion, on account of faster-than-expected disbursements of foreign-financed investment related to the Africa Cup of Nations (CAN) and large infrastructure projects. A significant reduction in the expenditure float, due to cancellation and payment of arrears,[4] only partially offset that increase. Other elements of the debt stock changed to a lesser extent. Compared to the previous DSA, debt as a share of GDP at end-2017 declined somewhat (36.9 percent against a previous estimate of 38.2 percent) due to a revision in nominal GDP and a correction to SONARA's supplier debt.

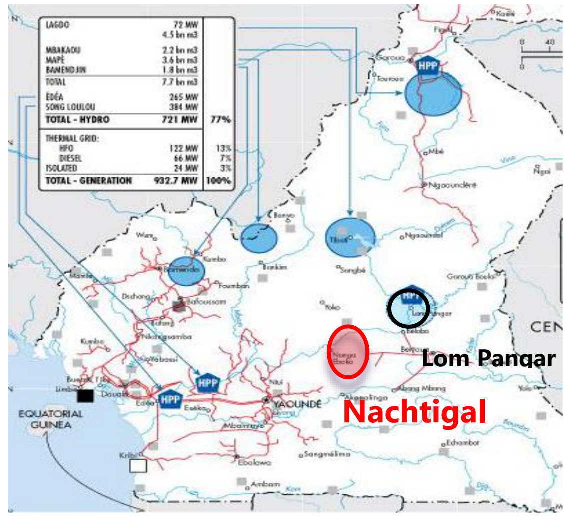
**5. The composition of external debt has remained largely unchanged.** External multilateral and bilateral Paris Club (PC) debt represents around one third of total debt. Bilateral non-PC debt is dominated by China, while commercial debt mostly reflects a $750 million Eurobond issued in 2015 which will come due in three installments from 2023 to 2025 (Text Figure 1). Around 40 percent of external debt is on concessional terms and close to 40 percent is denominated in Euros. Average maturity stood at 11 years for external debt (excluding SONARA's debt), while the average weighted interest rate stood at 2.3 percent. Around 23 percent of external debt has a flexible interest rate. Short-term supplier debt accounts for 87 percent of SONARA's external debt.

**6. The composition of domestic debt has shifted with the decline in the expenditure float.** BEAC statutory advances account for around 28 percent of domestic debt, while treasury bills represent 17 percent (Text Figure 2). The share of the expenditure float in domestic debt has declined from 29 percent at

[4] The cancellation of arrears is reflected in table 2 under other debt creating or reducing flows, contributing to a decline in the public debt to GDP ratio by 1.1 percentage point.

end-2017 to 17 percent at end-September 2018. Average maturity of domestic debt (excluding the float and SONARA's debt) stood at 7 years and the average weighted interest rate at 3.2 percent. 70 percent of SONARA's domestic debt is short-term bank debt.

## Box 1. The Nachtigal Hydroelectric Power Project



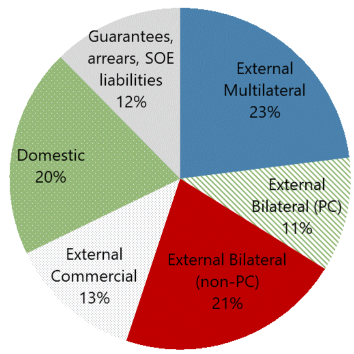

**The Nachtigal project is a Public Private Partnership project that will address Cameroon's excess electricity demand, which is expected to grow at an annual rate of 6-7 percent until 2035.** Nachtigal is a greenfield 420 MW hydro power project on the Sanaga river. The operator, the Nachtigal Hydro Power Company (NHPC) is owned by the Government of Cameroon, EDF International, and the IFC. The project is estimated to cost about Euro 1.1 billion, and the dam is expected to be fully operational by 2023 and expected to cover about a third of total electricity demand in Cameroon at very low cost.

**The government bears significant financial obligations in this project, but the financing arrangement appears generally in line with similar projects in Cameroon and other emerging markets and developing economies**. Financial obligations include upfront cost of an equity injection and loan, securing of the funding required to connect the dam to the existing grid and of a loan guarantee to local commercial lenders, issuance of a letter of credit and provision of a payment guarantee to NHPC in case ENEO, the off-taker, defaults on its payment obligations. Financial arrangements are similar to the Kribi powerplant project also supported by the World Bank and IFC and risks allocation appears broadly in line with other hydropower projects in emerging markets. However, the force majeure risk tends to favor the private partner and the internal rate of return awarded to the private partner is high compared to international practice.

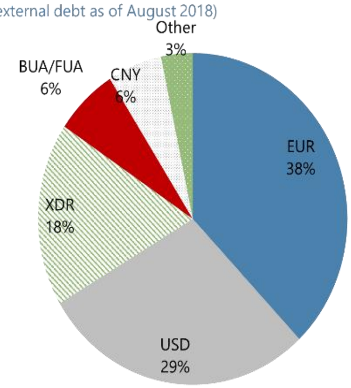
**Implications for debt sustainability are limited under the baseline, but the size of the project raises the size of the contingent liability shock.** The World Bank project on electricity transmission and reform is already disbursing and part of the debt stock and baseline projections. Guarantees will only come into effect at a later stage and will be incorporated in the baseline projections as more information becomes available. To account for the associated risks, staff has included the total value of the Nachtigal project into the stock of PPPs, which increases from 2.0 percent of GDP to 5.5 percent of GDP. While this does not directly raise the debt stock it increases the size of the contingent liability shock in the DSA by 2 percentage points to 15.1 percent of GDP.

## Text Figure 1. Cameroon: Composition of Public Debt

**Debt by Creditor**
(Share of total debt as of September 2018)




**External Debt by Currency**
(Share of total external debt as of August 2018)




Sources: Cameroonian authorities; and IMF staff calculations.

## Text Table 3. Cameroon: Public and Publicly-Guaranteed Debt, 2016-September 2018

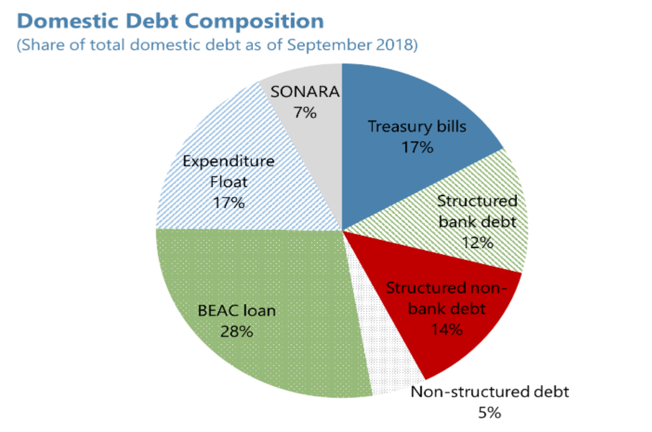
| | Dec-16 | | Dec-17 | | Sept -18 (Est.) | |
|---|---|---|---|---|---|---|
| | CFAF billion | percent of GDP | CFAF billion | percent of GDP | CFAF billion | percent of GDP |
| **A. Public and publicly guaranteed debt (authorities' estimate: 1+2+3)** | **5228** | **27.0** | **6255** | **30.8** | **6937** | **32.4** |
| 1. External debt | 3961 | 20.5 | 4625 | 22.8 | 5333 | 24.9 |
| 2. Domestic debt | 1201 | 6.2 | 1578 | 7.8 | 1558 | 7.3 |
| 3. (External) Publicly guaranteed debt | 66 | 0.3 | 52 | 0.3 | 46 | 0.2 |
| 4. Expenditure float | 596 | 3.1 | 710 | 3.5 | 359 | 1.7 |
| 5. External claims to SOEs (ex-SONARA) | 9 | 0.0 | 9 | 0.0 | 8 | 0.0 |
| 6. SONARA debt | 457 | 2.4 | 534 | 2.6 | 569 | 2.7 |
| 7. o/w external | 293 | 1.5 | 383 | 1.9 | 415 | 1.9 |
| **B. Public and publicly guaranteed debt (staff estimate: A + 4+5+6)** | **6290** | **32.5** | **7507** | **36.9** | **7874** | **36.8** |
| Domestic | 1961 | 10.1 | 2439 | 12.0 | 2072 | 9.7 |
| External | 4329 | 22.4 | 5069 | 24.9 | 5802 | 27.1 |
| o/w publicly guaranteed | 75 | 0.4 | 61 | 0.3 | 54 | 0.3 |
| **C. Stock of contracted but undisbursed debt 1/** | **3842** | **19.9** | **4415** | **21.7** | **4092** | **19.1** |
| Domestic | 257 | 1.3 | 170 | 0.8 | 171 | 0.8 |
| External | 3586 | 18.5 | 4245 | 20.9 | 3922 | 18.3 |
| o/w multilateral | 1240 | 6.4 | 1848 | 9.1 | 1600 | 7.5 |
| o/w bilateral | 1802 | 9.3 | 1719 | 8.5 | 1595 | 7.4 |
| o/w commercial | 544 | 2.8 | 679 | 3.3 | 727 | 3.4 |

Sources: Cameroonian authorities, and IMF staff calculations.

1/ Excludes budget support.

**7. The stock of contracted-but-undisbursed debt (SENDs) declined in the first three quarters of 2018**. The stock of SENDs decreased to CFAF 4,092 billion at end-September 2018 (Text Table 3). The ratio of external SENDS to total SENDs declined from 96 percent at end-2017 to 95 percent at end-September 2018. The share of multilateral SENDs in total external SENDs declined to 41 percent with the disbursement of multiple loans to finance infrastructure and development projects. The share of external commercial SENDs in total external SENDs increased to 19 percent on account of new infrastructure and CAN projects. China's share in undisbursed loans continues to be the largest at 29 percent at end-September.

**Text Figure 2. Cameroon: Composition of Domestic Public Debt**




Sources: Cameroonian authorities; and IMF staff calculations.

**8. Cameroon's capacity to monitor and manage public debt for the purposes of the IMF's debt limit policy is adequate and is improving, but further improvements are needed.** Discrepancies in reporting between the ministry of finance and the debt agency can now be reconciled. In addition, the National Public Debt Committee (CNDP) has strengthened its role in the approval process, ensuring that proposals do not move forward to advanced stages without their approval. Tracking of project loan disbursements has improved through close monitoring of calls for funds and strengthened coordination between the Ministries of Finance and Economy, the debt agency and key development partners. This has allowed the authorities to slow down further calls for funds for non-concessional external investment projects until end 2018. However, coordination between project and budget planning remains imperfect and a detailed disbursement plan by project is lacking, resulting in execution above the budget envelope.

