



**Cameroon: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, and Financing Assurances Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cameroon.**

In the context of the sixth review under the three-year arrangement under the Poverty Reduction and Growth Facility, request for a waiver of performance criterion, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on September 11, 2008, with the officials of Cameroon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 18, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its January 9, 2009 discussion of the staff report that completed the review.
- A statement by the Executive Director for Cameroon.

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

Letter of Intent sent to the IMF by the authorities of Cameroon\*

\*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

CAMEROON

**Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, and Financing Assurances Review**

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

Approved by Benedicte Vibe Christensen and David Marston

December 18, 2008

Discussions on the sixth review under the PRGF arrangement took place in Yaoundé, August 28-September 11 and in Washington October 13-16. The mission met with Prime Minister Inoni, Finance Minister Menye, Economy Minister Motazé, and BEAC National Director, Mr. Mani. The team comprised Mr. Ghura (head), Mr. Ioannou, and Mr. Singh (all AFR), Mr. Klemm (FAD), Mr. Gemayel (SPR), and Ms. Kabedi-Mbuyi (Resident Representative). Mr. Nyambal, Senior Advisor to the Executive Director for Cameroon, and World Bank staff participated in the discussions. The current PRGF arrangement (in an amount equivalent to SDR 18.57 million) was approved on October 24, 2005, and extended to January 31, 2009.

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### **Abbreviations and Acronyms**

AfDB	African Development Bank
BEAC	Banque des Etats de l’Afrique Centrale
CAMAIR	Cameroon airlines
CAMPOST	National postal company
CAMTEL	Cameroon telephone company
CEMAC	Central African Economic and Monetary Community
COBAC	Central African Banking Commission
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
REER	Real effective exchange rate
SNH	National oil company
SONARA	National oil refinery

## I. BACKGROUND

### 1. **In the context of the sixth and final review under the PRGF arrangement, discussions covered:**

- Recent developments and program implementation in the first half of 2008; and
- Policies to preserve macroeconomic stability and fiscal sustainability, and promote private sector growth.

2. **The review took place against the backdrop of slowing global economic activity.** Prices for Cameroon's main export commodities have declined substantially. While easing food and fuel price pressures, these developments have increased the urgency to deal with the country's medium-term economic challenges, including structural reforms to promote growth. The authorities have scaled back their medium-term spending plans and lowered growth projections.

3. **The authorities stressed their interest in a successor Fund program to support Cameroon's medium-term economic objectives.** They are preparing an economic program in the context of the PRSP update and intend to hold program discussions, including the type of engagement with the Fund, with staff in the first half of 2009.<sup>1</sup> As part of this effort, the authorities have prepared a financial sector development strategy, a study on ongoing targeted poverty reduction programs, and a report on the status of poverty in Cameroon.

4. **Social tensions have abated since March.** The unrests earlier this year were caused by dissatisfaction with the rising costs of food and fuel amid discussions of changes to the constitution. Fiscal measures adopted by the authorities in March 2008—customs duty exemptions for some necessities, a fuel price freeze, and salary increases for civil servants—helped to reduce tensions and price pressures. These measures remain in effect. In April, Parliament amended the constitution to eliminate the two-term limit for presidents.

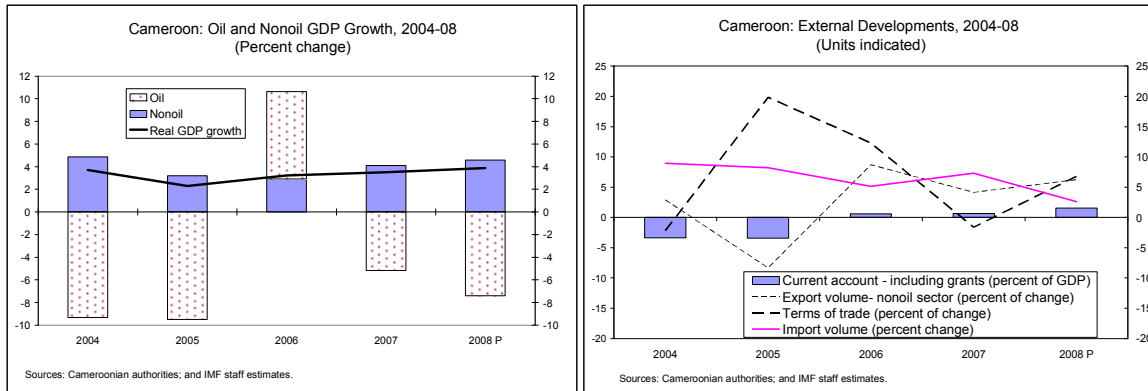
## II. RECENT ECONOMIC DEVELOPMENTS

5. **Economic activity in 2008 is showing some resilience in the face of the global slowdown** (Tables 1 and 2). Real GDP is expected to grow by 3.9 percent in 2008—despite a projected contraction in oil output—driven by the continued pickup in nonoil economic

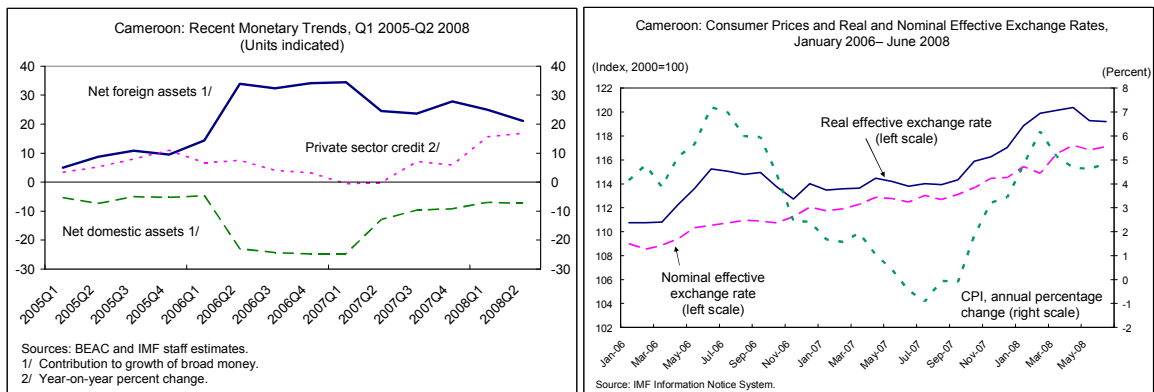
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<sup>1</sup> The last Annual Progress Report of the PRSP and the accompanying JSAN were submitted to the Board in December 2007.

activity. The global crisis has, however, increased downside risks. Slower world demand has lowered timber exports. Sustained high oil prices for most of the year will nevertheless improve the current account balance in 2008, despite increased imports resulting from high food prices and reduced taxation of staples.



**6. Money growth slowed in 2008 and inflation is edging down.** The increase in net foreign assets abated and a continued accumulation of government deposits helped slow money growth (Table 3). Credit to the private sector picked up, expanding by 17 percent in June (year-on-year), as a number of investment projects were initiated. Inflation edged down in June to 4.9 percent (year-on-year)—reflecting the fuel price freeze and lower food prices—contributing to a slight REER depreciation.





7. **Program performance over January-June 2008 was mixed, but corrective actions have been taken (LOI, Tables 1-2):**

- The overall fiscal surplus was larger than expected owing to lower-than-programmed expenditures (Tables 4 and 5). Capital spending increased considerably relative to the first half of 2007, but remained below program levels as a result of lower-than-expected foreign-financed investment.
- Three quantitative targets for end-June were missed, of which one was a performance criterion:

Cameroon: Key Fiscal Indicators, 2006-08					
	2006	2007	2008		
			Jan-Jun		Year
			Prog.	Est.	Prog.
(Percent of GDP)					
Total revenue <sup>1</sup>	19.3	18.8	10.0	9.9	20.6
Oil	6.8	6.4	3.6	3.7	8.1
Nonoil	12.4	12.5	6.4	6.2	12.5
Total expenditure	14.5	15.5	8.6	7.7	17.5
Current	11.7	11.6	6.3	5.7	12.6
Capital	2.9	3.9	2.3	2.0	4.9
Foreign-financed	0.7	0.6	0.6	0.3	1.2
Own resources financed	1.5	1.9	0.9	1.1	1.9
Debt relief-financed	0.4	0.9	0.6	0.5	1.3
Net change in arrears	-1.8	-0.8	-0.2	-0.2	-0.3
Overall balance <sup>1</sup>	2.9	2.5	1.2	2.0	2.8
Memorandum items:					
(Percent of nonoil GDP)					
Nonoil revenue <sup>2</sup>	13.8	13.8	7.3	7.0	14.3
Nonoil primary balance <sup>3</sup>	0.4	-0.4	-0.7	-0.5	-1.6
Sources: Cameroonian authorities; and IMF staff estimates and calculations.					
<sup>1</sup> Excluding grants.					
<sup>2</sup> Excluding the transparency effect the 2008 program figure is 13.8.					
<sup>3</sup> Excludes grants, foreign project loans, HIPC and C2D-financed, and restructuring expenditure.					

- The nonoil primary fiscal deficit<sup>2</sup> (performance criterion) was higher than expected in view of the shortfall in nonoil revenues (benchmark) of 0.2 percent of GDP. The authorities stepped up their ongoing revenue administration efforts and have included a number of measures in the context of the 2009 budget (see below).
- The benchmark on the floor on payments to the national rail company was missed because the company's claims on the government turned out to be lower than projected.
- Structural measures relating to public finances and the financial sector were implemented, although some with delays. A supervisory report on the financial operations of CAMPOST in the final quarter of 2007 was produced (performance criterion) and a medium-term tax reform strategy adopted. Due to late delivery of equipment, there were delays in (i) connecting the information technology systems of the tax and customs administrations; and (ii) rolling out the new civil service management information system. Nonetheless, the benchmark on timely budgetary transfers to SONARA was missed; the authorities noted that initial budgetary appropriations were insufficient, but have taken corrective steps.
- As regards measures to enhance the business environment, an electronic one-stop shop was established at customs. However, though the technical work on an e-commerce draft

<sup>2</sup> Adjusted for delays in fuel subsidy payments.

law was finalized, the legislation has yet to be submitted to Parliament; this is expected to be done by end-June 2009 (LOI, ¶5).

8. **Public enterprise reform is proceeding slowly.** The technical evaluation of bids for the privatization of CAMTEL was completed and the authorities are assessing the next steps. In the air transport sector, the authorities are proceeding with their reform strategy. CAMAIR ceased operations in May 2008 and its liquidation is expected to be completed by April 2009. As a result, domestic north-south traffic has been disrupted. The authorities have stepped up their efforts to launch a successor company, CAMAIRCo; the bids for the selection of a strategic partner will be issued in 2009 (LOI, ¶6).

### III. POLICY DISCUSSIONS

9. **Progress was made in strengthening economic performance over the past three years** (Box 1, Figures 1–4). The authorities are particularly pleased with improvements in fiscal performance and public finance management, as well as the preservation of macroeconomic stability. Nonetheless, structural reform implementation was uneven and economic growth was below expectations. In light of Cameroon’s recent mixed growth performance and the ongoing global economic slowdown, the authorities reiterated their commitment to reinvigorate growth-oriented policies.