**9. Measures on SENDs have progressed but the large stock of undisbursed loan commitments remains a key risk to debt sustainability.** The authorities have taken important steps to enhance monitoring and management of SENDs, including (i) the adoption of an action plan by the CNDP, (ii) bilateral discussions with creditors and project managers to validate amounts and verify the status of problematic SENDs[5], and (iii) official requests for closure of completed projects and cancellation of remaining amounts. However, a large share (13 percent of GDP) of problematic SENDs has been classified for improvement of management and acceleration of disbursements. Formulating a disbursement plan for

[5] SENDs were classified as problematic if they fulfilled at least one of six criteria: (i) the loan was signed before 2014, (ii) the loan's disbursement was zero one year after signing, (iii) the loan has not come into effect six months after signing, (iv) the deadline for the loan's disbursements has passed or has been extended at least once, (v) the deadline for the loan's disbursement is close (less than one year) and the share that is disbursed is below 50 percent, (vi) the project has not disbursed for more than one year. The latest update of the report estimated problematic SENDs at 2,997 million CFAF at end-August 2018.

all remaining SENDs in line with the program's fiscal objectives will be critical given the recent acceleration of foreign-financed investment spending and the high risk of debt distress.

**10. The coverage of external private sector debt has improved.** Most recent data have expanded in coverage and suggest that private external debt has increased slightly to US$912 million at end-2017. Direct investment by enterprises accounts for the largest share at 78 percent, with main creditors being exporters and other private sources and official institutions. However, the change in debt coverage makes intertemporal analysis difficult.

## B. Macroeconomic Forecast

**11. The macroeconomic framework reflects recent economic developments and the policies underpinning the ECF-supported program.** The baseline scenario is predicated on full implementation of fiscal and external consolidation, as well as structural reforms envisaged under the program, and on gradual completion of ongoing infrastructure projects, which should lead to higher FDI and exports. Key macroeconomic projections have changed only slightly since the 2017 DSA (Box 2, Text Table 4). Real GDP growth was revised up for historical data but remains largely unchanged over the projection horizon. Inflation has been revised up due to higher historical data and recent changes in the term-of-trade. The primary balance has also remained unchanged as corrective measures are on track for 2018, while revenue-to-GDP ratios declined on account of higher nominal GDP.[6] Exports of goods and services as a share of GDP are largely unchanged in the medium-term but are lower in the long term, as downward revisions in volume of oil exports outweigh the increase in oil prices.

**12. Financing assumptions have been updated based on most recent data**. The financing gap during 2018–20 is assumed to be fully covered by IMF financing and budget support from donors. For 2018, additional budget support from the AfDB (CFAF 98 billion) has been included, while budget support from the World Bank was shifted from 2018 to 2019 (CFAF 55 billion). Financing terms for new external debt have been updated based on average financing terms of SENDs. The mix of new external disbursements in the medium-term is projected based on the composition of SENDs, which implies a shift towards multilateral creditors. In the longer term a gradual shift towards commercial borrowing causes the grant element to gradually decline. Domestic financing (excluding the BEAC loan) is projected to shift gradually towards more medium- to long-term borrowing. The discount rate remains at 5 percent, as approved by the IMF and World Bank Executive Boards in October 2013.

**13. Financing assumptions regarding SONARA reflect recent loan agreements as well as current and planned measures to enhance its viability.** While staff is not assuming any new issuance of domestic or external medium- to long-term debt, it does assume that short-term debt is rolled over albeit at a declining rate. In particular, 2013 supplier debt is projected to be transformed into medium-to long-term debt in line with the government's buyback plan (MEFP ¶31). The remaining supplier debt is projected to decline gradually over the medium term to about 0.2 percent of GDP with the implementation of measures to reduce costs and increase price flexibility (Box 3). These measures should allow SONARA to increase its

[6] This refers to the primary balance of the central government. For this DSA a consolidated primary balance is used that covers central government and SONARA.

viability and thus rely more on its own liquidity to finance inputs. The interest rate on external short-term supplier debt is set in line with a recently signed loan to finance oil imports. Government revenue and expenditure are consolidated between the central government and SONARA, with the latter projected to restore profitability over the medium-term.

**Text Table 4. Cameroon: Key Macroeconomic Assumptions, 2016-38**

| | 2016-2017 | 2018-2023 | 2024-2038 |
|---|---|---|---|
| **Real GDP growth (percent)** | | | |
| Updated DSA 2017 1/ | 4.1 | 4.7 | 5.5 |
| DSA 2017 | 3.8 | 4.8 | 5.4 |
| DSA 2016 | 4.3 | 5.2 | 5.4 |
| **Inflation (GDP deflator)** | | | |
| Updated DSA 2017 | 1.3 | 1.5 | 1.8 |
| DSA 2017 | 0.2 | 1.3 | 1.8 |
| DSA 2016 | 1.9 | 2.0 | 2.0 |
| **Primary fiscal balance (percent of GDP)** | | | |
| Updated DSA 2017 | -4.6 | -0.9 | -0.8 |
| DSA 2017 | -4.7 | -0.9 | -0.7 |
| DSA 2016 | -3.9 | -0.8 | -0.2 |
| **Total revenue excluding grants (percent of GDP)** | | | |
| Updated DSA 2017 | 14.6 | 15.2 | 15.7 |
| DSA 2017 | 14.9 | 15.7 | 16.6 |
| DSA 2016 | 16.2 | 17.4 | 18.2 |
| **Exports of goods and services (percent of GDP)** | | | |
| Updated DSA 2017 | 18.9 | 16.3 | 12.2 |
| DSA 2017 | 19.3 | 15.9 | 14.0 |
| DSA 2016 | 22.0 | 22.1 | 21.6 |
| **Oil price (US dollars per barrel)** | | | |
| Updated DSA 2017 | 47.8 | 64.8 | 60.3 |
| DSA 2017 | 47.8 | 56.2 | 53.6 |
| DSA 2016 | 49.0 | 54.7 | 55.2 |

Sources: Cameroonian authorities; IMF staff calculations.
1/ The year of the DSA refers to the latest year with actual data. For example, the updated DSA 2017 refers to this version.

14. **Newly added realism tools flag risks around the forecast** (Figure 3 and 4). Although the consolidation envisaged from 2018 to 2020 remains moderate at 1 percentage point for the primary deficit, the planned 3-year fiscal adjustment (3.5 percent) falls in the top quintile of historical data on LIC adjustment programs and demonstrates a shift from historical performance. Nonetheless, the consolidation remains credible as the 2018 budget has been adjusted to a more realistic expenditure envelope and budget execution at end-September was largely in line with program objectives. Furthermore, the authorities have committed to ensure end-December program fiscal targets are met. The preliminary 2019 budget framework is also in line with program objectives. Enhanced fiscal discipline and public financial management reforms to ensure a sustainable adjustment have resulted in an elimination of treasury advances and a reduction of unallocated spending, while monitoring of foreign-financed investment has improved. Enhanced spending efficiency and the floor on social spending are aimed at safeguarding and advancing social achievements. The realism tool also flags the growth path, due to the

projected consolidation and historical performance. However, staff's empirical analysis indicates low multipliers (Annex II of the staff report for the 2018 Article IV consultation and 2nd ECF review) and growth is expected to remain strong due to natural gas production, construction for the CAN, coming on stream of key energy and transport infrastructure and increasing private investment. An increase in expenditure efficiency is also expected to cushion the impact of consolidation on growth. Government investment is projected to decline in line with the consolidation, which explains the shift compared to historical data.

## Box 2. Medium- and Long-Term Macroeconomic Assumptions

**Medium Term, 2018-2023**

Real GDP growth is projected to average 4.7 percent of GDP supported by increasingly strong growth in the non-oil sector offsetting a rapid decline in oil production. Annual inflation is projected to remain around 1.5 percent in 2018 in the medium-term, below the CEMAC convergence criteria of 3 percent.

The medium-term fiscal framework is anchored on continued improvements in non-oil revenue mobilization and a stabilization of public investment allowing a gradual reduction of the deficit towards the CEMAC convergence criterion. The revenue-to-GDP ratio (excluding grants) is projected to rise from 14.6 percent in 2016-17 to 15.2 percent in the medium term on the back of base-broadening measures including gradual removal of tax and customs exemptions and enhanced coordination among administrations.

The current account deficit is projected to remain broadly stable in the medium term as strong non-oil exports growth offsets the decline in oil exports and import growth stabilizes. The current account deficit is expected to be financed through the IMF-supported program, international donors, and other private capital inflows.

**Long Term, 2024-2038**

Real GDP growth is projected to average 5.5 percent in the long term, as public investment slows and the private sector gains competitiveness and increases investment.

The revenue-to-GDP ratio (excluding grants) is projected to rise slightly to 15.7 percent. This assumes a decline in oil revenue with the gradual depletion of oil reserves, while non-oil revenue improves on continued efficiency gains in revenue collection.

Exports are projected to decline to around 12 percent of GDP in the long-term, reflecting falling oil production. However, the current account is assumed to gradually improve as non-oil exports remain dynamic and imports increase at a lower rate.

### Box 3. Restoring SONARA's Financial Viability

**SONARA's financial situation is worrisome and poses significant fiscal risk.** In particular, SONARA's refining capacity is too small to ensure financial viability and costs have increased above fixed domestic retail fuel prices since late 2017. This has contributed to non-oil revenue slippages and rapidly increasing fuel subsidies, which are estimated to exceed the budgeted amount for 2018. SONARA also accounts for the largest share of SOE debt and is the major contributor to risks originating from SOEs (Country Report No. 18/235). Its debt (excluding debt to the government) has continued to increase in 2018 and its short-term supplier debt is the main reason for breaches of the external debt service thresholds under the baseline.

**The authorities are implementing measures to enhance SONARA's financial viability (MEFP ¶31).** Short-term measures aim at reducing costs by revising the price structure of petroleum products and gas, allowing open bids for LPG purchases and buying back SONARA securities regarding the 2013 crude oil suppliers debt. The recently-completed expansion of production capacity is also expected to reduce costs. For the medium-term, the authorities agreed to start planning a gradual move towards cost-recovery and more flexible fuel prices, while protecting the poor through targeted social transfers. They would start a communication campaign in 2019 to raise public awareness.

## C. Country Classification and Determination of Stress Test Scenarios

15. **With the publication of the October 2018 WEO, Cameroon is assessed at medium debt carrying capacity**. Under the previous methodology that used the CPIA score Cameroon was classified at low debt carrying capacity. Based on the April 2018 WEO, Cameroon received its first classification as medium performer under the new calculation of the CI index. This is largely due to newly added variables (real GDP growth, remittances, reserves and world growth) that outweigh the CPIA score. The recent October 2018 WEO (Text Table 5) has provided a second medium performer rating, which moves Cameroon to medium debt carrying capacity. This change in classification implies an increase in thresholds for the present value of external debt relative to exports and GDP to 180 percent and 40 percent, respectively (Text Table 6). The benchmark for the present value of total public debt will also rise to 55 percent of GDP. The ratios for debt service will remain unchanged.

### Text Table 5. Cameroon: Calculation of the CI Index

| Components | Coefficients (A) | 10-year average values (B) | CI Score components (A*B) = (C) | Contribution of components |
|---|---|---|---|---|
| CPIA | 0.385 | 3.218 | 1.24 | 45% |
| Real growth rate (in percent) | 2.719 | 4.817 | 0.13 | 5% |
| Import coverage of reserves (in percent) | 4.052 | 32.644 | 1.32 | 48% |
| Import coverage of reserves^2 (in percent) | -3.990 | 10.657 | -0.43 | -15% |
| Remittances (in percent) | 2.022 | 1.424 | 0.03 | 1% |
| World economic growth (in percent) | 13.520 | 3.579 | 0.48 | 17% |
| CI Score | | | 2.78 | 100% |
| CI rating | | | Medium | |

**16. Stress tests follow standardized settings, with the addition of a market financing shock.** The standardized stress tests apply the default settings, while the contingent liability stress test is based on the quantification of contingent liabilities discussed above. The market financing shock is the only tailored stress test that applies to Cameroon due to an outstanding Eurobond. For this shock the standard scenario design is applied.[7] The commodity price shock is not applicable to Cameroon because commodity exports are below the 50 percent threshold.

**Text Table 6. Change in Thresholds for Cameroon**

| EXTERNAL debt burden thresholds | Weak (old DSA) | Medium (new DSA) |
|---|---|---|
| PV of debt in % of | | |
| Exports | 100 | 180 |
| GDP | 30 | 40 |
| Debt service in % of | | |
| Exports | 15 | 15 |
| Revenue | 18 | 18 |
| TOTAL public debt benchmark | | |
| PV of total public debt in % of GDP | 38 | 55 |

# DEBT SUSTAINABILITY

## D. External Debt Sustainability

**17. Cameroon remains at high risk of external debt distress** (Table 1 and Figure 1). Public external debt is projected to peak in 2019 at 31.3 percent of GDP and to decline gradually thereafter. The present value of external debt-to-GDP and the present value of public-debt to-exports remain well below their thresholds as they have been raised significantly under the new LIC DSF methodology (see Table 6). While the former is projected to gradually decline after 2019 on the back of solid GDP growth, the latter increases until 2028 as the present value of debt grows faster than exports. The debt service-to-revenue ratio breaches the threshold for the first two years by a magnitude of up to 1.9 percentage points, driven by the inclusion of short-term supplier debt of SONARA, and then declines below the threshold. The debt service-to exports ratio breaches its threshold under the baseline for two main reasons. First, it is significantly above the threshold from 2018 to 2022 (on average around 3.4 percentage points) due to the inclusion of short-term debt from SONARA maturing. Second, it continues to breach the threshold from 2023 to 2025 (on average about 2 percentage points) due to the maturation of the Eurobond. The two debt service ratios are highly sensitive to the assumptions regarding SONARA's roll-over of short-term supplier debt.

**18. Under stress tests the thresholds are breached for three of the indicators, with the export and the depreciation shock resulting in the largest increase.** The present value of debt-to-GDP remains well below its threshold under all stress tests. It reaches its highest value under the exports shock in 2020 (i.e., 29.0 percent or 11.0 percentage points below its threshold). The present value of debt-to-exports breaches the threshold for the contingent liability and the exports shocks. The latter, which is the most severe scenario, raises the ratio up to 262.0 percent in 2024, due to high variability of historical export growth. The debt service-to-exports ratio also reaches its highest values under the exports shock to a maximum of 27.6 percent. For the debt service-to-revenue ratio the most extreme shock is a one-time 30 percent nominal depreciation, which raises the ratio to as high as 25.0 percent in 2019. Historical scenarios point towards exploding present values of debt-to-GDP and debt-to-exports, which reflect the large

[7] See table 10 in the guidance note on the DSF for LICs for details.

historical current account deficit. This differs from projections under the baseline, which assume a gradual improvement in the current account driven by dynamic non-oil exports as the economy diversifies.

## E. Public Debt Sustainability

**19. Public sector debt is projected to gradually decline and remain well below the benchmark** (Table 2 and Figure 2). Public debt is projected to decline gradually after peaking in 2018 at 36.9 percent of GDP. Higher realized real GDP growth in 2017 and the cancelation of arrears in the first half of 2018 explain the lower level compared to the 2017 DSA. The present value of debt-to-GDP also declines gradually and remains well below the benchmark, which is now significantly higher under the new DSA and the reclassification to medium debt carrying capacity (see Table 6). The 2018 total debt service-to-revenue ratio is large at 50.8 percent, reflecting the short-term supplier debt of SONARA coming due, but declines gradually thereafter. Again, these dynamics are highly sensitive to assumptions on the rollover of the supplier debt. While the public debt stock indicator does not breach its benchmark, Cameroon remains at high overall risk of public debt distress due to the breach by the two external debt service indicators under the baseline.

**20. Under the stress scenarios, public sector debt remains well below the benchmark.** The most extreme shock for all three indicators of public debt is that of combined contingent liabilities. However, even in this case the present value of debt-to-GDP remains substantially below the benchmark, peaking at 44 percent of GDP. The present value of debt-to-revenue jumps to 230 percent in 2019, while the debt service-to-revenue ratio peaks in 2020 at 60 percent. The historical scenario projects an explosive path for the present value of debt-to-revenue, which is mainly driven by large historical primary deficits compared to projections. As discussed above, baseline projections in this DSA are based on implementation of ECF program measures that aim to ensure a sustainable adjustment through enhanced fiscal discipline and public financial management reforms.

## F. Market Module

**21. The market financing tool signals that risk related to market financing pressures are low** (Figure 5). Cameroon remains below the benchmark for gross-financing needs as well as the benchmark on the EMBI spread. The latter has decreased recently to around 540 bps from a high of 650 bps in August. As neither threshold is breached, this signals low market financing risks.

## G. Risk Rating and Vulnerabilities

**22. Cameroon remains at high overall risk of public debt distress, but for the time being debt still appears sustainable.** Thresholds are breached for the two external debt service indicators, highlighting the fragile liquidity situation. Yet, staff currently assesses debt as sustainable due to a range of factors. In particular, while the debt-service-to-revenue breaches the threshold at the beginning of the forecast period it does so only for the first two years. The breach of the debt service-to-exports ratio is more sustained but declines gradually over the projection horizon. The higher magnitude of the breach compared to the 2017 DSA is largely driven by the inclusion of maturing short-term supplier debt of SONARA and is highly sensible to rollover assumptions. In addition, debt stock indicators remain comfortably below their thresholds. Remaining risks however could stem from accelerations in disbursements due to the large stock of SENDs, the need to finalize construction for the CAN and additional security spending pressures and export losses owing to the Anglophone crisis.

**23. Significant efforts are warranted to ensure debt remains on a downward trajectory and sustainability is preserved.** Steadfast implementation of fiscal and structural reforms supported by the IMF program is crucial to mitigate risks. The weaknesses presented in the debt service indicator which is expressed as a proportion to exports points to the need for deep structural reforms to improve competitiveness and achieve economic diversification, while fiscal consolidation and a prudent borrowing policy, skewed towards concessional loans, remain essential to keep public debt dynamics on a sustainable path and rebuild buffers ahead of upcoming high debt repayments. The high debt service due to SONARA's supplier debt also highlights the importance of restoring its financial viability. Finally, a granular analysis and sound management of the SENDs, including a dialogue with lenders, will be critical.

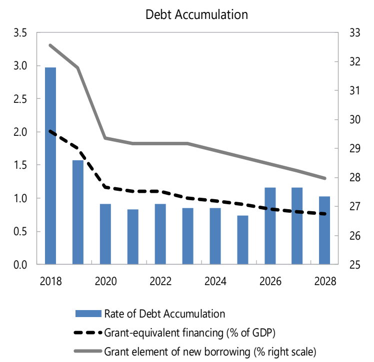
**24. Authorities' views.** The authorities agreed with the need for prudent debt management but viewed the debt sustainability outlook more positively. They noted that the breaches in the debt service indicators were due to the SONARA's supplier debt which, in their view, should not be part of public debt. However, they agreed with the need to prioritize concessional borrowing, limit non-concessional borrowing to critical projects (MEFP ¶26), and carefully manage disbursements of SENDs to stay within the budget envelope (MEFP ¶29). They also pointed out that the reduction of problematic SENDs requires close collaboration with project managers and creditors to ensure a sustainable solution. The authorities agreed to continue to improve data provision on SOEs, in particular on cross-debts (MEFP ¶30) and indicated that the CNDP would continue to systematically review all loan and PPP project proposals (MEFP ¶23).

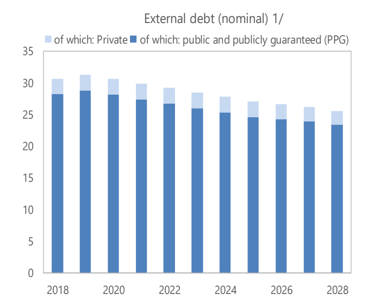
# Table 1. Cameroon: External Debt Sustainability Framework, Baseline Scenario, 2015-2038