Cameroon: Selected Macroeconomic Indicators, 2007–10							
(Units indicated)							
	2007	Baseline <sup>1</sup>			Updated Scenario		
	Est.	2008	2009	2010	2008	2009	2010
<b>Economic growth and prices</b>							
Nonoil real GDP growth <sup>2</sup>	4.1	4.6	4.8	5.2	4.6	4.6	4.9
Consumer prices (period average) <sup>2</sup>	1.1	4.1	2.5	2.0	4.5	2.6	2.0
Oil price (U.S. dollars per barrel)	69.6	102.0	106.3	104.0	95.0	58.0	65.0
<b>Fiscal aggregates<sup>3</sup></b>							
Total revenue (excl. grants)	20.9	23.5	24.3	23.7	23.0	19.1	18.6
<i>Of which</i> : nonoil <sup>4</sup>	13.8	14.3	14.6	14.8	14.6	14.8	15.1
Total expenditure	17.2	19.9	20.4	20.4	21.3	20.0	19.6
<i>Of which</i> : noninterest current	12.3	13.9	13.7	13.6	14.3	13.6	13.1
capital	4.4	5.6	6.2	6.5	6.5	6.0	6.2
Nonoil primary fiscal balance <sup>5</sup>	-1.6	-2.4	-2.8	-2.7	-4.3	-2.4	-1.8
Overall budget balance (incl. grants)	5.0	4.5	5.0	4.1	2.9	0.2	-0.2
<b>External sector</b>							
Current account (incl. grants) <sup>6</sup>	0.7	1.7	0.5	-0.5	0.8	-4.0	-4.0
Terms of trade <sup>2</sup>	-1.6	15.7	-3.8	-6.0	6.7	-30.7	-2.4
Sources: Cameroonian authorities; and IMF staff estimates and projections.							
<sup>1</sup> Based on CR/08/279 <sup>1</sup> .							
<sup>2</sup> Percentage change.							
<sup>3</sup> Percent of nonoil GDP.							
<sup>4</sup> Projected levels in the updated scenario includes additional revenues stemming from the elimination of some tax expenditure in 2008 (0.5 percent of nonoil GDP).							
<sup>5</sup> Excluding grants, foreign-financed capital and C2D-financed expenditures.							
<sup>6</sup> Percent of GDP.							

<sup>1</sup>Country Report (CR).

## Performance Under the PRGF-Supported Program, 2005-08

### Fiscal performance and management of public finances were strengthened.

Debt relief in April 2006 helped firm up debt sustainability and create fiscal space for priority spending. Windfall oil revenues were utilized to accelerate domestic debt payments, raise investment, and normalize relations with creditors. The tax and customs revenue

administrations were reinforced, but the nonoil revenues-to-nonoil GDP ratio remained mostly flat, owing to unexpected reductions in import duties and VAT on staples, and new customs exemptions. Expenditures are more closely tracked, and impediments to faster execution of public investment are being tackled.

### Sound oil revenue management helped contain money growth, and inflation remained generally low.

The government significantly lowered its indebtedness to the banking system, which helped to contain money growth despite a large increase in international reserves. Inflation was held down by the partial pass-through of higher oil prices, lower taxation of staple goods, and the euro appreciation.

### Despite a pickup, growth performance was weak—reflecting a mixed record on structural reform implementation:

- The health of the financial sector improved, reflecting reform of the financial arm of the postal services and microfinance institutions, as well as stepped up supervision by the COBAC.
- Some progress was made in enhancing governance and transparency, including setting-up of an audit chamber and national anticorruption commission. Transparency in oil sector operations has been promoted by the implementation of the EITI principles. Nonetheless, these efforts have yet to be translated in significant improvements in governance indicators.
- Reform of public enterprises, however, was slower than expected. While the water company was restructured, reform of the national airline and telephone companies has yet to be completed.

Cameroon: Selected Macroeconomic Indicators, 2005-08								
(Units indicated)								
	2005		2006		2007		2008	
	Prog. <sup>1</sup>	Act.	Prog. <sup>1</sup>	Act.	Prog. <sup>1</sup>	Act.	Prog. <sup>1</sup>	Proj.
<b>Real and external sectors</b>								
Nonoil real GDP <sup>2</sup>	3.7	3.2	4.1	2.9	4.7	4.1	5.1	4.6
Consumer prices (period average) <sup>2</sup>	1.3	2.0	1.8	4.9	2.0	1.1	2.0	4.5
Current account (excl. grants) <sup>3</sup>	-2.6	-3.9	-1.4	0.0	-3.4	-0.3	-4.8	-0.1
<b>Fiscal aggregates<sup>3</sup></b>								
Total revenue (excl. grants)	16.9	17.6	17.8	19.3	17.1	18.8	16.5	20.5
Of which: nonoil <sup>4</sup>	13.0	13.8	13.2	13.8	13.4	13.8	13.6	14.1
Total expenditure	15.3	14.6	17.0	14.5	16.8	15.5	17.0	18.9
Of which: capital	3.0	2.4	4.7	2.9	4.1	3.9	4.5	5.8
Overall budget balance (excl. grants)	1.6	3.0	0.7	4.7	0.3	3.3	-0.5	1.6
Of which: nonoil primary <sup>4,5</sup>	0.8	1.0	0.6	0.4	-0.1	-0.4	-0.3	-2.4

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

<sup>1</sup> Based on CR/08/279.

<sup>2</sup> Percentage change.

<sup>3</sup> Percent of GDP.

<sup>4</sup> Percent of nonoil GDP.

<sup>5</sup> Excluding foreign-financed and debt-relief-financed investment and restructuring spending.

**10. The medium-term macroeconomic impact of the recent decline in commodity prices and the global slowdown is mixed:**

- Nonoil real GDP growth is projected to be lower than expected by about 0.3 percentage point per year.
- Inflation is projected to decelerate faster reflecting lower fuel and food prices.
- The current account (including grants) will widen to about 4 percent of GDP.

**11. The economic outlook is subject to significant downside risks.** The current global slowdown may be more pronounced than anticipated, leading to deeper declines in commodity prices and lower exports from Cameroon. If oil revenues were to decline further, the authorities agreed, in line with staff's recommendation, that they would need to reduce nonpriority spending, mobilize additional nonoil revenues, and draw, if needed, on government deposits at the central bank. Insufficient improvements in the business environment could jeopardize growth and poverty reduction.

**A. Preserving Macroeconomic Stability and Fiscal Sustainability**

**12. The 2008 supplementary budget incorporates an appropriation to finance new investment projects in agriculture, transport, and mining:**

- Agriculture-related outlays are expected to boost food production and ease supply bottlenecks.
- The authorities purchased a plane as the government's contribution to the creation of CAMAIRCo (LOI, ¶6).
- The government plans to participate in a cobalt-nickel project. This project, stalled for a few years, is viewed by the authorities as important for stimulating FDI and growth. Part of this participation will be sold to the private sector (LOI, ¶7).

**13. The proposed 2008 fiscal stance remains in line with fiscal sustainability and macroeconomic stability.** Additional investment spending would amount to 1 percent of GDP, financed by realized windfall in oil revenues.<sup>3</sup> The nonoil primary balance would widen to 2.4 percent of nonoil GDP, in line with fiscal sustainability. Current spending would be fully covered by nonoil revenues, maintaining positive nonoil current and overall fiscal balances.

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<sup>3</sup> Estimated at 1.4 percent of GDP in the first half of 2008.

**14. The medium-term economic strategy aims to preserve fiscal sustainability, while expanding priority spending to accelerate growth and poverty reduction:**

- The significant decline in expected oil revenues makes it more pressing to mobilize additional nonoil revenues in order to expand priority spending. In view of the high tax rates in Cameroon and the tense social situation, the authorities expressed reservations about tax policy measures, but agreed to step up ongoing efforts to improve tax and customs revenue administration (LOI, ¶3). The customs duty exemptions introduced in March 2008 will also be eliminated.
- In line with staff advice, the authorities aim to maintain a positive nonoil current fiscal balance, implying that current spending be fully covered by nonoil revenues. Capital projects will be financed with oil revenues and debt with due regard given to absorptive and administrative capacities, as well as judicious debt management. Investment projects would focus on boosting agriculture, energy, roads, education, and health. Upward price pressures would be minimized since priority is given to capital projects geared at enhancing productivity and including a high import content.
- The nonoil primary fiscal balance remains the fiscal anchor. Cameroon's medium-term deficit (see text table above) does not deviate much from that implied by application of the permanent income hypothesis model (of 1.6 percent of GDP).

**15. The authorities agreed on the need to improve the effectiveness of public spending:**

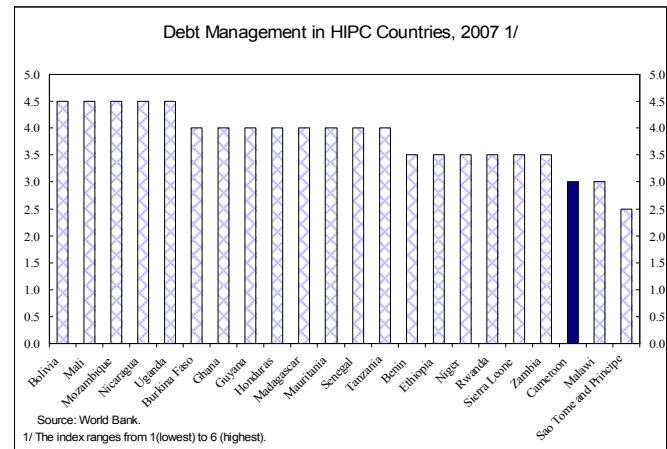
- Lowering transfers and subsidies, and redeploying resources to priority spending will be critical to improving the quality of spending. In line with declining oil prices, the authorities will lower fuel subsidies.
- Administrative capacity needs to improve further. The authorities plan to strengthen capacity to prepare investment projects within a medium-term framework. Moreover, the authorities will monitor carefully the implementation of the new organic budget law. The law adopted by Parliament in December 2007 introduces, among others, a structuring of the budget by program, strengthening of budget execution, more stringent accounting and control rules, and improved transparency.

**16. The 2009 budget is consistent with the above objectives:**

- Total revenue is projected to decline by 2½ percent of GDP from its 2008 level—reflecting lower oil prices—despite an increase in nonoil revenues of about 0.2 percentage point of nonoil GDP. The 2009 forecast assumes an oil price of US\$58 per barrel.

- Capital outlays (excluding those related to restructuring) will increase by ½ percent of GDP from their 2008 level. Current spending relative to GDP will remain unchanged.
- The nonoil primary deficit (excluding restructuring outlays) will narrow by about 1 percent of nonoil GDP.

17. **The authorities plan to strengthen their medium-term debt management strategy.** Cameroon's debt management is among the weakest in post-completion-point HIPC countries. The authorities indicated that the implementation of a new debt management strategy in line with CEMAC regional guidelines was a priority. The strategy will be underpinned by a sustainable medium-term macroeconomic framework, following recommendations of a recent MCM technical assistance mission.



18. **Given Cameroon's arrears to private external creditors, financing assurances were discussed.** Staff reiterated the importance of reaching agreement with all commercial creditors, in line with Cameroon's commitments to the Paris Club. The authorities expect to finalize negotiations with the remaining two commercial creditors by the end of 2008.

## B. Improving the Business Environment

19. **The authorities agreed that the business environment needed to improve.** They are preparing a private sector development plan in collaboration with local private industry, World Bank, and AfDB. In addition to increasing investment on infrastructure, they plan to strengthen finance and trade.

20. **Finance.** A steering committee has been set up to implement the new action plan to deepen financial intermediation. This plan is based on the recommendations of the June 2007 FSAP update and proposes to create new financial products for SMEs, improve data collection, and diversify financing instruments. Staff encouraged the authorities to think about the best way to provide financial services to rural areas and move ahead with the restructuring of CAMPOST on the basis of the recently-prepared business plan. It also called for a rapid resolution of the problems of the two intervened banks.