## (Percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 8/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 | 2038 | Historical | Projections |
| **External debt (nominal) 1/** | 22.8 | 25.1 | 27.5 | 30.6 | 31.3 | 30.6 | 29.8 | 29.2 | 28.5 | 25.5 | 17.2 | 14.6 | 28.5 |
| ***of which: public and publicly guaranteed (PPG)*** | 21.1 | 22.4 | 24.9 | 28.2 | 28.8 | 28.1 | 27.3 | 26.7 | 26.0 | 23.4 | 16.0 | 13.9 | 26.3 |
| | | | | | | | | | | | | | |
| Change in external debt | 8.1 | 2.4 | 2.4 | 3.1 | 0.7 | -0.7 | -0.8 | -0.7 | -0.7 | -0.6 | -1.0 | | |
| **Identified net debt-creating flows** | 3.8 | 0.8 | -1.3 | 0.7 | -0.3 | -0.4 | -0.5 | -0.4 | -0.3 | -1.6 | -3.4 | 0.5 | -0.6 |
| **Non-interest current account deficit** | 3.5 | 2.5 | 1.9 | 2.6 | 2.1 | 2.0 | 1.9 | 2.0 | 2.2 | 0.6 | -2.4 | 2.6 | 1.8 |
| Deficit in balance of goods and services | 3.4 | 2.5 | 2.0 | 3.3 | 3.0 | 3.2 | 3.2 | 3.4 | 3.2 | 1.6 | -1.9 | 2.8 | 2.9 |
| Exports | 21.8 | 19.2 | 18.7 | 18.2 | 17.7 | 16.8 | 15.9 | 15.0 | 14.3 | 12.5 | 11.5 | | |
| Imports | 25.2 | 21.7 | 20.6 | 21.4 | 20.6 | 20.0 | 19.1 | 18.3 | 17.5 | 14.0 | 9.6 | | |
| Net current transfers (negative = inflow) | -1.0 | -1.1 | -1.2 | -1.2 | -1.3 | -1.3 | -1.3 | -1.3 | -1.1 | -1.0 | -0.8 | -1.2 | -1.2 |
| *of which: official* | -0.2 | -0.2 | -0.2 | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 | -0.3 | -0.2 | -0.1 | | |
| Other current account flows (negative = net inflow) | 1.1 | 1.0 | 1.1 | 0.5 | 0.5 | 0.1 | 0.0 | -0.1 | 0.1 | 0.0 | 0.2 | 1.1 | 0.0 |
| **Net FDI (negative = inflow)** | -1.9 | -1.1 | -2.3 | -2.0 | -2.1 | -2.0 | -2.0 | -1.9 | -1.9 | -1.6 | -0.5 | -2.0 | -1.9 |
| **Endogenous debt dynamics 2/** | 2.2 | -0.5 | -0.9 | 0.1 | -0.3 | -0.4 | -0.5 | -0.5 | -0.6 | -0.6 | -0.4 | | |
| Contribution from nominal interest rate | 0.3 | 0.7 | 0.8 | 1.0 | 0.9 | 1.0 | 0.9 | 0.9 | 0.8 | 0.7 | 0.5 | | |
| Contribution from real GDP growth | -0.9 | -1.0 | -0.8 | -0.9 | -1.3 | -1.4 | -1.4 | -1.4 | -1.5 | -1.3 | -0.9 | | |
| Contribution from price and exchange rate changes | 2.9 | -0.2 | -0.9 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Residual 3/** | 4.3 | 1.5 | 3.7 | 2.4 | 0.9 | -0.3 | -0.3 | -0.2 | -0.4 | 1.0 | 2.4 | 1.4 | 0.4 |
| *of which: exceptional financing* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| | | | | | | | | | | | | | |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of PPG external debt-to-GDP ratio** | ... | ... | 21.5 | 22.1 | 22.7 | 21.9 | 21.2 | 20.5 | 19.9 | 18.0 | 12.8 | | |
| **PV of PPG external debt-to-exports ratio** | ... | ... | 115.3 | 121.9 | 128.4 | 130.5 | 133.9 | 137.3 | 139.4 | 144.2 | 111.4 | | |
| **PPG debt service-to-exports ratio** | 8.5 | 12.1 | 14.1 | 18.9 | 20.8 | 18.0 | 17.4 | 16.8 | 17.4 | 13.5 | 12.0 | | |
| **PPG debt service-to-revenue ratio** | 9.8 | 14.0 | 15.6 | 19.9 | 19.7 | 16.0 | 14.8 | 13.6 | 13.9 | 9.7 | 8.1 | | |
| Gross external financing need (Billion of U.S. dollars) | 1.1 | 1.7 | 1.5 | 2.6 | 2.4 | 2.0 | 1.9 | 1.9 | 2.1 | 1.0 | -1.8 | | |
| | | | | | | | | | | | | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.7 | 4.6 | 3.5 | 3.8 | 4.4 | 4.7 | 4.9 | 5.2 | 5.4 | 5.5 | 5.5 | 4.3 | 4.7 |
| GDP deflator in US dollar terms (change in percent) | -16.3 | 0.8 | 3.5 | 6.7 | 0.0 | 2.8 | 2.2 | 2.5 | 2.1 | 1.8 | 1.9 | 0.6 | 2.7 |
| Effective interest rate (percent) 4/ | 1.7 | 3.1 | 3.2 | 4.2 | 3.2 | 3.5 | 3.3 | 3.4 | 3.1 | 2.9 | 2.9 | 2.9 | 3.5 |
| Growth of exports of G&S (US dollar terms, in percent) | -21.7 | -7.1 | 4.3 | 7.7 | 1.7 | 2.3 | 1.2 | 1.7 | 2.5 | 5.4 | 6.3 | 1.8 | 2.8 |
| Growth of imports of G&S (US dollar terms, in percent) | -19.5 | -9.1 | 2.0 | 14.9 | 0.5 | 4.2 | 2.4 | 3.5 | 2.7 | 3.1 | 4.1 | 3.1 | 4.7 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 32.5 | 31.8 | 29.4 | 29.2 | 29.2 | 29.2 | 28.0 | 23.9 | ... | 30.2 |
| Government revenues (excluding grants, in percent of GDP) | 18.9 | 16.6 | 16.9 | 17.3 | 18.6 | 18.9 | 18.6 | 18.4 | 18.0 | 17.4 | 17.1 | 16.8 | 18.3 |
| Aid flows (in Billion of US dollars) 5/ | 1547.3 | 1801.7 | 1981.3 | 1.0 | 0.9 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.6 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | ... | ... | 2.0 | 1.8 | 1.2 | 1.1 | 1.1 | 1.0 | 0.8 | 0.4 | ... | 1.4 |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | ... | ... | 36.3 | 36.8 | 37.0 | 37.0 | 36.7 | 33.6 | 31.9 | 31.4 | ... | 36.2 |
| Nominal GDP (Billion of US dollars) | 31 | 33 | 35 | 39 | 40 | 44 | 47 | 50 | 54 | 77 | 158 | | |
| Nominal dollar GDP growth | -11.6 | 5.5 | 7.2 | 10.7 | 4.4 | 7.7 | 7.2 | 7.8 | 7.5 | 7.4 | 7.5 | 4.9 | 7.6 |
| | | | | | | | | | | | | | |
| **Memorandum items:** | | | | | | | | | | | | | |
| PV of external debt 7/ | ... | ... | 24.1 | 24.6 | 25.2 | 24.4 | 23.7 | 23.0 | 22.4 | 20.1 | 14.1 | | |
| In percent of exports | ... | ... | 129.3 | 135.3 | 142.5 | 145.4 | 149.6 | 154.0 | 156.9 | 161.3 | 122.5 | | |
| Total external debt service-to-exports ratio | 8.5 | 14.9 | 18.0 | 25.1 | 24.8 | 21.7 | 20.8 | 20.5 | 21.3 | 17.5 | 14.6 | | |
| PV of PPG external debt (in Billion of US dollars) | | | 7.5 | 8.6 | 9.2 | 9.5 | 9.9 | 10.3 | 10.8 | 13.9 | 20.2 | | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | 3.0 | 1.6 | 0.9 | 0.8 | 0.9 | 0.8 | 1.0 | 0.3 | | |
| Non-interest current account deficit that stabilizes debt ratio | -4.6 | 0.1 | -0.5 | -0.5 | 1.5 | 2.6 | 2.7 | 2.6 | 2.9 | 1.2 | -1.5 | | |

| | |
|---|---|
| **Definition of external/domestic debt** | **Currency-based** |
| **Is there a material difference between the two criteria?** | **No** |




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

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

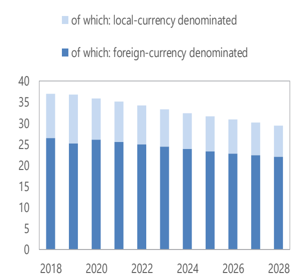
# Table 2. Cameroon: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-2038

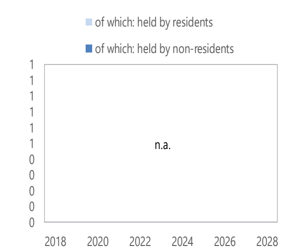
(Percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 6/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 | 2038 | Historical | Projections |
| **Public sector debt 1/** | **32.0** | **32.5** | **36.9** | **36.9** | **36.7** | **35.9** | **35.0** | **34.1** | **33.3** | **29.4** | **24.0** | **21.1** | **33.7** |
| **of which: external debt** | **21.1** | **22.4** | **24.9** | **28.2** | **28.8** | **28.1** | **27.3** | **26.7** | **26.0** | **23.4** | **16.0** | **13.9** | **26.3** |
| Change in public sector debt | 10.4 | 0.5 | 4.4 | 0.0 | -0.2 | -0.8 | -0.9 | -0.9 | -0.9 | -0.7 | -0.3 | | |
| **Identified debt-creating flows** | **5.1** | **4.8** | **0.8** | **-0.1** | **-0.1** | **-0.7** | **-0.9** | **-0.8** | **-0.8** | **-0.6** | **-0.3** | **1.6** | **-0.6** |
| **Primary deficit** | **4.2** | **5.2** | **4.0** | **1.6** | **1.3** | **0.7** | **0.7** | **0.6** | **0.7** | **0.7** | **0.7** | **2.2** | **0.8** |
| Revenue and grants | 19.0 | 16.9 | 17.2 | 17.6 | 19.0 | 19.3 | 18.9 | 18.8 | 18.1 | 17.5 | 17.2 | **17.2** | **18.3** |
| *of which: grants* | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | | |
| Primary (noninterest) expenditure | 23.2 | 22.1 | 21.2 | 19.2 | 20.3 | 20.0 | 19.6 | 19.4 | 18.9 | 18.2 | 17.9 | **19.4** | **19.1** |
| **Automatic debt dynamics** | **1.0** | **-0.4** | **-3.3** | **-0.6** | **-1.5** | **-1.4** | **-1.5** | **-1.5** | **-1.5** | **-1.3** | **-1.0** | | |
| Contribution from interest rate/growth differential | -1.1 | -1.1 | -0.9 | -1.2 | -1.3 | -1.3 | -1.4 | -1.4 | -1.5 | -1.4 | -1.0 | | |
| *of which: contribution from average real interest rate* | 0.1 | 0.4 | 0.2 | 0.1 | 0.3 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | | |
| *of which: contribution from real GDP growth* | -1.2 | -1.4 | -1.1 | -1.3 | -1.5 | -1.7 | -1.7 | -1.7 | -1.7 | -1.6 | -1.3 | | |
| Contribution from real exchange rate depreciation | 2.0 | 0.7 | -2.3 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Other identified debt-creating flows** | **0.0** | **0.0** | **0.0** | **-1.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **-0.1** |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Residual** | **5.3** | **-4.3** | **3.6** | **0.7** | **-0.2** | **-0.2** | **-0.2** | **-0.1** | **-0.1** | **0.0** | **0.0** | **0.6** | **0.0** |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of public debt-to-GDP ratio 2/** | **...** | **...** | **32.5** | **31.3** | **30.5** | **29.7** | **28.8** | **27.9** | **27.1** | **24.0** | **20.8** | | |
| **PV of public debt-to-revenue and grants ratio** | **...** | **...** | **189.4** | **178.2** | **160.6** | **154.0** | **152.5** | **149.0** | **149.7** | **136.8** | **120.9** | | |
| **Debt service-to-revenue and grants ratio 3/** | **9.8** | **13.8** | **15.3** | **50.8** | **36.5** | **30.2** | **29.2** | **29.8** | **32.0** | **26.0** | **25.9** | | |
| Gross financing need 4/ | 5.8 | 7.9 | 7.9 | 9.5 | 8.2 | 6.5 | 6.2 | 6.2 | 6.5 | 5.3 | 5.1 | | |
| t Revenue | | | | | | | | | | | | | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.7 | 4.6 | 3.5 | 3.8 | 4.4 | 4.7 | 4.9 | 5.2 | 5.4 | 5.5 | 5.5 | **4.3** | **5.0** |
| Average nominal interest rate on external debt (in percent) | 1.8 | 3.5 | 3.4 | 2.5 | 2.6 | 2.5 | 2.4 | 2.4 | 2.1 | 1.9 | 2.1 | **3.0** | **2.2** |
| Average real interest rate on domestic debt (in percent) | -0.2 | -1.1 | -1.5 | 0.5 | 1.5 | 2.0 | 1.8 | 2.2 | 2.3 | 2.9 | 3.3 | **-2.2** | **2.0** |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 14.4 | 3.2 | -10.6 | ... | ... | ... | ... | ... | ... | ... | ... | **1.7** | **...** |
| Inflation rate (GDP deflator, in percent) | 0.2 | 1.1 | 1.5 | 1.5 | 1.4 | 1.5 | 1.6 | 1.6 | 1.6 | 1.8 | 1.9 | **2.2** | **1.6** |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 1.2 | -0.1 | -0.6 | -6.2 | 10.4 | 3.0 | 2.8 | 4.3 | 2.5 | 5.0 | 5.9 | **9.5** | **3.6** |
| Primary deficit that stabilizes the debt-to-GDP ratio 5/ | -6.2 | 4.7 | -0.4 | 1.6 | 1.5 | 1.5 | 1.6 | 1.5 | 1.6 | 1.4 | 1.0 | **-0.6** | **1.5** |
| PV of contingent liabilities (not included in public sector debt) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |

| | |
|---|---|
| **Definition of external/domestic debt** | **Currency-based** |
| **Is there a material difference between the two criteria?** | **No** |

Public sector debt 1/




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

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

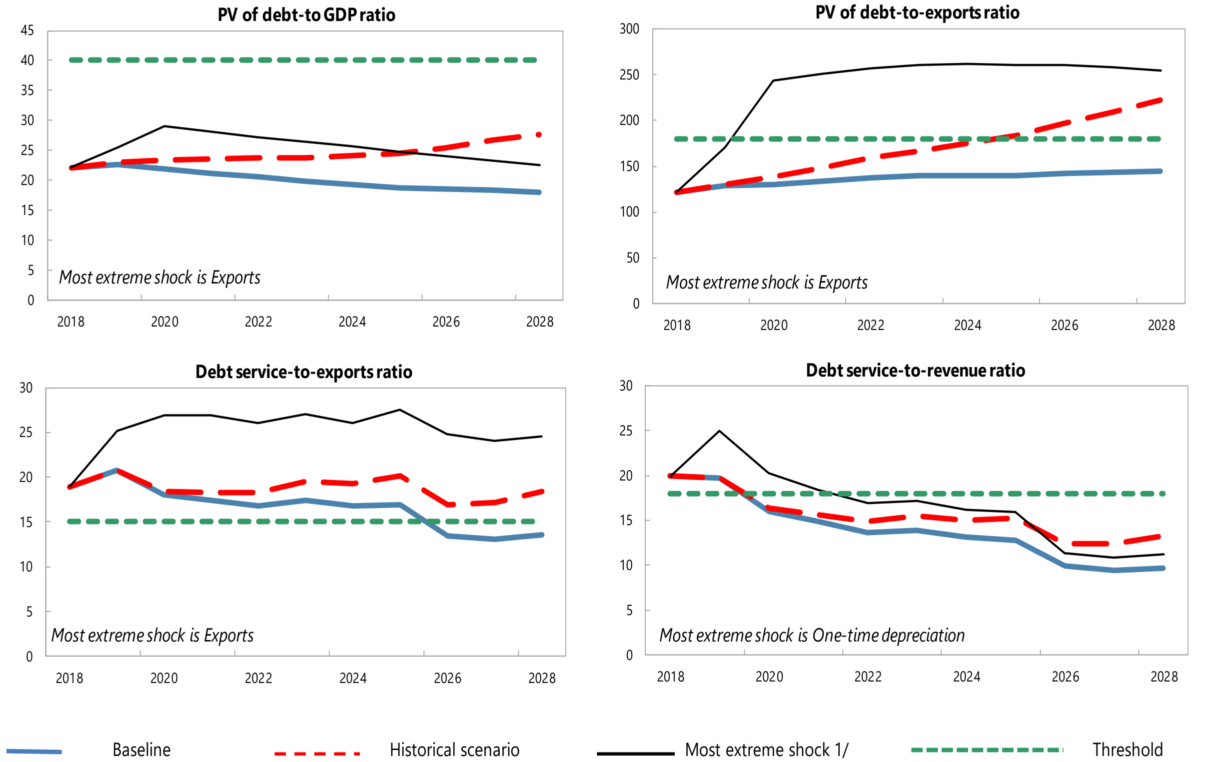
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

## Figure 1. Cameroon: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2018-2028 1/




| Customization of Default Settings | | |
|---|---|---|
| | Size | Interactions |
| **Tailored Tests** | | |
| Combined CLs | Yes | |
| Natural Disasters | n.a. | n.a. |
| Commodity Prices 2/ | n.a. | n.a. |
| Market Financing | No | No |

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

| Borrowing Assumptions for Stress Tests* | | |
|---|---|---|
| | Default | User defined |
| **Shares of marginal debt** | | |
| External PPG MLT debt | 100% | |
| **Terms of marginal debt** | | |
| Avg. nominal interest rate on new borrowing in USD | 2.0% | 2.0% |
| USD Discount rate | 5.0% | 5.0% |
| Avg. maturity (incl. grace period) | 21 | 21 |
| Avg. grace period | 5 | 5 |

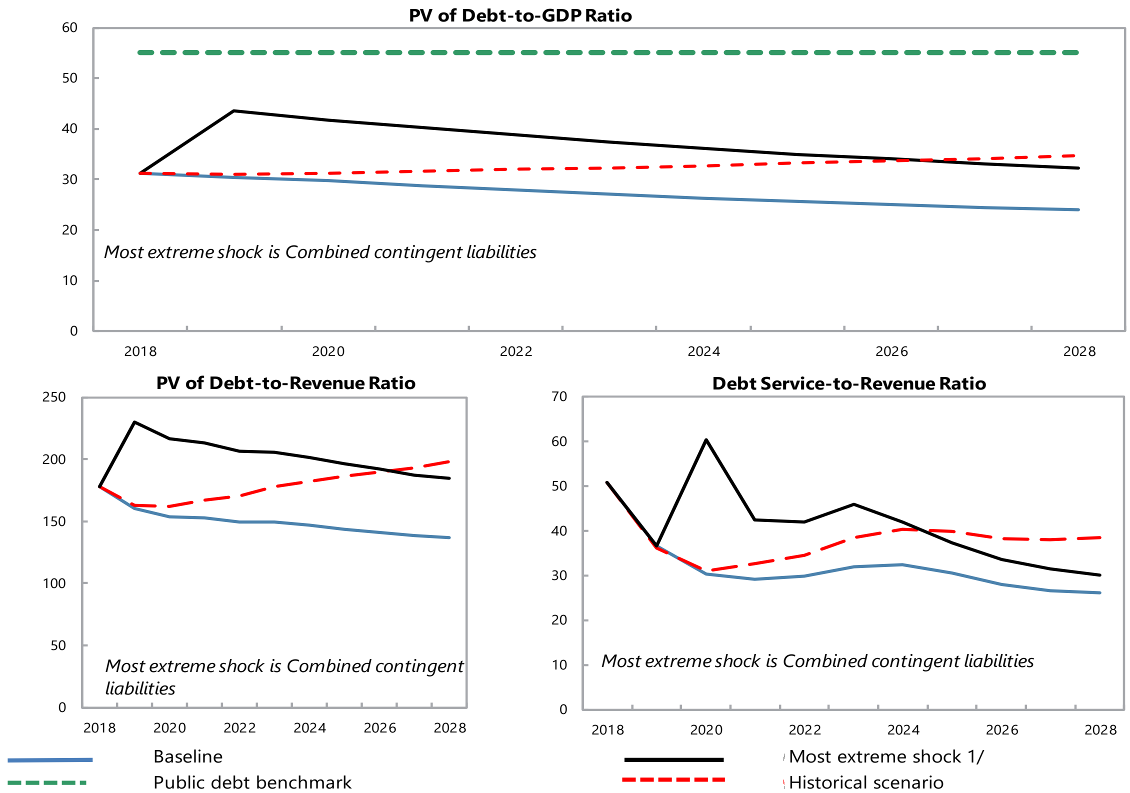
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

## Figure 2. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2018-2028




| Borrowing Assumptions for Stress Tests* | Default | User defined |
|---|---|---|
| **Shares of marginal debt** | | |
| **External PPG medium and long-term** | 45% | 45% |
| **Domestic medium and long-term** | 17% | 17% |
| **Domestic short-term** | 31% | 38% |
| **Terms of marginal debt** | | |
| **External MLT debt** | | |
| **Avg. nominal interest rate on new borrowing in USD** | 2.0% | 2.0% |
| **Avg. maturity (incl. grace period)** | 21 | 21 |
| **Avg. grace period** | 5 | 5 |
| **Domestic MLT debt** | | |
| **Avg. real interest rate on new borrowing** | 3.8% | 3.8% |
| **Avg. maturity (incl. grace period)** | 4 | 4 |
| **Avg. grace period** | 2 | 2 |
| **Domestic short-term debt** | | |
| **Avg. real interest rate** | 1% | 1.0% |