21. **Trade.** The medium-term revenue loss associated with the recently-initialed EPA will likely be modest given that liberalization will be phased in gradually and apply first to low-taxed goods. To minimize the risk of trade diversion, the authorities agreed to continue to urge CEMAC partners to liberalize regional trade by (i) reducing the maximum external tariff from 30 to 20 percent; (ii) removing remaining exemptions, surcharges and export taxes; (iii) harmonizing the rules of origin; and (iv) facilitating trade.

#### IV. STAFF APPRAISAL

22. **Staff welcomes the authorities' increased focus on accelerating growth, while preserving fiscal sustainability.** Weak nonoil economic activity calls for action. In this regard, continued focus should be given to measures to enhance the execution of capital- and poverty-reducing outlays, and strengthen the business environment. In particular, the authorities' commitment to further strengthen the financial sector and achieve greater trade openness is commendable. Their efforts to carry out these actions while maintaining fiscal sustainability are welcome. Steps to improve the business environment should be encouraged.

23. **The authorities need to remain vigilant to the rapidly changing global environment.** The recent decline in oil prices is substantially altering the country's medium-term outlook. These developments reinforce the need to strengthen nonoil revenue mobilization to finance priority spending and improve the quality of public expenditure, as well as implement structural reforms that would encourage foreign direct investment. In this regard, the 2009 budget strikes an appropriate balance; however, should oil revenue decline further in 2009, the authorities should reduce nonpriority spending, mobilize additional nonoil revenues, and draw, if needed, on government deposits at the central bank.

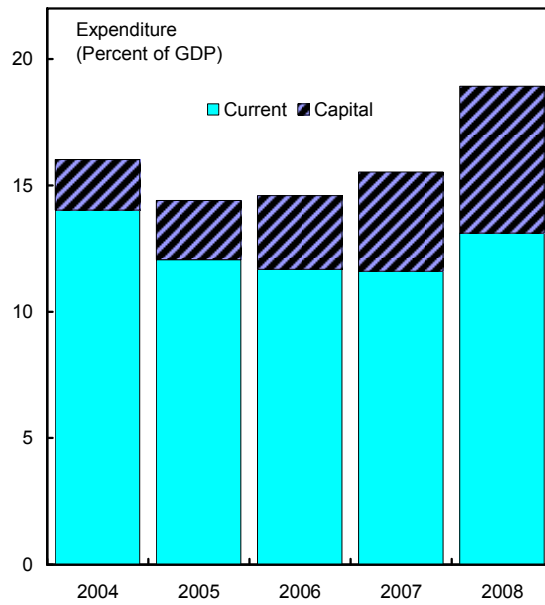
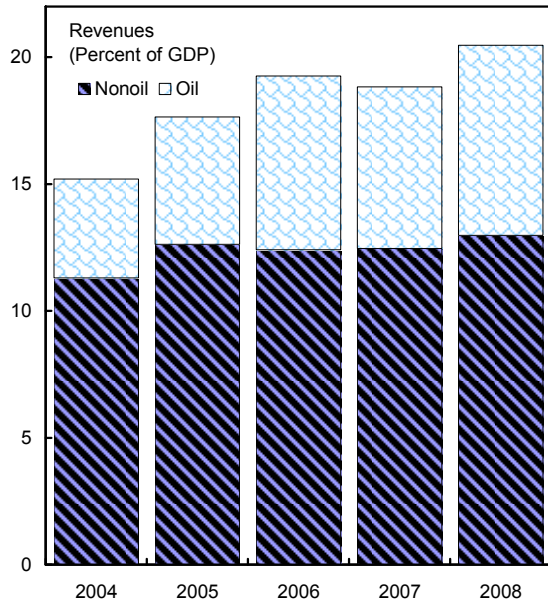
24. **Staff welcomes the remedial actions taken to address nonoil revenue weaknesses.** Program performance over the first half of the year was mixed, including completion of some measures with delay. The additional revenue measures included in the 2009 budget should help to offset the shortfall observed in 2008 and allow 2009 revenue objectives to be met.

25. **Staff recommends the Board to** grant a waiver for the nonobservance of the performance criterion related to the nonoil primary fiscal balance in view of corrective steps taken, complete the sixth review under the PRGF arrangement, and complete the financing assurances review.

Figure 1. Cameroon: Fiscal developments, 2004-2008<sup>1</sup>

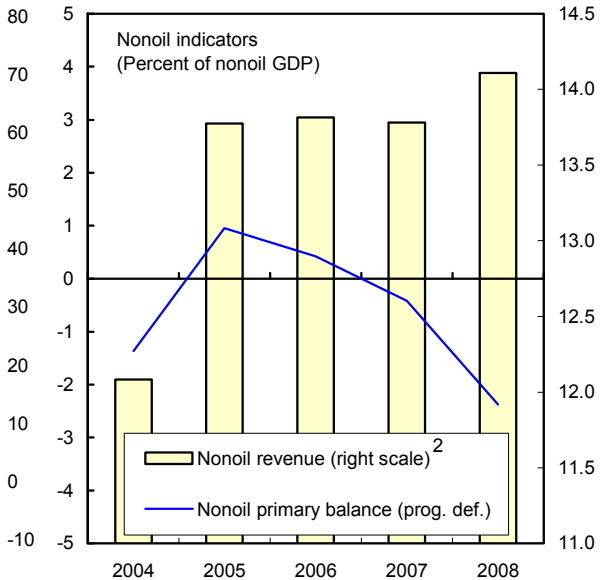
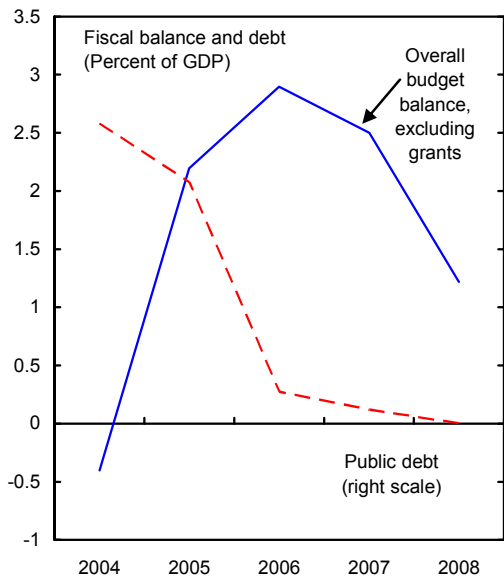
Strong revenues, especially from the oil sector, ...

... combined with control on current spending, have allowed higher capital spending ...



... and led to overall budget surpluses, which further reduced debt, in addition to debt relief.

Nonoil revenues have improved, but dependence on oil revenues remains high.



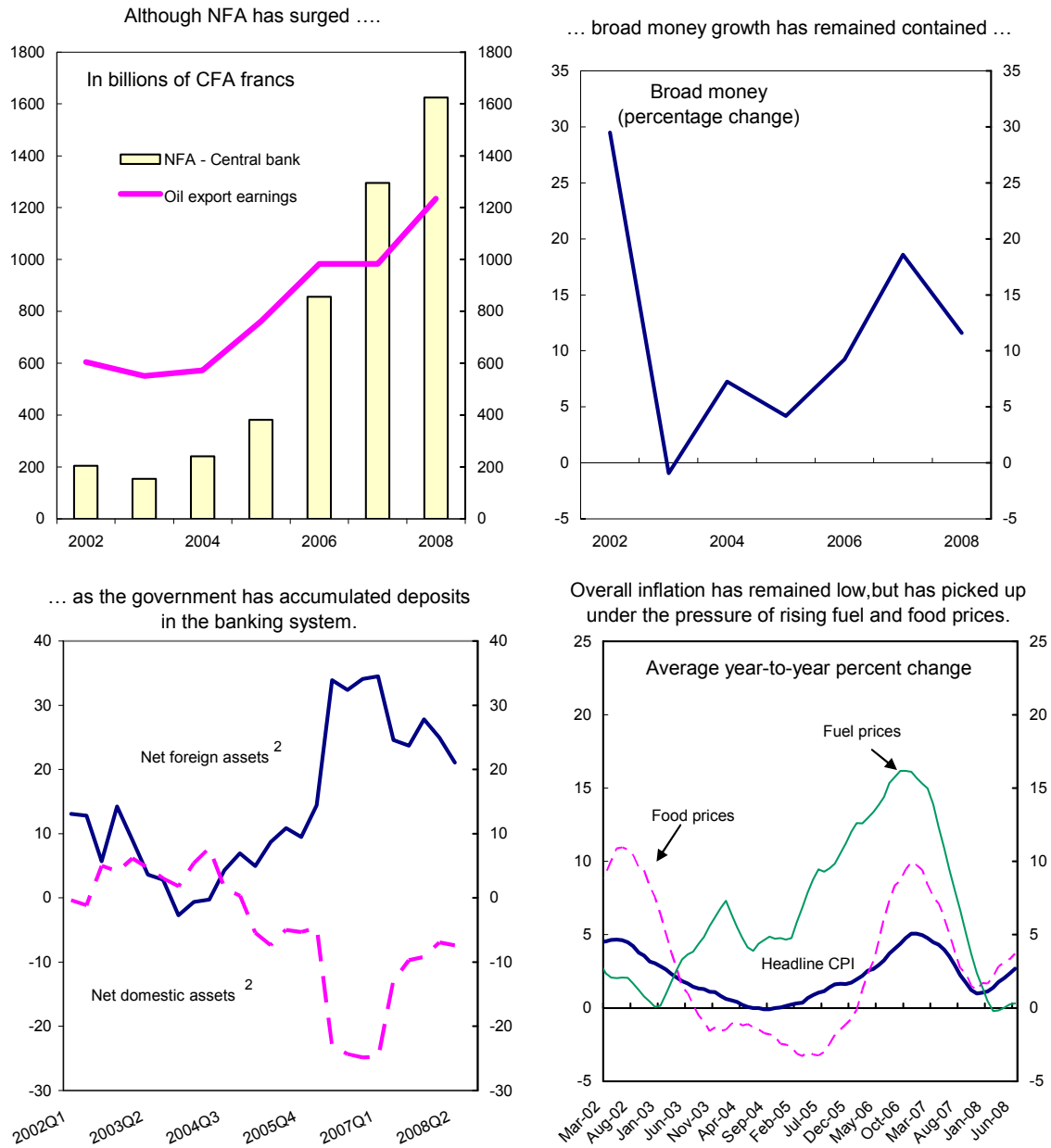
Sources: Cameroonian authorities; and IMF staff estimates.

<sup>1</sup> Projections for 2008.

<sup>2</sup> Excluding effect from improved transparency, which boosted 2008 nonoil revenues and expenditures.