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

## Table 3. Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2028

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| **PV of debt-to GDP ratio** | | | | | | | | | | | |
| **Baseline** | 22 | 23 | 22 | 21 | 21 | 20 | 19 | 19 | 18 | 18 | 18 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | 22 | 23 | 23 | 24 | 24 | 24 | 24 | 25 | 26 | 27 | 28 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 22 | 23 | 23 | 22 | 21 | 21 | 20 | 20 | 19 | 19 | 19 |
| B2. Primary balance | 22 | 24 | 26 | 26 | 25 | 25 | 24 | 23 | 23 | 23 | 22 |
| B3. Exports | 22 | 25 | 29 | 28 | 27 | 26 | 26 | 25 | 24 | 23 | 23 |
| B4. Other flows 3/ | 22 | 24 | 24 | 23 | 22 | 21 | 21 | 20 | 20 | 19 | 19 |
| B6. One-time 30 percent nominal depreciation | 22 | 29 | 25 | 24 | 23 | 23 | 22 | 21 | 21 | 21 | 21 |
| B6. Combination of B1-B5 | 22 | 26 | 24 | 24 | 23 | 22 | 21 | 21 | 20 | 20 | 20 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 22 | 28 | 28 | 28 | 28 | 28 | 27 | 27 | 27 | 26 | 26 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | 22 | 25 | 25 | 24 | 23 | 22 | 22 | 21 | 21 | 20 | 20 |
| **Threshold** | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| **PV of debt-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | 122 | 128 | 131 | 134 | 137 | 139 | 140 | 140 | 142 | 144 | 144 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | 122 | 130 | 139 | 149 | 159 | 167 | 175 | **184** | **196** | **209** | **222** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 122 | 128 | 131 | 134 | 137 | 139 | 140 | 140 | 142 | 144 | 144 |
| B2. Primary balance | 122 | 134 | 155 | 162 | 168 | 173 | 175 | 176 | 178 | 179 | 179 |
| B3. Exports | 122 | 171 | **244** | **250** | **257** | **261** | **262** | **260** | **260** | **258** | **255** |
| B4. Other flows 3/ | 122 | 133 | 140 | 144 | 147 | 150 | 150 | 150 | 152 | 152 | 152 |
| B6. One-time 30 percent nominal depreciation | 122 | 128 | 117 | 120 | 123 | 125 | 126 | 126 | 129 | 132 | 133 |
| B6. Combination of B1-B5 | 122 | 151 | 136 | 167 | 172 | 175 | 176 | 175 | 177 | 179 | 178 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 122 | 156 | 169 | 178 | **187** | **195** | **199** | **201** | **205** | **207** | **207** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | 122 | 129 | 132 | 136 | 139 | 141 | 141 | 140 | 142 | 144 | 144 |
| **Threshold** | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 |
| **Debt service-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | **19** | **21** | **18** | **17** | **17** | **17** | **17** | **17** | 13 | 13 | 14 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | **19** | **21** | **18** | **18** | **18** | **19** | **19** | **20** | **17** | **17** | **18** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **19** | **21** | **18** | **17** | **17** | **17** | **17** | **17** | 13 | 13 | 14 |
| B2. Primary balance | **19** | **21** | **18** | **19** | **18** | **19** | **18** | **19** | **16** | **16** | **16** |
| B3. Exports | **19** | **25** | **27** | **27** | **26** | **27** | **26** | **28** | **25** | **24** | **24** |
| B4. Other flows 3/ | **19** | **21** | **18** | **18** | **17** | **18** | **17** | **18** | 14 | 14 | 14 |
| B6. One-time 30 percent nominal depreciation | **19** | **21** | **18** | **17** | **16** | **17** | **16** | **17** | 12 | 12 | 12 |
| B6. Combination of B1-B5 | **19** | **23** | **22** | **21** | **20** | **21** | **21** | **21** | **17** | **16** | **17** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **19** | **21** | **19** | **18** | **18** | **19** | **18** | **18** | 15 | 14 | 15 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | **19** | **21** | **18** | **18** | **17** | **18** | **19** | **19** | 14 | 12 | 13 |
| **Threshold** | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| **Debt service-to-revenue ratio** | | | | | | | | | | | |
| **Baseline** | **20** | **20** | 16 | 15 | 14 | 14 | 13 | 13 | 10 | 9 | 10 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | **20** | **20** | 16 | 16 | 15 | 15 | 15 | 15 | 12 | 12 | 13 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **20** | **20** | 17 | 15 | 14 | 14 | 14 | 13 | 10 | 10 | 10 |
| B2. Primary balance | **20** | **20** | 16 | 16 | 15 | 15 | 14 | 14 | 12 | 11 | 12 |
| B3. Exports | **20** | **20** | 17 | 16 | 15 | 15 | 14 | 15 | 13 | 12 | 12 |
| B4. Other flows 3/ | **20** | **20** | 16 | 15 | 14 | 14 | 13 | 13 | 11 | 10 | 10 |
| B6. One-time 30 percent nominal depreciation | **20** | **25** | **20** | **18** | 17 | 17 | 16 | 16 | 11 | 11 | 11 |
| B6. Combination of B1-B5 | **20** | **21** | 17 | 16 | 15 | 15 | 14 | 14 | 11 | 10 | 11 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **20** | **20** | 17 | 16 | 15 | 15 | 14 | 14 | 11 | 11 | 11 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | **20** | **20** | 16 | 15 | 14 | 15 | 15 | 14 | 10 | 9 | 9 |
| **Threshold** | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

## Table 4. Cameroon: Sensitivity Analysis for Key Indicators of Public Debt, 2018-2028

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| **PV of Debt-to-GDP Ratio** | | | | | | | | | | | |
| **Baseline** | 31 | 30 | 30 | 29 | 28 | 27 | 26 | 26 | 25 | 24 | 24 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | 31 | 31 | 31 | 32 | 32 | 32 | 33 | 33 | 34 | 34 | 35 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 31 | 31 | 32 | 32 | 31 | 31 | 31 | 30 | 30 | 30 | 30 |
| B2. Primary balance | 31 | 33 | 37 | 36 | 34 | 33 | 32 | 31 | 30 | 29 | 29 |
| B3. Exports | 31 | 33 | 36 | 35 | 34 | 33 | 32 | 31 | 30 | 29 | 28 |
| B4. Other flows 3/ | 31 | 31 | 31 | 30 | 29 | 29 | 28 | 27 | 26 | 26 | 25 |
| B6. One-time 30 percent nominal depreciation | 31 | 36 | 33 | 30 | 28 | 26 | 24 | 22 | 20 | 19 | 17 |
| B6. Combination of B1-B5 | 31 | 31 | 33 | 31 | 30 | 28 | 27 | 26 | 25 | 24 | 23 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 31 | 44 | 42 | 40 | 39 | 37 | 36 | 35 | 34 | 33 | 32 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | 31 | 31 | 30 | 29 | 28 | 27 | 26 | 26 | 25 | 24 | 24 |
| **Public debt benchmark** | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| **PV of Debt-to-Revenue Ratio** | | | | | | | | | | | |
| **Baseline** | 178 | 161 | 154 | 153 | 149 | 150 | 147 | 144 | 141 | 138 | 137 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | 178 | 163 | 162 | 167 | 170 | 178 | 183 | 186 | 190 | 193 | 198 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 178 | 165 | 166 | 168 | 167 | 171 | 171 | 171 | 171 | 171 | 171 |
| B2. Primary balance | 178 | 175 | 192 | 189 | 184 | 184 | 180 | 175 | 171 | 167 | 164 |
| B3. Exports | 178 | 172 | 185 | 183 | 179 | 180 | 176 | 172 | 167 | 162 | 158 |
| B4. Other flows 3/ | 178 | 165 | 162 | 161 | 157 | 158 | 155 | 151 | 148 | 145 | 142 |
| B6. One-time 30 percent nominal depreciation | 178 | 187 | 170 | 161 | 149 | 142 | 132 | 122 | 113 | 105 | 98 |
| B6. Combination of B1-B5 | 178 | 163 | 170 | 165 | 158 | 156 | 151 | 145 | 141 | 136 | 133 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 178 | 230 | 216 | 213 | 207 | 206 | 201 | 196 | 192 | 187 | 184 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | 178 | 161 | 155 | 154 | 150 | 151 | 147 | 144 | 141 | 138 | 137 |
| **Debt Service-to-Revenue Ratio** | | | | | | | | | | | |
| **Baseline** | 51 | 36 | 30 | 29 | 30 | 32 | 32 | 30 | 28 | 27 | 26 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2018-2028 2/ | 51 | 36 | 31 | 33 | 35 | 39 | 40 | 40 | 38 | 38 | 39 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 51 | 37 | 32 | 33 | 34 | 37 | 38 | 37 | 34 | 33 | 33 |
| B2. Primary balance | 51 | 36 | 37 | 41 | 37 | 39 | 39 | 36 | 33 | 32 | 31 |
| B3. Exports | 51 | 36 | 30 | 30 | 31 | 33 | 33 | 32 | 31 | 29 | 28 |
| B4. Other flows 3/ | 51 | 36 | 30 | 29 | 30 | 32 | 33 | 31 | 29 | 27 | 27 |
| B6. One-time 30 percent nominal depreciation | 51 | 38 | 34 | 32 | 33 | 35 | 35 | 33 | 29 | 27 | 27 |
| B6. Combination of B1-B5 | 51 | 35 | 30 | 39 | 36 | 37 | 37 | 33 | 30 | 28 | 27 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 51 | 36 | 60 | 42 | 42 | 46 | 42 | 37 | 34 | 31 | 30 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | 51 | 36 | 30 | 30 | 30 | 33 | 34 | 32 | 28 | 26 | 26 |

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

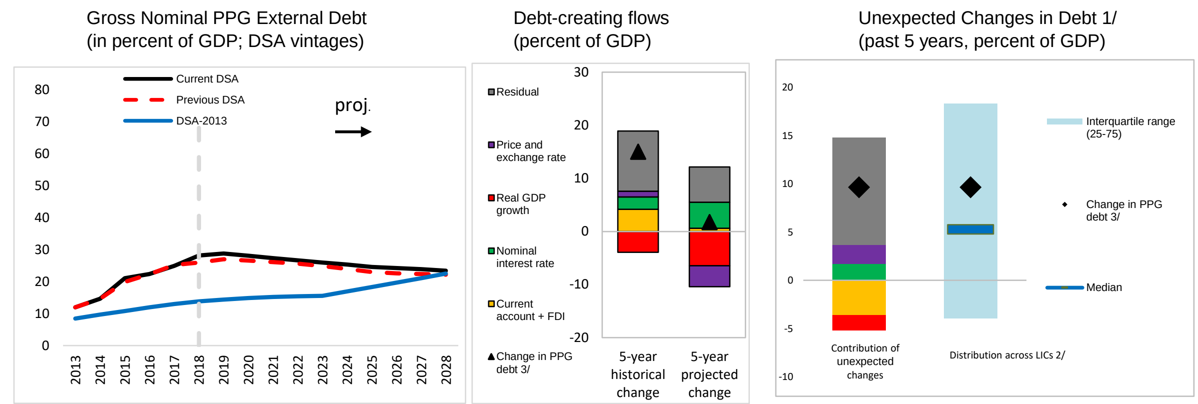
1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

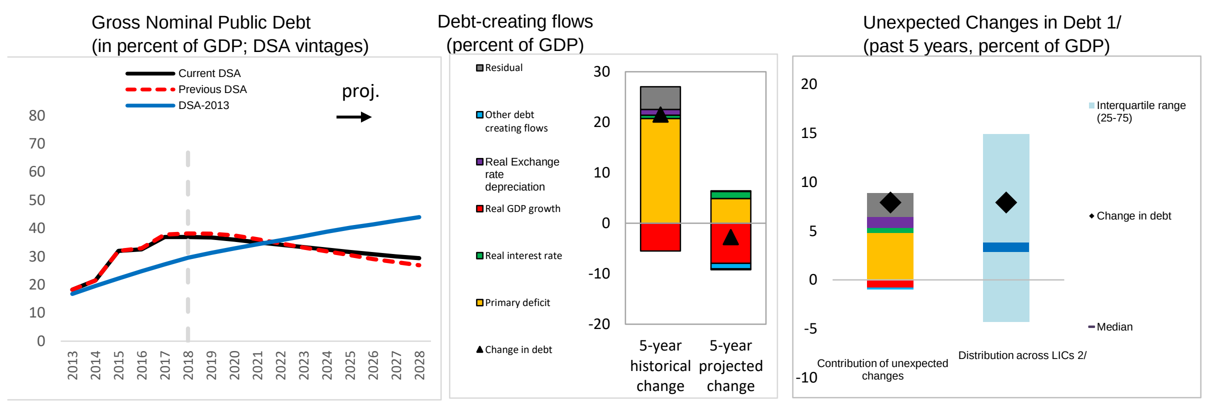
3/ Includes official and private transfers and FDI.

## Figure 3. Cameroon: Drivers of Debt Dynamics – Baseline Scenario

### External Debt



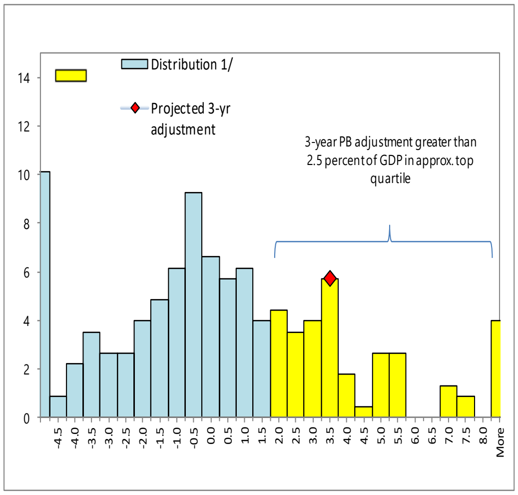

### Public Debt




Sources: Cameroonian authorities; and IMF staff estimates and projections.
1/ Difference between anticipated and actual contributions on debt ratios.
2/ Distribution across LICs for which LIC DSAs were produced.
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

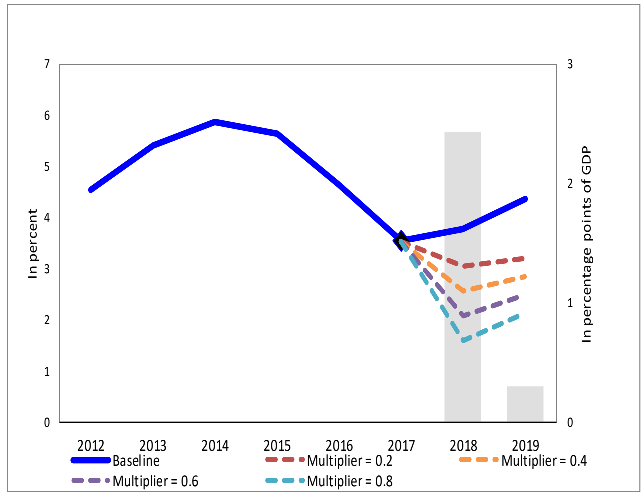
## Figure 4. Cameroon: Realism Tools

### 3-Year Adjustment in Primary Balance(Percentage points of GDP)



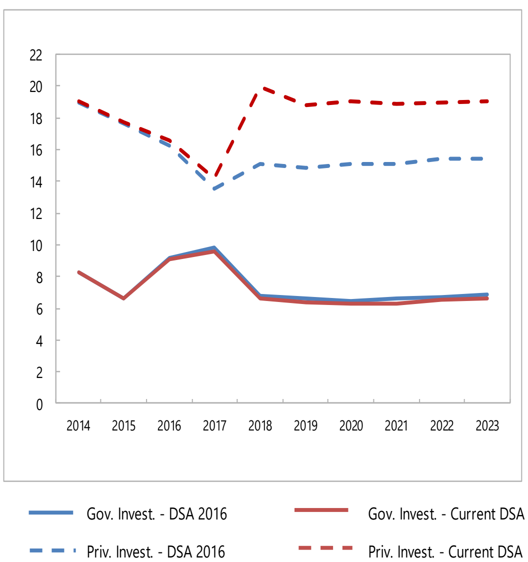

1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

### Fiscal Adjustment and Possible Growth Paths 1/

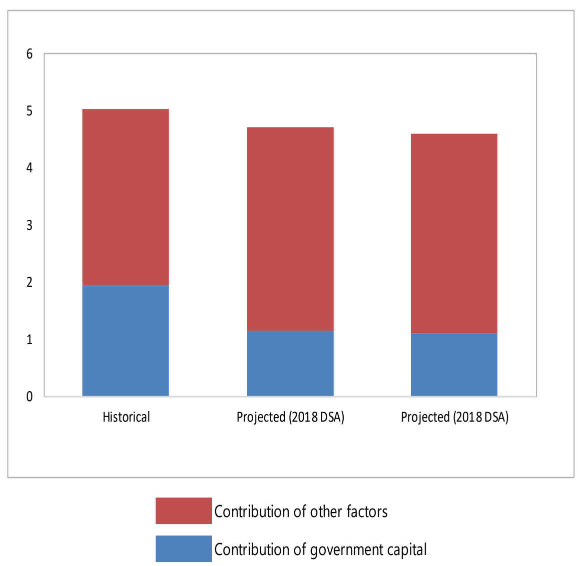



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

### Public and Private Investment Rates
(% of GDP)




### Contribution to Real GDP growth
(percent, 5-year average)

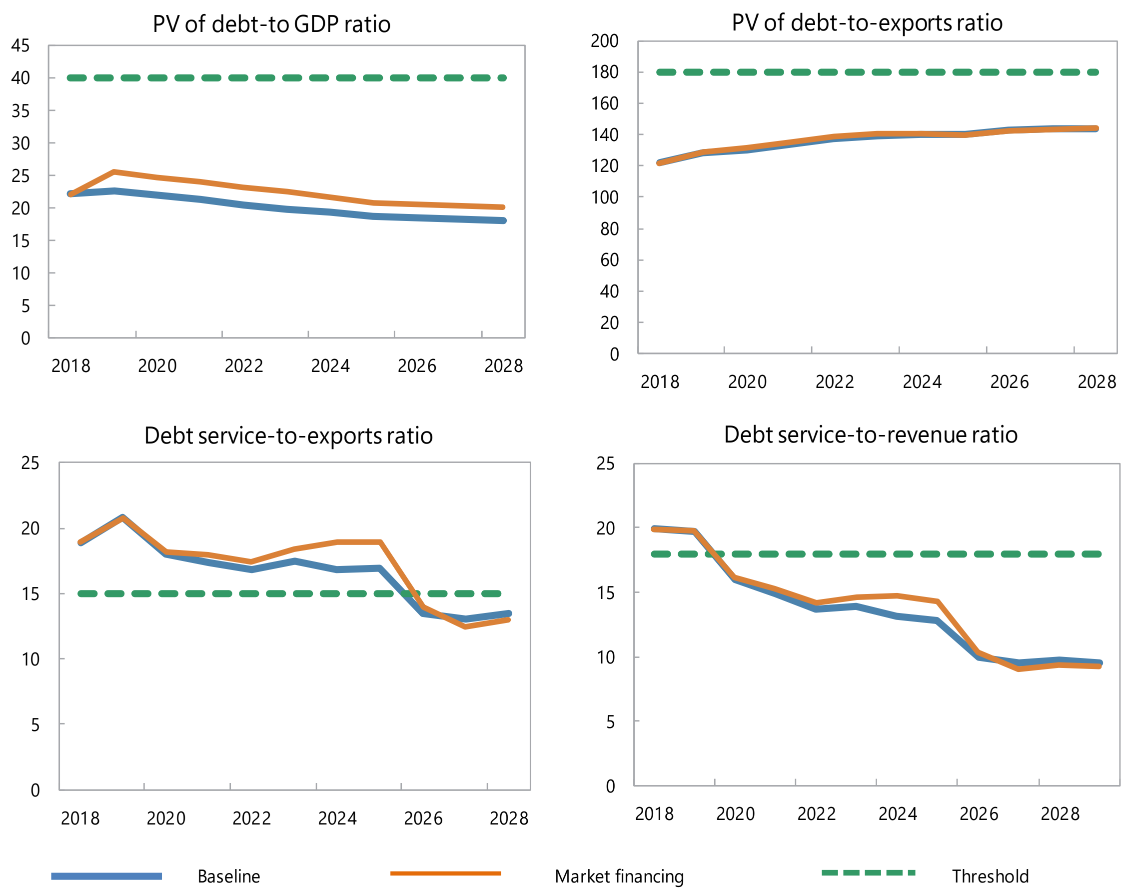



Sources: Cameroonian authorities; and IMF staff estimates and projections.

## Figure 5. Cameroon: Market-Financing Risk Indicators

| | GFN 1/ | EMBI 2/ |
|---|---|---|
| Benchmarks | 14 | 570 |
| Values | 9 | 541.522 |
| Breach of benchmark | No | No |
| Potential heightened liquidity needs | Low | |

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.