Figure 2. Cameroon: Monetary and Price Developments, 2002-08 <sup>1</sup>

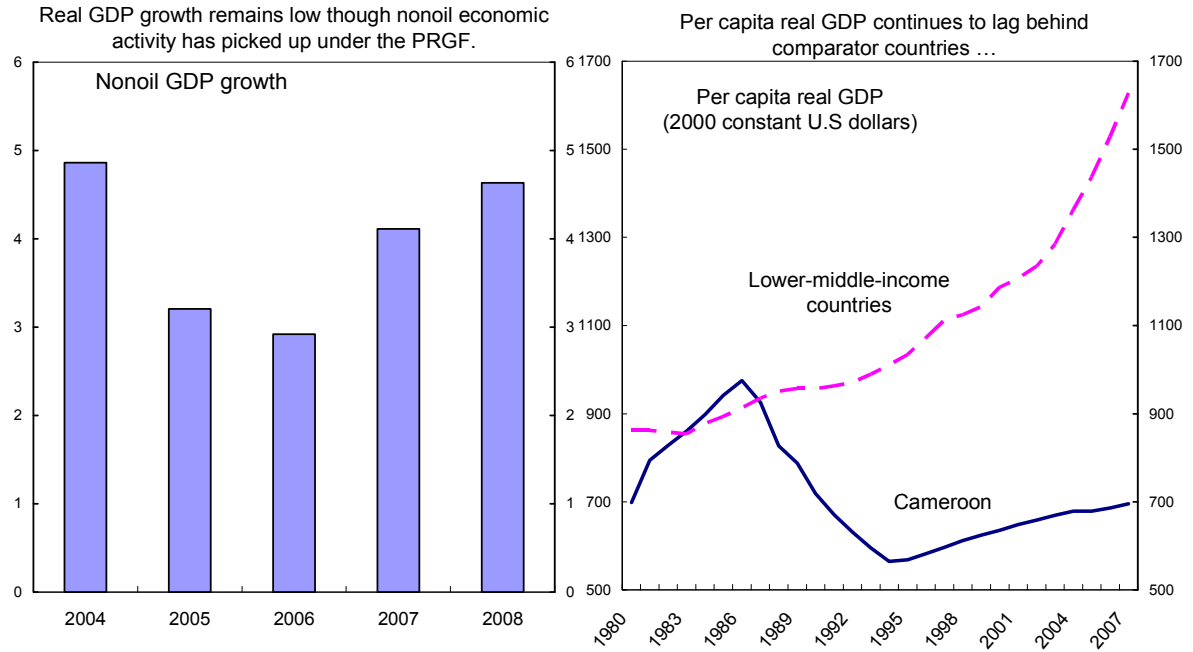


Sources: Cameroonian authorities; and IMF staff estimates.

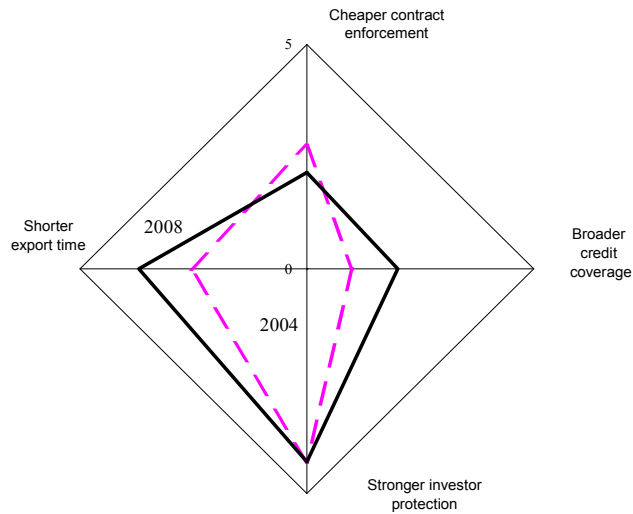
<sup>1</sup> Projections for 2008.

<sup>2</sup> Contribution to growth of broad money (in percent).

Figure 3. Cameroon: Real Sector Developments, 1980-2008<sup>1</sup>



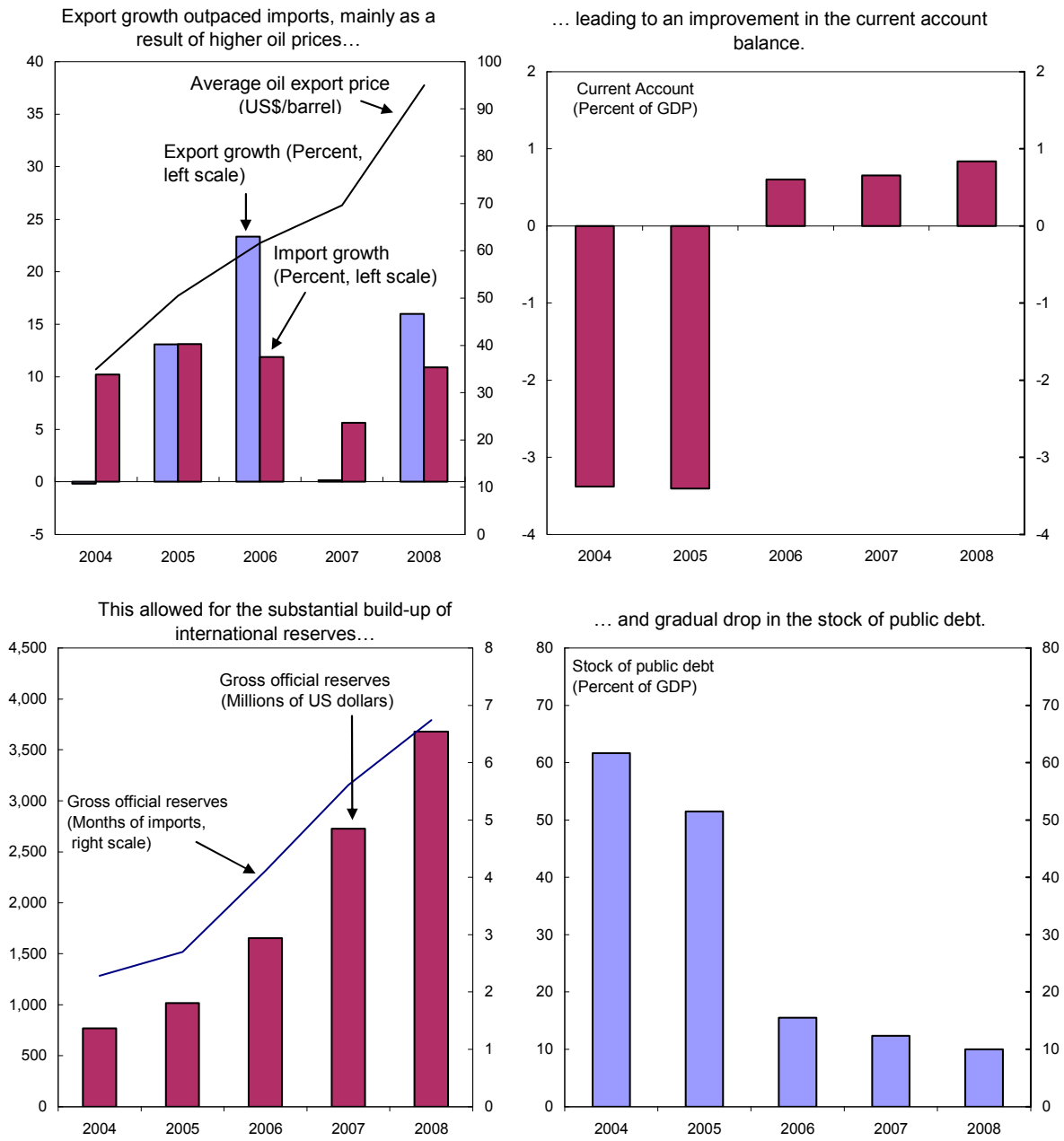
... despite some improvements in the business environment.



Sources: Cameroonian authorities; World Bank; and IMF staff estimates.

<sup>1</sup> Projections for 2008.

Figure 4. Cameroon: External Sector Developments, 2004-08<sup>1</sup>



Sources: Cameroonian authorities; and IMF staff estimates.

<sup>1</sup> Projections for 2008.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2007–11

	2007	2008		2009	2010	2011
	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
(Annual percentage changes, unless otherwise indicated)						
National income and prices						
GDP at constant prices	3.5	4.5	3.9	4.1	4.0	4.1
Oil	-5.2	2.4	-7.4	-6.0	-14.4	-18.5
Nonoil	4.1	4.6	4.6	4.6	4.9	5.0
GDP deflator	2.1	5.7	1.7	-2.6	2.0	2.1
Consumer prices (12-month average)	1.1	4.1	4.5	2.6	2.0	2.0
Nominal GDP (billions of CFA francs)	9,916	10,929	10,477	10,621	11,259	11,961
Oil	948	1,356	1,171	641	652	568
Nonoil	8,968	9,573	9,305	9,980	10,607	11,393
Oil output (thousands of barrels a day)	86	88	86	77	67	55
External trade						
Export volume	2.3	5.1	4.7	6.1	4.1	4.0
Of which: Nonoil sector	4.1	6.2	6.2	10.8	8.2	8.2
Import volume	7.3	9.1	5.1	3.4	1.6	2.6
Average oil export price (U.S. dollars per barrel)	69.6	102.0	95.0	58.0	65.0	69.3
Nominal effective exchange rate	2.6	...	...	...	...	...
Real effective exchange rate	-0.7	...	...	...	...	...
Terms of trade	-1.6	15.7	6.7	-30.7	-2.4	-4.2
Nonoil export price index (CFA francs)	-3.3	-3.9	3.1	-9.6	2.4	1.7
Money and credit (end of period)						
Net domestic assets <sup>1</sup>	-9.2	-15.3	-4.6	3.7	3.9	3.0
Net credit to the public sector <sup>1</sup>	-11.6	-17.4	-8.3	0.4	0.6	-1.5
Credit to the private sector	5.9	5.2	13.1	7.1	7.0	9.3
Broad money (M2)	18.6	10.9	11.6	6.1	6.2	6.2
Velocity (GDP/average M2)	5.3	5.4	5.1	4.9	4.9	4.9
Central government operations						
Total revenue	3.3	25.7	19.7	-10.9	3.2	6.1
Total expenditure	12.9	12.6	16.9	0.6	4.4	4.2
(Percent of GDP, unless otherwise indicated)						
Gross national savings	18.9	19.5	19.7	15.0	15.2	15.4
Gross domestic investment	18.2	17.7	18.9	19.0	19.2	19.4
Central government operations						
Total revenue (excluding grants)	18.8	20.6	20.5	18.0	17.5	17.5
Oil revenue	6.4	8.1	7.5	4.1	3.3	2.9
Nonoil revenue (percent of nonoil GDP)	13.8	14.3	14.6	14.8	15.1	15.4
Total expenditure	15.5	17.5	18.9	18.8	18.5	18.1
Fiscal balance (excluding net changes in arrears)						
Excluding grants	3.3	3.2	1.6	-0.8	-1.0	-0.6
Including grants	4.5	4.0	2.6	0.2	-0.2	0.0
Nonoil primary balance (percent of nonoil GDP) <sup>2</sup>	-1.6	-3.7	-4.3	-2.4	-1.8	-1.0
External sector						
Current account balance (including grants)	0.7	1.7	0.8	-4.0	-4.0	-4.0
Gross official reserves (months of imports)	5.6	7.5	6.8	6.6	6.6	6.5
Stock of external debt <sup>3</sup>	5.5	6.1	6.0	6.0	6.0	6.0
Stock of public debt	12.4	10.3	10.0	11.1	11.8	12.8
(Percent of exports of goods and services, unless otherwise indicated)						
NPV of external debt after HIPC, bilateral relief beyond HIPC, and MDRI <sup>3</sup>	15.1	16.1	14.9	22.6	24.8	29.3
External debt service <sup>4</sup>	1.0	1.0	1.0	1.3	1.1	1.5
External debt service (as a percent of government revenue) <sup>5</sup>	2.2	2.0	1.9	2.0	1.8	2.3

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

<sup>1</sup> Percent of broad money at the beginning of the period.

<sup>2</sup> Excluding grants, foreign-financed capital and C2D-financed expenditures.

<sup>3</sup> Assumes cancellation of C2D debt in 2006.