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

**Statement by Mr. Mohamed-Lemine Raghani, Executive Director for Cameroon and Mr. Regis O. N'Sonde, Senior Advisor to the Executive Director**

**December 17, 2018**

## I. INTRODUCTION

1. On behalf of our Cameroonian authorities, we thank Management and Staff for the continued dialogue with them and for the support to their reform efforts. They remain committed to the CEMAC's crisis exit strategy that was adopted in December 2016 and reaffirmed last October. The authorities are fully aware of the importance of maintaining coordinated efforts among CEMAC members and regional institutions to ensure the success of this strategy.

2. Amid a challenging domestic and external environment, Cameroon continues to register good performance under its Fund-supported program, and medium-term prospects remain favorable. Nonetheless, the authorities are mindful of the risks facing the outlook, and they intend to remain steadfast in achieving the objectives of the program.

3. Based on a good track record of policy and reform implementation, and their determination to stay the course in enhancing macroeconomic stability, strengthening external buffers, and promoting stronger and more inclusive growth, our Cameroonian authorities request Fund's continued support to their policy and reform agenda and the completion of the Third Review under the Extended Credit Facility (ECF).

## II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

4. Our authorities' resoluteness in pursuing fiscal consolidation has helped maintain the program on track, despite challenging socio-political circumstances, notably tensions in the two anglophone regions of the country and Boko Haram's continued threats in the North. The overall fiscal deficit stood in line with the program target of 1.2 percent of GDP at end-September 2018. Lower collection of taxes from the state oil refinery SONARA was the leading cause of the revenue shortfall of 0.3% of GDP which was however offset by lower-than-expected spending. Significant efforts have been made in limiting arrears although the cash deficit was nevertheless somewhat higher due to unanticipated arrears and float clearance.

5. The authorities have also doubled their efforts in improving public financial management (PFM). Measures have been taken to boost governance and transparency at customs administration while enhancing cooperation and coordination with the tax administration to strengthen compliance and tackle tax evasion. In addition, the authorities have strengthened budget control through the implementation of the budget circular adopted in June, which set boundaries regarding treasury advances, unbudgeted spending, and better control of execution related to foreign-financed investments.

6. Developments in the external sector have been more challenging in the first half of 2018, with the widening of the current account owing to the security situation in the two anglophone

regions which contributed to the lower-than-anticipated agricultural exports. As private capital outflows also increased, the balance of payments deteriorated and the country's net foreign assets decline somewhat but Cameroon continues to account for much of the region's pooled reserves.

7. Regarding the financial sector, liquidity conditions have improved, contributing to a recovery of credit to the private sector.

8. In this context, the authorities have continued to implement satisfactorily their economic and financial program supported by the ECF. All performance criteria (PCs) at end-June were met except the ceiling on net central bank financing of government which was missed with a small margin. All indicative targets (ITs) at end-June were also observed except the floor on non-oil revenue which was not met on the back of SONARA missing to pay its taxes and customs duties. Quantitative performance at end-September was also robust, with all but one ITs met. Performance on the structural front also showed good progress in reform implementation, with 12 out of 18 benchmarks observed between June and September 2018. Areas of strong structural achievements include fiscal reforms, revenue mobilization and PFM. The authorities recognize the need to step up reforms to enhance debt management and financial sector stability where non-performing loans (NPLs) remains high and two banks remain in difficult situation. The authorities are undertaking measures to address weaknesses in these areas going forward.

## III. POLICIES AND REFORMS GOING FORWARD

9. The authorities will pursue their program objectives amid and despite a challenging domestic context and a difficult external environment marked by tightening financial conditions and trade tensions. They broadly agree with staff's assessment of the risks facing the favorable outlook although they see greater upside risks notably stemming from the potential impact next year of large infrastructure projects in the hydro-power and transportation sectors. It is worth noting that the recently announced postponement to of the African Nations Soccer Cup (CAN) in Cameroon initially scheduled for mid-2019 should help smooth out capital spending and alleviate immediate pressures on the budget.

10. As the central piece of their medium-term agenda, the Cameroonian authorities remain committed to fiscal consolidation by pursuing further adjustments towards reducing the overall fiscal deficit to 2.4 percent of GDP this year and 2 percent of GDP in 2019 and beyond. The goal is to ensure that Cameroon meets the CEMAC convergence on the fiscal deficit by 2021 and maintain public debt on a sustainable path. Ensuring financial sector stability and promoting competitiveness are also at the forefront of Cameroon's agenda, with the view to reinvigorate activity and promote private sector development. The authorities' policy and reform program over the medium terms is laid out in their Memorandum of Economic and Financial Policies (MEFP).

***Preserving Fiscal and Debt Sustainability***

11. Efforts are currently underway at the tax and customs administrations—DGI and DGD respectively—to bolster non-oil revenue collection, fight fraud and tax evasion, and enhance the reliability of the taxpayer database. Several actions will be made to achieve these goals, including strengthening audits and controls by these administrations, further efforts in collection of tax arrears and additional taxes from public entities, and enhanced control of shipment regimes at duties.

12. The authorities are also focusing their action on rationalizing expenditures notably by further strengthening budget execution control and advancing their public finance reform agenda, including improving the quality of spending and treasury management. On this front, measures include substantial savings on goods and services as well as wages, while safeguarding social spending. Furthermore, the authorities are closely monitoring disbursements related to externally-financed projects to keep them within the budget framework as to not exceed non-concessional disbursement targets. The expected resources from revenue and expenditure measures would provide room to close gaps caused by overruns in direct interventions and by subsidies to SONARA.

13. For 2019, the authorities are fully committed to pursuing a fiscal policy stance in line with program objectives. This policy is well reflected in the 2019 budget which is consistent with the program objectives—a prior action for this Board meeting. The 2019 budget envisages tax efforts measures from non-oil revenues of at least 0.3 percent of GDP and a further tightening in spending of about 0.5 percent of GDP. To extend the tax base and improve revenue collection, the authorities will implement several policy measures including raising taxes and fees on alcohol, public contracts, tobacco, vehicles, and sodas. In addition, the government plans to expand property tax coverage to the land tax and inheritance. Furthermore, measures aimed at removing VAT exemptions on insurance contracts, the social portion of electricity and water bills, and processed wood will be executed.

14. The authorities intend to contain expenditures further while safeguarding social spending. In this regard, measures aimed at identifying and eliminating from the payroll system cases of ghost civil servants will continue in 2019 along with further cuts in expenditures on goods and services. Improvements in spending efficiency will be sought through restrictions on non-priority spending, including travel allowances and running expenses of commissions. Tighter control of budget execution through prioritization and rationalization of capital spending will also proceed, with the view to align disbursements with budgetary envelopes.

15. Over the medium term, policy actions will be consistent with the priorities set in the country's Growth and Employment Strategy. The authorities plan to undertake strong measures to reduce poverty and inequalities. To this end, the authorities' social protection strategy will be implemented starting in 2019, notably through expanding significantly the social safety net program. Additional resources will also be allocated to the health and education sectors. The 2019-20 floor on social spending will be raised gradually up to 4 percent of GDP by 2020. To

boost non-oil revenue mobilization further, the government intends to continue limiting tax expenditures. On public financial management, the authorities will pursue their PFM reform strategy. Envisaged measures are geared toward enhancing transparency and credibility in the budget process while further improving the quality of spending. These measures include: timely reconciliation and regularization of spending; limiting extra-budgetary expenses; transposition into national laws of the four remaining CEMAC directives; full implementation of a single treasury account; improving the effectiveness and quality of capital spending; and strengthening SOEs' management with the view to alleviate pressures on the budget and contingent liabilities.

16. Attentive of the need to preserve debt sustainability, our authorities are committed to prudent debt management, including the strong role of the public debt committee (CNDP)—chaired by the Minister of Finance—to ensure that debt contracting follows regular procedures and remains within debt limits set under the program. In pursuing prudent debt management, the authorities will: (i) give priority to concessional financing for infrastructure projects and social spending; (ii) prepare a disbursement plan with development partners that is consistent with budgetary frameworks, (iii) approve a performance improvement plan for SOEs building on their audits; and (iv) implement a plan to enhance SONARA's financial viability. The authorities also intend to implement their time-bound action plan on the reduction of non-performing signed-but-undisbursed loans (SENDs).

***Ensuring Financial Sector Stability***

17. Cameroon's financial sector is broadly sound and resilient to the type of terms-of-trade shock that has impacted the region, thanks to a more diversified economy. The authorities reiterate their commitment to take all necessary measures to safeguard the region's external and financial stability, including providing support to the efforts of the regional central bank BEAC and banking commission COBAC' in strengthening compliance with foreign exchange regulations. They are also pushing ahead the resolution plan for the two private ailing banks as well as a timebound implementation of their strategy to address non-performing loans (NPLs). They continue to make strides towards enhancing the judicial system notably its capacity to address banking and credit repayments disputes. Financial sector reforms will continue to be supported by technical assistance from developments partners, notably the Fund and World Bank.

***Stepping up Structural Policies***

18. The authorities will continue to strengthen fiscal governance and improve the business climate, recognizing that much remains to be done to fight corruption, enhance transparency, and reform the fuel pricing mechanism with the view to streamline the hydrocarbons price structure.

19. The authorities broadly agree with staff's assessments and recommendations laid out in Annex II of the staff report on improving governance especially as it relates to SOEs, strengthening market regulations, promoting the rule of law, and enhancing the AML/CFT framework. Their structural reform agenda takes in most of those recommendations. On

governance, the authorities are implementing measures to enhance transparency at customs and develop trade facilitation platforms which will help lower trade costs. They are committed to continue complying with EITI principles by implementing all recommendations set forth in the 2017 EITI assessment. Regarding fuel subsidies, the authorities share the view on a gradual transition to cost-recovery and more flexible fuel prices while protecting the poor through well targeted social transfers. They stand ready to consider all viable options in this regard.

20. Regarding financial services, the authorities will pursue greater financial inclusion given its implications for growth as well as poverty reduction. They will continue to promote access to finance for SMEs and the public, notably through the updated financial inclusion strategy. They are reviewing the economic model of the SME Bank, and will draw from the findings of the assessment of SMEs' financing needs and consult with the Fund to make an informed decision on a new model by end-March 2019.

## IV. CONCLUSION

21. Our Cameroonian authorities remain steadfast in implementing their policy and reform agenda under the ECF-supported program and their agenda consistent with CEMAC strategy of exit from crisis. Quantitative and structural performance under the current review is broadly satisfactory, and the authorities request a waiver of nonobservance of a PC that was missed with a small margin as well as modification of PCs. We would appreciate the Board's approval of these requests and its completion of the Third Review under the ECF for Cameroon.