<sup>4</sup> NPVs calculated using the LIC DSA methodology.

<sup>5</sup> Actual payments through 2006, and after all expected debt relief thereafter.

Table 2. Cameroon: Balance of Payments, 2006–11

	2006	2007	2008		2009	2010	2011
		Est.	Prog.	Proj.	Proj.	Proj.	Proj.
	(Billions of CFA francs)						
Current account balance	57	65	187	88	-425	-452	-477
Trade balance	284	176	411	329	-356	-378	-446
Exports, f.o.b.	1,932	1,940	2,338	2,280	1,745	1,853	1,868
Oil and oil products	983	984	1,360	1,234	697	692	590
Nonoil sector	949	956	978	1,047	1,048	1,161	1,277
Imports, f.o.b.	-1,648	-1,763	-1,927	-1,951	-2,101	-2,231	-2,314
Services (net)	-227	-261	-275	-288	-313	-309	-291
Income (net)	-131	-38	-148	-145	23	4	4
<i>Of which:</i> Interest due on public debt	-73	-37	-30	-30	-28	-25	-23
Transfers (net)	132	187	199	191	221	232	255
Inflows	145	202	215	215	239	249	271
Outflows	-13	-16	-17	-24	-19	-18	-15
Capital and financial account balance	324	375	345	242	479	507	558
Capital account	2,610	39	11	11	11	10	8
Capital transfers	157	23	11	11	11	10	8
Debt forgiveness	2,452	16	0	0	0	0	0
Financial account	-2,286	336	335	231	469	497	550
Official capital	-2,558	-21	102	70	88	134	167
Private capital (net)	272	357	233	161	381	362	383
Overall balance	380	439	532	329	54	55	81
Financing	-380	-439	-532	-329	-54	-55	-81
Bank of Central African States	-475	-439	-532	-329	-54	-55	-81
Use of IMF credit (net)	-137	4	5	6	0	0	-1
Use of Fund credit	-137	4	5	6	0	0	-1
Other reserves (net)	-338	-443	-537	-335	-54	-55	-80
Exceptional financing (debt relief)	89	0	0	0	0	0	0
Net change in arrears	3	0	0	0	0	0	0
Financing need	2	0	0	0	0	0	0
Remaining financing gap	2	0	0	0	0	0	0
	(Percent of GDP)						
Trade balance	3.0	1.8	3.8	3.1	-3.3	-3.4	-3.7
Current account balance							
Excluding grants	0.0	-0.3	0.8	-0.1	-4.9	-4.7	-4.6
Including grants	0.6	0.7	1.7	0.8	-4.0	-4.0	-4.0
Overall balance	4.1	4.4	4.9	3.1	0.5	0.5	0.7
	(Percentage change, unless otherwise indicated)						
Export volume	8.1	2.3	5.1	4.7	6.1	4.1	4.0
Oil sector	6.4	-3.3	1.4	-0.6	-10.9	-14.4	-19.6
Nonoil sector	8.7	4.1	6.2	6.2	10.8	8.2	8.2
Import volume	5.1	7.3	9.1	5.1	3.4	1.6	2.6
<i>Of which:</i> Nonoil sector	0.8	6.0	10.1	6.5	2.0	3.1	4.1
Terms of trade	12.3	-1.6	15.7	6.7	-30.7	-2.4	-4.2
Nonoil export price index (CFA francs)	11.3	-3.3	-3.9	3.1	-9.6	2.4	1.7
Import price index (CFA francs)	2.9	-0.3	-1.0	5.3	4.1	4.5	1.1
Exchange rate (CFA francs per U.S. dollar)	522.8	479.2	...	...	...	...	...

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

**Table 3. Cameroon: Monetary Survey, December 2005–December 2009**

(Billions of CFA francs, unless otherwise noted)

	2005	2006	2007	2008		2009
			Dec. Est.	June Est.	Dec. Proj.	Dec. Proj.
Net foreign assets	500	1,034	1,510	1,649	1,840	1,894
Bank of Central African States (BEAC)	382	856	1,296	1,398	1,625	1,679
Commercial banks	118	178	220	251	220	220
Net domestic assets	1,069	679	522	382	428	512
Domestic credit	1,174	863	733	579	685	769
Net claims on the public sector	338	-2	-201	-422	-369	-361
Net credit to the central government	238	-90	-304	-514	-462	-454
Credit to autonomous agencies	22	17	17	16	17	17
Credit to public enterprises	78	71	86	76	76	76
Credit to financial institutions	4	6	25	15	25	27
Credit to the private sector	832	859	910	981	1,029	1,102
Other items (net)	-106	-184	-212	-197	-257	-257
Money and quasi money	1,568	1,713	2,032	2,026	2,268	2,406
Currency outside banks	273	259	355	292	369	378
Deposits	1,295	1,455	1,677	1,734	1,898	2,028
Memorandum items:						
Contribution to the growth of broad money						
(Percentage points)						
Net foreign assets	9.5	34.1	27.8	21.1	16.2	2.4
Net domestic assets	-5.3	-24.8	-9.2	-7.4	-4.6	3.7
<i>Of which</i> : credit to the central government	-9.0	-20.9	-12.5	-16.2	-7.8	0.4
Private sector credit (annual percentage change)	10.9	3.2	5.9	16.9	13.1	7.1
Broad money (annual percentage change)	4.2	9.3	18.6	13.7	11.6	6.1
Currency	-15.6	-5.4	37.4	18.2	4.0	2.2
Deposits	9.6	12.4	15.3	13.0	13.2	6.8
Velocity (GDP/average M2)	5.9	5.8	5.3	...	5.1	4.9

Sources: BEAC; and IMF staff estimates and projections.

**Table 4. Cameroon: Central Government Operations; 2006–09**  
(Billions of CFA francs)

	2006	2007		2008		2009
		Est.	Proj.	Proj.	Proj.	
Total revenue and grants	4,472	1,985	2,340	2,251	2,019	
Total revenue	1,808	1,867	2,252	2,144	1,911	
Oil sector revenue	643	631	881	784	438	
Nonoil sector revenue <sup>1</sup>	1,165	1,236	1,371	1,360	1,473	
Total grants	2,664	118	88	107	108	
Total expenditure	1,366	1,542	1,908	1,982	1,994	
Current expenditure	1,097	1,151	1,376	1,374	1,397	
Wages and salaries	419	435	575	575	624	
Goods and services	381	436	431	432	491	
Debt-relief financed	19	17	51	51	55	
Other	362	418	380	381	436	
Subsidies and transfers	211	230	323	324	245	
<i>of which: fuel subsidies<sup>1</sup></i>	22	16	133	133	58	
Pensions	72	84	95	95	100	
Interest due	87	50	47	43	38	
External	72	37	32	33	28	
Domestic	15	14	15	10	10	
Capital expenditure	273	389	532	608	597	
Domestic investment	177	280	353	408	437	
Own-resource financed	143	187	210	265	278	
Debt-relief financed	34	93	143	143	159	
Foreign-financed investment	64	62	135	103	140	
Rehabilitation and participation	33	47	44	97	20	
Net lending	0	14	0	0	0	
Unclassified expenditure	-5	-12	0	0	0	
Overall balance, excluding net change in arrears						
Excluding grants	442	326	344	163	-83	
Including grants	3,106	444	432	270	25	
Net change in arrears	-170	-78	-35	-35	-22	
External	3	0	0	0	0	
Domestic	-173	-78	-35	-35	-22	
Overall balance, cash basis						
Excluding grants	272	248	309	128	-105	
Including grants	2,936	366	397	235	3	
Financing	-2,938	-366	-397	-235	-3	
External financing, net	-2,476	-47	74	42	68	
Amortization	-2,635	-87	-71	-71	-71	
Drawings	38	40	146	114	139	
Project financing	38	40	125	93	139	
Program financing (loans)	0	0	21	21	0	
Debt rescheduling	14	0	0	0	0	
Exceptional financing	107	0	0	0	0	
Domestic financing, net	-462	-318	-472	-277	-71	
Banking system	-305	-217	-353	-158	8	
Banking system, excluding HIPC and C2D	-238	-182	-345	-169	-12	
Net HIPC flows	-2	-9	2	2	9	
Net C2D flows	-65	-26	-10	9	10	
Amortization	-159	-106	-79	-79	-59	
Non-bank financing	2	4	0	0	0	
Reserves	0	0	-40	-40	-20	
Memorandum items:						
HIPC-financed spending	52	56	78	78	78	
C2D-financed spending	0	53	80	80	100	
MDRI-financed spending	0	2	36	36	36	
Nonoil primary balance (program definition) <sup>2</sup>	36	-37	-153	-221	-146	
Nonoil current balance, excl. grants and arrears	73	93	20	10	104	

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

<sup>1</sup> Beginning in 2008, support provided to SONARA through lower taxes is replaced by an explicit subsidy, with an equivalent increase in nonoil revenues.

<sup>2</sup> Excludes grants, foreign-financed capital, restructuring, HIPC- and C2D-financed expenditures.

**Table 5. Cameroon: Selected Fiscal Indicators; 2006–09**  
(Percent of GDP, unless otherwise indicated)

	2006	2007		2008		2009
		Est.	Prog.	Proj.	Proj.	
Total revenue and grants	47.6	20.0	21.4	21.5	19.0	
Total revenue	19.3	18.8	20.6	20.5	18.0	
Oil sector revenue	6.8	6.4	8.1	7.5	4.1	
Nonoil sector revenue <sup>1</sup>	12.4	12.5	12.5	13.0	13.9	
Total grants	28.4	1.2	0.8	1.0	1.0	
Total expenditure	14.5	15.5	17.5	18.9	18.8	
Current expenditure	11.7	11.6	12.6	13.1	13.2	
Wages and salaries	4.5	4.4	5.3	5.5	5.9	
Goods and services	4.1	4.4	3.9	4.1	4.6	
Debt-relief financed	0.2	0.2	0.5	0.5	0.5	
Subsidies and transfers	2.2	2.3	3.0	3.1	2.3	
<i>of which: fuel subsidies<sup>1</sup></i>	0.2	0.2	1.2	1.3	0.5	
Pensions	0.8	0.8	0.9	0.9	0.9	
Interest due	0.9	0.5	0.4	0.4	0.4	
External	0.8	0.4	0.3	0.3	0.3	
Domestic	0.2	0.1	0.1	0.1	0.1	
Capital expenditure	2.9	3.9	4.9	5.8	5.6	
Domestic investment	1.9	2.8	3.2	3.9	4.1	
Own-resource financed	1.5	1.9	1.9	2.5	2.6	
Debt-relief financed	0.4	0.9	1.3	1.4	1.5	
Foreign-financed investment	0.7	0.6	1.2	1.0	1.3	
Rehabilitation and participation	0.4	0.5	0.4	0.9	0.2	
Net lending	0.0	0.1	0.0	0.0	0.0	
Unclassified expenditure	-0.1	-0.1	0.0	0.0	0.0	
Overall balance, excluding net change in arrears						
Excluding grants	4.7	3.3	3.2	1.6	-0.8	
Including grants	33.1	4.5	4.0	2.6	0.2	
Net change in arrears	-1.8	-0.8	-0.3	-0.3	-0.2	
External	0.0	0.0	0.0	0.0	0.0	
Domestic	-1.8	-0.8	-0.3	-0.3	-0.2	
Overall balance, cash basis						
Excluding grants	2.9	2.5	2.8	1.2	-1.0	
Including grants	31.3	3.7	3.6	2.2	0.0	
Financing	-31.3	-3.7	-3.6	-2.2	0.0	
External financing, net	-26.4	-0.5	0.7	0.4	0.6	
Amortization	-28.1	-0.9	-0.7	-0.7	-0.7	
Drawings	0.4	0.4	1.3	1.1	1.3	
Project financing	0.4	0.4	1.1	0.9	1.3	
Program financing (loans)	0.0	0.0	0.2	0.2	0.0	
Debt rescheduling	0.2	0.0	0.0	0.0	0.0	
Exceptional financing	1.1	0.0	0.0	0.0	0.0	
Domestic financing, net	-4.9	-3.2	-4.3	-2.6	-0.7	
Banking system	-3.2	-2.2	-3.2	-1.5	0.1	
Banking system, excluding HIPC and C2D	-2.5	-1.8	-3.2	-1.6	-0.1	
Amortization	-1.7	-1.1	-0.7	-0.8	-0.6	
Non-bank financing	0.0	0.0	0.0	0.0	0.0	
Reserves	0.0	0.0	-0.4	-0.4	-0.2	
Memorandum items:						
Nonoil revenue <sup>2</sup>	13.8	13.8	14.3	14.6	14.8	
Nonoil revenue <sup>2,3</sup>	13.8	13.8	13.8	14.1	14.3	
Nonoil primary balance (program definition) <sup>2,4</sup>	0.4	-0.4	-1.6	-2.4	-1.5	
Nonoil current balance, excl. grants and arrears <sup>2</sup>	0.9	1.0	0.2	0.1	1.0	

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

<sup>1</sup>Beginning in 2008, support provided to SONARA through lower taxes is replaced by an explicit subsidy, with an equivalent increase in nonoil revenues.

<sup>2</sup>Percent of nonoil GDP.

<sup>3</sup>Excludes transparency effect (see note 1)

<sup>4</sup>Excludes grants, foreign-financed capital, restructuring, HIPC- and C2D-financed expenditures.



Table 6. Cameroon: Indicators of Capacity to Repay the Fund, 2007-17<sup>1</sup>

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Projections										
<b>Fund obligations based on existing credit</b>											
(In millions of SDRs)											
Principal	-	-	-	-	0.8	1.6	2.4	3.2	3.2	2.4	1.6
Charges and interest	0.9	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
<b>Fund obligations based on existing and prospective credit</b>											
(In millions of SDRs)											
Principal	-	-	-	-	0.8	1.6	2.4	3.7	3.7	2.9	2.1
Charges and interest	0.9	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
<b>Total obligations based on existing and prospective</b>											
In millions of SDRs	0.9	0.7	0.4	0.4	1.2	2.0	2.8	4.1	4.1	3.3	2.4
In billions of CFA francs	0.7	0.5	0.3	0.3	0.9	1.4	2.0	3.0	2.9	2.4	1.8
In percent of government revenue	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
In percent of debt service <sup>2</sup>	0.6	0.5	0.3	0.3	1.1	2.3	3.3	5.1	5.7	4.8	4.0
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	0.5	0.4	0.2	0.2	0.6	1.1	1.5	2.2	2.2	1.8	1.3
<b>Outstanding Fund credit<sup>2</sup></b>											
In millions of SDRs	10.6	18.6	18.6	18.6	17.8	16.2	13.8	10.1	6.4	3.5	1.3
In billions of CFA francs	7.8	13.1	13.3	13.6	12.9	11.8	10.0	7.3	4.6	2.5	1.0
In percent of government revenue	0.4	0.6	0.7	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.0
In percent of exports of goods and services	0.3	0.4	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.0
In percent of debt service <sup>2</sup>	7.2	12.9	13.6	15.8	16.8	18.4	16.7	12.7	9.0	5.1	2.2
In percent of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	5.7	10.0	10.0	10.0	9.6	8.7	7.4	5.4	3.4	1.9	0.7
<b>Net use of Fund credit (millions of SDRs)</b>											
Disbursements	5.3	8.0	-	-	-0.8	-1.6	-2.4	-3.7	-3.7	-2.9	-2.1
Repayments and Repurchases	-	-	-	-	0.8	1.6	2.4	3.7	3.7	2.9	2.1
<b>Memorandum items:</b>											
Nominal GDP (in billions of CFA francs)	9,916	10,477	10,621	11,259	11,961	12,807	13,749	14,767	15,857	17,029	18,290
Exports of goods and services (in billions of CFA francs)	2,646	3,069	2,477	2,645	2,712	2,827	2,928	3,055	3,175	3,318	3,474
Government revenue (in billions of CFA francs)	1,867	2,144	1,911	1,972	2,092	2,265	2,453	2,614	2,780	2,961	3,171
Debt service (in billions of CFA francs) <sup>2</sup>	107.6	100.8	98.2	85.7	77.0	63.8	59.8	57.5	51.4	48.6	44.3

Sources: IMF staff estimates and projections.

<sup>1</sup>Including remaining disbursement of SDR 2.67 million under the current PRGF arrangement.

<sup>2</sup>Total debt service includes IMF repurchases and repayments.

**Table 7: Cameroon: Fund Disbursements and Timing of Reviews  
Under the PRGF, 2005-08**

Date of First Availability <sup>1</sup>	Conditions	Amount (Millions of SDRs)
November 1, 2005	Board approval of the PRGF arrangement	2.65
May 10, 2006	Completion of first review (end-December 2005 quantitative and structural performance criteria)	2.65
January 12, 2007	Completion of second review (end-June 2006 quantitative and structural performance criteria)	2.65
June 29, 2007	Completion of third review (end-December 2006 quantitative and structural performance criteria)	2.65
January 10, 2008	Completion of fourth review (end-June 2007 quantitative and structural performance criteria)	2.65
July 9, 2008	Completion of fifth review (end-December 2007 quantitative and structural performance criteria)	2.65
September 15, 2008	Completion of sixth review (end-June 2008 quantitative and structural performance criteria)	2.67

<sup>1</sup> For past disbursements, date refers to actual date of disbursement.

## APPENDIX—LETTER OF INTENT

December 11, 2008

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Strauss-Kahn:

1. In the first half of 2008, the government continued its efforts to consolidate the macroeconomic framework and implement structural reforms as part of the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).
2. The government's efforts in the area of public finance during the period January-June 2008 made it possible to meet most quantitative criteria and benchmarks by end-June 2008 (Table 1). However, the government is requesting a waiver for noncompliance of the performance criterion related to the nonoil primary balance, owing to the poor performance of nonoil revenue in the first half of 2008, in particular, lower than expected nontax revenue.
3. The government recognizes that mobilization of nonoil revenue is a key objective for the country. To that end, it is committed to stepping up its efforts to strengthen tax and customs administration, particularly by (i) extending to all taxpayers the measures taken in the first half of 2008 to secure the large taxpayer file and implementing the new unique and secure software for registering taxpayers by end-June 2009; (ii) improving the collection and use of information through the interconnection between the tax and customs departments, completed in June 2008, and the information management software AREN; (iii) modernizing audit selection; and (iv) consolidating the progress recently made in reorganizing the taxpayer management units by size (extending the geographic coverage of medium-sized taxpayer units, establishing units to manage small taxpayers on an experimental basis in Yaoundé and Douala, and improving tax compliance in the existing units). Furthermore, the government is committed to introducing an import duty sticker for tobacco and alcohol to more effectively combat smuggling. These measures were included in the 2009 draft budget law and should help mobilize additional revenue amounting to 0.2 percent of nonoil GDP.

4. Implementation of structural reforms was overall satisfactory, despite delays in some sectors (Table 2):

- The measures related to government finance and the financial sector were implemented, albeit with delay in some cases. A quarterly report on the financial operations of CAMPOST (Cameroon Postal Services) in the last quarter of 2007 was produced (performance criterion) and a medium-term tax reform strategy was adopted. As the necessary equipments were not delivered on time, there were delays in (i) the connection of the information systems of the General Directorate of Taxes and the General Directorate of Customs; and (ii) the deployment of the new civil service computerized management system (SIGIPES) in an additional 20 departments.
- Measures to improve the business climate have not all been completed. The electronic one-stop-shop at customs has been set up and is operational. However, the budget allocation provided was insufficient to cover the subsidies needed by SONARA (the national oil refinery) to offset losses incurred as a result of the fuel price freeze. The technical work on e-commerce legislation was completed, but the draft law has not yet been submitted to Parliament.

5. The government is committed to stepping up its efforts in these areas to make up for the delays. In particular, it has undertaken to submit the draft law on e-commerce to Parliament by June 2009 at the latest. The government has also issued a supplementary budget whereby subsidies can be disbursed to SONARA. This supplementary budget also includes the emergency policy package adopted by the government in March 2008 to respond to the population's complaints about the cost of living (revaluation of civil servant salaries, suspension or reduction of customs duties and taxes on certain common consumer items, and freeze on the retail prices of fuel). The supplementary budget envisages an allocation for additional investments, including the purchase of an airplane and the financing of the government's share in a cobalt and nickel mining project.

6. With respect to the air transport sector, the government intends to continue the reforms undertaken to (i) promote the development of an effective and reliable transportation service; (ii) improve public service; and (iii) reduce the burden of the sector on public finances. To that end, CAMAIR ceased operations in May 2008 and its liquidation will be accelerated so that it can be completed by April 2009. Under these circumstances, and in order to settle the dispute resulting from the financial leasing contracts signed by CAMAIR, the government had to buy back the only remaining aircraft in the fleet and plans to use it to establish CAMAIRCo. Moreover, the disruption in service on the country's north-south route after CAMAIR's liquidation drove the authorities to speed up efforts to enable CAMAIRCo to commence operations sooner. The government is determined to pursue privatization of CAMAIRCo by launching a call for bids in 2009 to select a strategic partner, based on the

report of the financial advisor recruited for that purpose and the privatization strategy drawn up in consultation with the World Bank.

7. With regard to the cobalt and nickel mining venture, given its importance for Cameroon's economic development and the setbacks already incurred, the government has decided to acquire an equity participation in the company to accelerate its startup. Part of this equity will be handed over to the private sector later. The government is committed to implementing the terms of this contract, including the handover, in a transparent manner in order to safeguard public assets. More generally, the government considers the mining sector to be an important source of economic growth. With a view to maximizing the contribution of this sector to Cameroon's economy, the government will start discussions with the World Bank by early 2009 on the preparation of a proper development strategy.

8. The government remains convinced that continued implementation of the economic policies and measures to which it is committed under the PRGF arrangement will make it possible to consolidate the results already achieved and to combat more effectively poverty, while bolstering growth prospects. To that end, the government has submitted a budget law to Parliament for 2009 that seeks to maintain fiscal sustainability and economic stability while increasing the priority spending required to accelerate growth and reduce poverty. In this regard, the government will use the opportunity of the decline in international oil prices to gradually eliminate subsidies on retail fuel prices and redeploy the budgetary resources released to priority expenses.

9. In view of the results obtained so far and the commitments made in this letter, the government requests that the seventh disbursement under the PRGF arrangement, in the amount of SDR 2.67 million, be made available upon conclusion of the sixth review.

10. Finally, the government of Cameroon authorizes the IMF to publish this letter.

Sincerely yours,

/s/

Inoni Ephraim  
Prime Minister and  
Head of Government

Table 1. Cameroon: Quantitative Targets for January–June, 2008<sup>1</sup>  
(Billions of CFA francs; cumulative from January 1, unless otherwise indicated)

	End-March 2008					End-June 2008				
	Quantitative benchmarks	Adjustor	Adjusted benchmark	Outturn	Status	Revised Performance criteria <sup>6,7</sup>	Adjustor	Adjusted target	Projected Outturn	Status
Ceiling on the increase in net claims of the banking system on the central government	-38	-34	-72	-134	Met	-152	-6	-158	-165	Met
Floor on the nonoil primary budget balance	24	4	28	73	Met	-63	36	-27	-46	Not met
Ceiling on the accumulation of external payments arrears of the central government <sup>2, 3, 4</sup>	0	none	0	0	Met	0	none	0	0	Met
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government <sup>2, 4</sup>	0	none	0	0	Met	0	none	0	0	Met
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year <sup>2, 4, 5</sup>	0	none	0	0	Met	0	none	0	0	Met
Floor on nonoil revenue of the central government	356	none	356	362	Met	694	none	694	674	Not met
Ceiling on spending on goods and services	111	none	111	93	Met	222	none	222	217	Met
Ceiling on cash spending by SNH										
Payments on account of the government (interventions directes) <sup>2</sup>	0	none	0	0	Met	0	none	0	0	Met
Other operating costs (autres charges)	4.5	none	4.5	3.6	Met	9.0	none	9.0	5.9	Met
Floor on reduction of domestic debts										
Structured debt	28	none	28	23	Not met	48	none	48	56	Met
Nonstructured debt	9	none	9	9	Met	18	none	18	20	Met
Ceiling on the stock of treasury float						134	none	134	66	Met
Floor on payments to utility companies										
SNEC	2.0	none	2.0	2.0	Met	4.0	none	4.0	4.0	Met
AES SONEL	1.8	none	1.8	1.8	Met	3.5	none	3.5	3.5	Met
CAMTEL	3.3	none	3.3	3.3	Met	6.5	none	6.5	6.5	Met
CAMRAIL	1.0	none	1.0	0.6	Not met	2.0	none	2.0	1.2	Not met
SONARA	1.5	none	1.5	1.5	Met	3.0	none	3.0	3.0	Met

Sources: Cameroonian authorities; Bank of Central African States; and IMF staff estimates.

<sup>1</sup> Definitions included in the Technical Memorandum of Understanding.

<sup>2</sup> Applied on a continuous basis.

<sup>3</sup> Excluding reschedulable external payments arrears.

<sup>4</sup> Millions of U.S. dollars.

<sup>5</sup> Excluding normal, import-related credit.

<sup>6</sup> The following will be quantitative benchmarks: floor on nonoil revenue; ceiling on goods and services spending; ceiling on cash spending by SNH/other operating costs; ceiling on the stock of treasury float; and floors on utility payments. The other targets will be quantitative performance criteria.

<sup>7</sup> Beginning in 2008, support provided to SONARA through lower taxes is replaced by an explicit subsidy, with an equivalent increase in nonoil revenues.

Table 2. Cameroon: Structural Performance Criteria and Benchmarks from July 2007 to June 2008

	Deadline	Status
<b>Public Finance and Civil Service</b>		
Completion of the work related to streamlining taxpayer identification, upgrading the single identification software, and safeguarding the single taxpayer file.	December 31, 2007	Completed
Adoption by the government of a formula for the revision of SONARA exit refinery prices and a simplified structure of petroleum product prices to facilitate automatic adjustment <b>(performance criterion)</b> .	December 31, 2007	Completed
Submission to Parliament of the 2008 Budget Law in accordance with the program.	December 31, 2007	Completed
Completion of the work to connect the information system of the General Directorate of Taxes (MESURE) to that of the General Directorate of Customs (ASYCUDA).	March 31, 2008	Met with delay
Installation of the Automated Integrated Management System (SIGIPES) covering civil servants and the payroll in 24 ministries.	June 30, 2008	Met with delay
Adoption of a medium-term tax reform plan building upon the recommendations of the Review Commission of Domestic and Foreign Trade Taxation.	June 30, 2008	Met with delay
Adjustment of retail prices of petroleum product and payment of budgetary transfers to SONARA as agreed with Fund staff.	Ongoing	Not met
<b>Financial Sector, Trade, and the Business Climate</b>		
Transfer of secondary-market transactions on zero-coupon treasury bonds to the financial market.	December 31, 2007	Completed
Presentation to Parliament of the Law on Electronic Communications and Electronic Payments of Banks.	June 30, 2008	Not met
Complete and implement the electronic one-stop shop to facilitate foreign trade.	June 30, 2008	Completed
Financial supervision of CAMPOST by the unit of the Ministry of Finance in charge of the monitoring of nonbank financial institutions, and production by this unit of the quarterly supervisory report covering the operations of the final quarter of 2007 <b>(performance criterion)</b> .	June 30, 2008	Completed

INTERNATIONAL MONETARY FUND

CAMEROON

**Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and  
Growth Facility, Request for Waiver of Performance Criterion, and Financing  
Assurances Review—Informational Annex**

Prepared by the African Department

Approved by Benedicte Vibe Christensen and David Marston

December 15, 2008

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**I. RELATIONS WITH THE FUND**

(As of November 30, 2008)

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

<b>II. General Resources Account:</b>	<u>SDR million</u>	<u>%Quota</u>
Quota	185.70	100.00
Fund holdings of currency	184.89	99.57
Reserve position in Fund	0.82	0.44
<b>III. SDR Department:</b>	<u>SDR million</u>	<u>%Allocation</u>
Net cumulative allocation	24.46	100.00
Holdings	3.00	12.26
<b>IV. Outstanding Purchases and Loans:</b>	<u>SDR million</u>	<u>%Quota</u>
PRGF arrangements	15.90	8.56

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
PRGF	10/24/2005	01/31/2009	18.57	15.90
PRGF	12/21/2000	12/20/2004	111.42	79.59
PRGF	08/20/1997	12/20/2000	162.12	162.12

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

	<u>Forthcoming</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal				0.80	1.59
Charges/interest	0.04	0.31	0.30	0.30	0.30
Total	0.04	0.31	0.30	1.10	1.89

**VII. Implementation of HIPC Initiative:**

	<u>Enhanced framework</u>
I. Commitment of HIPC assistance	
Decision point date	Oct. 2000
Assistance committed <sup>1</sup>	
By all creditors (US\$ million)	1,267.00
<i>Of which:</i> Fund assistance (US\$ million)	37.04
(SDR equivalent in millions)	28.62
Completion point date	Apr. 2006
II. Delivery of Fund assistance (SDR million)	
Amount disbursed	28.62
Interim assistance	11.25
Completion point	17.37
Additional disbursement of interest income <sup>2</sup>	5.05
<b>Total disbursements</b>	<b>33.67</b>

<sup>1</sup>Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

<sup>2</sup>Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

**VIII. Implementation of MDRI Assistance:**

I.	MDRI-eligible debt (SDR million) <sup>1</sup>	173.26
	Financed by: MDRI Trust	149.17
	Remaining HIPC Resources	24.09

II. Debt Relief by Facility (SDR million)

<u>Delivery</u> <u>Date</u>	<u>Eligible Debt</u>		
	<u>GRA</u>	<u>PRGF</u>	<u>Total</u>
April 2006	N/A	173.26	173.26

<sup>1</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

**IX. Safeguards Assessments:**

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on August 30, 2004. The assessment found that the Bank has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, and recommended further enhancements in the areas of external and internal audits, and financial reporting. Latest monitoring results indicate the existence of certain vulnerabilities including in the system of internal controls. These and other aspects of the BEAC safeguards framework will be reviewed in the context of the 2008 update safeguards assessment of BEAC that is underway.

**X. Exchange Arrangements:**

Cameroon participates in a currency union with five other members of the CEMAC and has no separate legal tender. Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro. Local currency equivalent: CFAF 748.35 = SDR 1, as of December 11, 2008. Effective January 1, 2007, the exchange arrangement of the CEMAC countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

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

**XI. Article IV Consultation:**

The last Article IV consultation with Cameroon was concluded by the Executive Board on June 18, 2007.

**XII. FSAP Participation and ROSCs:**

The Financial System Stability Assessment (FSSA) report of May 24, 2000 is based on the findings of the joint IMF-World Bank mission that visited Cameroon during February 29-March 14, 2000. The findings of the Financial Sector Assessment Program (FSAP) mission were presented to the authorities on March 13-14, 2000 in the context of the 2000 Article IV consultation. An updated assessment was carried out by a joint IMF-World Bank FSAP mission in June 2007.

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

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

**XIII. Technical Assistance:**

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

June 2008: MCM mission (jointly with World Bank) on debt management strategy.

May 2008: FAD mission on the implementation of the new organic budget law

April 2008: FAD mission on tax administration.

October 2006: FAD mission on poverty and social impact assessment of the current petroleum price mechanism.

October 2006: FAD mission (jointly with World Bank) to assess preparation of the new organic budget law, and review expenditure classification system.

March 2006: STA mission on balance of payments statistics compilation.

July 2005: FAD mission on tax policy.

May 2005: FAD mission on tax and customs administration.

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

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

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

June 2003: FAD mission on public expenditure management.

March 2003: FAD mission on public expenditure management.

November 2002: FAD mission on public expenditure management.

May 2002: FAD mission on public expenditure management.

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

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

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

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

June 2000: FAD mission on the modernization of customs.

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

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

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

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

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

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

October–November 1998: STA mission on metadata project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on preparation of a VAT.

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

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

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

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

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

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

#### **XIV. Resident Representatives:**

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. The current Resident Representative, Ms. Kabedi-Mbuyi, has been in her post since July 2005.

## II. BANK-FUND JOINT MANAGERIAL ACTION PLAN, 2008-09

Products	Mission timing	Expected delivery
<b>A. Mutual information on relevant work programs</b>		
<b>The Fund work program</b>		
<b>Strategy:</b> Fund's policy advice and technical assistance will focus on helping Cameroon preserve fiscal sustainability and economic stability, while expanding priority spending to accelerate growth and poverty reduction.		
TA on implementation of the organic budget law	Two missions: August and December 2008	Aide-memoire at the end of the mission
TA on tax administration	Two missions: August and December 2008	Aide-memoire at the end of the mission
TA in customs administration	Mission in February 2009	Aide-memoire at the end of the mission
TA in strengthening treasury management	Mission in November 2008	Aide-memoire at the end of the mission
Sixth PRGF Review	September 2008	Board discussion in December 2008
2009 Article IV consultation	March 2009	Board discussion in June 2009
<b>The World Bank program</b>		
<b>Strategy:</b> The new Country Assistance Strategy will aim at improving governance and accelerating growth and productive employment. To complement fiscal consolidation and improved public financial management, the Bank will support the government in removing bottlenecks to growth and development, including improving business climate, increasing energy supply, and addressing constraints to agriculture development.		
Support to PRSP preparation	Field-based support	Activity completion report by March 2009
Governance and anticorruption	September 2008	Strategic Governance Note
Country Assistance Strategy	September 2008	Board presentation by June 2009
Fiscal policies for growth and development (jointly with the AfDB)	Two missions: July and December 2008	Report in March 2009
Private sector development (lending, TA)	Two missions: dates to be decided	Aide-memoire and Board presentation by June 2009
Agriculture sector development (lending, TA)	Two missions: dates to be decided	Aide-memoire and Board presentation by June 2009
Electricity sector development (Partial Risk Guarantee, TA)	Two missions: dates to be decided	Aide-memoire and Board presentation by June 2009
Transparency and accountability capacity building: TA and policy dialogue	Two missions: dates to be decided	Aide-memoire
Supervision and policy dialogue: education, health, environment, forest reforms, community development programs, transport, financial sector, water supply and urban development, infrastructure.	Two missions for each sector/theme	Aide-memoire

<b>B. Requests for work program inputs</b>		
<b>Fund request to Bank</b>		
Periodic update on progress		
<b>Bank request to Fund</b>		
Periodic macro update		
<b>C. Agreement on joint products and missions</b>		
DSA update	March 2009	Board discussion in June 2009
JSAN	March 2009	Board discussion in June 2009



### III. TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of December 10, 2008)

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of publication <sup>7</sup>
Exchange Rates	Oct. 2008	Nov. 2008	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Sept. 2008	Dec. 2008	M	M	M
Reserve/Base Money	Oct. 2008	Dec. 2008	M	M	M
Broad Money	Oct. 2008	Dec. 2008	M	M	M
Central Bank Balance Sheet	Oct. 2008	Dec. 2008	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2008	Dec. 2008	M	M	M
Interest Rates <sup>2</sup>	Sept. 2008	Dec. 2008	M	M	M
Consumer Price Index	Sept. 2008	Dec. 2008	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	Sept. 2008	Dec. 2008	M	M	Partial data published monthly.
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Sept. 2008	Dec. 2008	M	M	M
External Current Account Balance	2007	Feb. 2008	A	A	NA
Exports and Imports of Goods and Services <sup>6</sup>	June 2008	Sept. 2008	M	M	NA
GDP/GNP	Dec. 2007	Feb. 2008	A	A	NA
Gross External Debt	Dec. 2007	Feb. 2008	A	A	A
International Investment Position	NA	NA	NA	NA	NA

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

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

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

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

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

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

<sup>7</sup>Monthly (M), Quarterly (Q), Annually (A), and Not Available (NA).



Press Release No. 09/04  
FOR IMMEDIATE RELEASE  
January 9, 2009

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Executive Board Completes Sixth and Final Review Under PRGF Arrangement  
with Cameroon and Approves US\$4.1 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Cameroon's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF). The completion of the review allows for the final disbursement of an amount equivalent to SDR 2.67 million (about US\$4.1 million).

The Executive Board also completed the financing assurances review and granted a waiver for the nonobservance of the performance criterion related to the non-oil primary fiscal balance in view of corrective steps taken.

The three-year PRGF arrangement for Cameroon was approved by the Executive Board on October 24, 2005 ([see Press Release No. 05/236](#)) in an amount equivalent to SDR 18.57 million (about US\$28.5 million). With the completion of the fifth review, the arrangement had been extended through January 31, 2009 (see [Press Release No. 08/154](#)).

Following the Executive Board discussion, Mr. John Lipsky, First Deputy Managing Director and acting chair, said:

“The Cameroon authorities are to be commended for the good fiscal performance and stable macroeconomic environment achieved under the PRGF arrangement. Nonetheless, economic growth has been below expectations, and downside risks have increased because of declining oil prices and the deteriorating global economic environment. The authorities' renewed commitment to accelerate growth-oriented policies and reforms, while safeguarding fiscal sustainability, is therefore welcome.

“With oil revenue declining, the authorities face the difficult challenge of preserving a sustainable fiscal position while protecting priority spending. Their ability to mobilize non-

oil revenue will be critical, and the revenue measures included in the 2009 budget are welcome. Additional measures may be needed should oil revenue be less than budgeted.

“The authorities’ efforts to improve the quality and effectiveness of public spending are also welcome. Lowering transfers and subsidies and redeploying resources to priority spending will be critical. More generally, the authorities’ intention to prepare investment projects in a medium-term context and to monitor carefully the implementation of the new framework budget law is appropriate.

“Prudent debt management should remain a priority in the post-debt relief period. The planned new debt management strategy that complies with CEMAC regional guidelines should be implemented swiftly.

“Accelerating economic growth requires decisive implementation of key structural reforms. The authorities are committed to further strengthening the financial sector and liberalizing foreign trade. More resolute public enterprise reforms and improvements in the business environment would help to consolidate gains in economic efficiency and open opportunities for private investment,” Mr. Lipsky said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

## **Statement by Laurean W. Rutayisire, Executive Director for Cameroon**

**January 9, 2009**

On behalf of my Cameroonian authorities, I would like to express my appreciation to the Executive Board and Management for their continued support to Cameroon's efforts to achieve sustained growth and economic development. I would also like to thank staff for constructive policy dialogue and fruitful exchanges during their recent visit to Yaounde. As has been the case with staff reports on previous reviews, the authorities have expressed their consent to the publication of staff reports on the sixth review.

Since embarking on a PRGF-supported program in 2005, my authorities have made significant progress in economic reforms. Noticeable improvements have been achieved in fiscal performance, public finance management and the preservation of macroeconomic stability. Fiscal measures adopted in March 2008 to respond to social unrest have helped restore stability and reduce price pressures. Going forward, my authorities are fully aware of the need to urgently address medium-term economic challenges, including structural reforms to foster economic growth and diversification of the economy to make-up for declining commodity prices. To address these challenges, my authorities are preparing an ambitious economic program in the context of the PRSP update. They are hopeful they can continue to count on Fund assistance to support their medium-term economic objectives and intend to hold program discussions with the Fund in the first half of 2009 to determine the type of engagement needed to support their reform program.

### **I. RECENT ECONOMIC DEVELOPMENTS**

In 2008, my authorities continued their efforts to consolidate the macroeconomic framework and structural reforms. As a result, economic activity showed some resilience in the face of the global economic slowdown. Real GDP growth bounced to 3.9 percent in 2008 from 3.5 percent in 2007, thanks to a pick-up in nonoil economic activity, which offset slower demand for timber and oil exports. Inflation went down to 4.9 percent, reflecting the fuel price freeze and lower food prices. Continued accumulation of government deposits helped slow money growth and credit to the private sector picked up, expanding by 17 percent. In public finance, the overall fiscal surplus was larger than expected, owing to lower-than programmed expenditures. Capital investment also increased considerably, albeit remaining below program levels, due to lower than expected foreign-financed investment.

As regards program implementation, most quantitative criteria and benchmarks for end- June 2008 were met. However, three quantitative targets were missed and the authorities took corrective measures. The nonoil primary deficit was higher than expected due to a shortfall in nonoil revenues and the authorities are requesting a waiver for the noncompliance with this performance criterion. To correct this situation, the authorities have stepped up their ongoing revenue administration

efforts in the 2009 budget. The benchmark on the floor on payments to the national rail company was also missed because the company's claims on the government turned out to be lower than projected.

Implementation of structural reforms was broadly satisfactory. The measures related to government finance and the financial sector were implemented, albeit with delays in some cases. A quarterly report on the financial operations of CAMPOST was produced and a strategy adopted. The interconnection between tax and customs administrations and the deployment of the new civil service computerized management system were implemented with delays because equipments were not delivered on time. To improve the business environment, an electronic one-stop shop was established at customs and the law on electronic commerce was finalized. Public enterprise reform continued to proceed satisfactorily, as CAMAIR ceased operations in May 2008 and its liquidation is taking place as scheduled.

## **II. ECONOMIC AND FINANCIAL POLICIES IN 2008**

The macroeconomic framework has become more challenging in the second half of 2008, with lower-than expected nonoil real GDP, declining inflation and widening current account stemming from the global economic slowdown and declining commodity prices. In spite of this difficult environment, my authorities are determined to consolidate the results already achieved and to combat poverty more effectively while bolstering growth prospects. To this end, they have adopted a medium-term economic strategy aimed at preserving fiscal sustainability and economic stability, while expanding priority spending to accelerate growth and poverty reduction.

### **Fiscal policies**

In line with the medium-term strategy, the 2008 supplementary budget incorporates an appropriation to finance the emergency package adopted by the government in March 2008 to respond to social unrest and new investment projects in agriculture, transports and mining to boost food production, help launch Camairco and a cobalt mining project. To maintain fiscal sustainability and macroeconomic stability, the authorities have decided to maintain positive nonoil current and overall fiscal balances.

The 2009 budget will be more challenging, as fiscal revenue are expected to decline by 2.5 percent from their 2008 levels, reflecting lower oil prices. To address these challenges, my authorities have adopted a number of guiding principles. First, in the face of declining oil revenues, my authorities intend to step up their ongoing efforts to improve tax and customs administration, so as to mobilize additional revenue equivalent to 0.2 percent of GDP. Such measures include *inter alia*, finalizing the interconnection between tax and customs departments, consolidating the progress recently made in reorganizing the taxpayer management units by size and combating smuggling more effectively. Second, the authorities will maintain a positive nonoil current fiscal balance,

implying that current spending would be fully covered by nonoil revenues. In this context, my authorities intend to primarily finance capital projects in priority sectors such as agriculture, energy, roads, education and health through oil revenues and judicious debt management. Third, my authorities are determined to improve the effectiveness of public spending. In this regard, they will focus on enhancing the administrative capacity to prepare, execute and monitor investment projects. They will also use the opportunity of declining international oil prices to gradually eliminate subsidies on retail fuel prices and reduce transfers to redeploy budgetary resources to priority sectors. Should oil revenues be substantially lower-than budgeted, my authorities are prepared to reduce nonpriority spending, mobilize additional nonoil revenues and if needed, draw on government deposits at the central bank or take any other measures deemed necessary in consultation with the Fund.

### **Structural reforms**

My authorities are committed to stepping up efforts to accelerate the implementation of structural reforms. The draft e-commerce law will be presented to the parliament by June 2009. With regard to the air transport sector, my authorities intend to accelerate their efforts to promote an effective and reliable transportation service and reduce the burden on public finance. To this end, the authorities have accelerated the setting up of CAMAIRCO, by selecting a new management team of the new airline company and the bids will be launched in early 2009 to select a strategic partner. Under these circumstances and in order to settle a dispute with international creditors resulting from leasing contracts, the authorities have decided to purchase the only remaining aircraft in the fleet of CAMAIR. As regards the cobalt and nickel mining venture, given the strategic importance of these sectors for economic growth and setbacks already incurred, the authorities have decided to acquire an equity participation in the company to accelerate its startup. A handover to the private sector will occur on due time in a transparent manner and the authorities will start working with the World Bank on a mining sector strategy in the first half of 2009.

To improve the business environment, my authorities are preparing a private sector development plan in collaboration with private sector representatives, the World Bank and the AfDB, while increasing investment on infrastructure. In the financial sector, the authorities, are implementing an action plan to deepen financial intermediation. In this context, they are considering the best way to provide financial services to rural areas and move ahead with the restructuring of CAMPOST. On trade, my authorities agreed to urge CEMAC partners to liberalize regional trade by reducing the maximum external tariff from 30 to 20 percent, removing exemptions, surcharges and export taxes and harmonizing the rules of origin.

### **III. CONCLUSION**

My Cameroonian authorities have continued to implement the PRGF-supported program in a satisfactory manner in spite of a difficult domestic and international environment. Over the last three years, they have achieved significant progress in the implementation of reforms, thanks to strong commitment to macroeconomic stability and fiscal sustainability stemming from good ownership of the program.

In light of their track record of policy and reform implementation and corrective steps taken, I would like to request, on behalf of my authorities, the completion of the sixth review under the current PRGF arrangement, as well as the Board's support for a waiver for the nonobservance of the performance criterion related to the floor on the nonoil primary balance. In view of the appropriate debt policies pursued by my authorities, including prudent borrowing policies and their good-faith efforts to reach agreements with the remaining two private creditors, I also request the Board's support for the completion of the financing assurances review. My Cameroonian authorities look forward to the continuation of Fund assistance to support their development goals. They have already taken a number of forward-looking steps to prepare a new economic program to be discussed with the Fund.