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CAMEROON

January 2018

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

In the context of the First Review Under the Extended Credit Facility Arrangement Requests for 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 20, 2017, following discussions that ended on November 3, 2017, 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 13, 2017.
- A **Staff Supplement** updating information on recent developments.
- A letter of Intent
- 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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COMMUNICATIONS DEPARTMENT

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December 20, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review of Extended Credit Facility Arrangement for Cameroon and Approves US$117.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of the arrangement under the Extended Credit Facility (ECF) Arrangement for Cameroon. The completion of the review enables the disbursement of SDR 82.8 million (about US$117.2 million), bringing total disbursements under the arrangement to SDR 207 million (about US$292.9 million).

In completing the first review, the Executive Board approved the authorities' request for waiving the non-observance of the continuous performance criteria on the ceiling on new non-concessional external debt contracted or guaranteed by the government on the basis of corrective measures taken by the authorities.

Cameroon's three-year arrangement for SDR 483 million (about US$683.5 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:

"Fiscal and external adjustment in Cameroon and other CEMAC countries, combined with external financing, have led to a gradual buildup in CEMAC reserves. However, the region's recovery remains fragile, and Cameroon's continued leadership of the regional effort will be essential to sustainability.

"Cameroon's performance under the ECF-supported arrangement has been broadly satisfactory. The authorities remain fully committed to fiscal consolidation and the 2018 budget is in line with program objectives. However, meeting the deficit targets may be challenging in the context of weaker-than-envisaged revenue, and spending pressures in 2018 and 2019.

"To meet program objectives, stepped-up efforts to expand the non-oil revenue base and better prioritizing spending will be essential while preserving social spending. To maintain debt sustainability, new non-concessional borrowing should be strictly limited and reserved for projects with a high social or growth impact. Stepped up efforts to enhance public financial and debt management are needed to improve spending efficiency and control fiscal risks.

"The interim 2018–20 growth and employment strategy aims at boosting private sector investment, job creation, and further economic diversification. Reforms aimed at enhancing the delivery of basic social services and protecting the poor, improving the business environment, and maintaining financial stability while expanding access to financial services, should be prioritized.

"Cameroon's program is supported by the implementation of supportive policies and reforms by the regional institutions, including tighter monetary policy, elimination of statutory advances, sound bank regulation and supervision, and firm controls over the extension of credit to banks."

INTERNATIONAL MONETARY FUND

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December 13, 2017

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

KEY ISSUES

Context. Cameroon's performance under the three-year ECF-supported program approved in June has been satisfactory, with the fiscal and external adjustments contributing to the rebuilding of buffers. Growth in 2017–18 is expected to be somewhat weaker than anticipated in the program, declining to 3.7 percent in 2017 owing to lower oil production and tepid demand, with a recovery to 4.2 percent in 2018. The medium-term outlook remains positive, boosted by the coming on stream of large energy and transport infrastructure projects.

Risks. Program risks stem from further fluctuations in oil prices (with an upside if recent trends are sustained), a deterioration of the security situation, reform fatigue ahead of the Fall 2018 elections and spending and borrowing pressures related to Cameroon's organization of the 2019 African soccer cup.

Program status. All end-June 2017 quantitative targets were met with some margin. However, the ceiling on contracting of new non-concessional external debt (continuous performance criterion) was not observed by a significant margin as the authorities advanced to November 2017 the entry into force of a loan agreement initially included in the 2018 borrowing plan. As a corrective measure, the 2018 budget ceiling on new non-concessional borrowing was lowered by the same amount. All structural benchmarks through end-November except two were completed.

Key policy recommendations.

- Stay the course on fiscal consolidation, including by identifying contingency measures to meet end-2017 and 2018 fiscal targets.
- Step up efforts to enhance public financial management to reduce irregular budget transactions, strengthen treasury management and reduce fiscal risks.
- Limit new non-concessional borrowing while striving to clear the backlog of undisbursed loans, including by reexamining the financing of under-performing projects.
- Ensure an efficient resolution of ailing banks which minimizes fiscal costs.
- Deepen business environment reforms to foster private sector development.

Staff views. Staff supports the authorities' request for completion of the first review of the program supported by the ECF arrangement in view of all but one performance criterion being met. Staff also support the authorities' request for increasing the program adjustor for government financing related to budget support disbursements for end-December 2017 (which modifies two performance criteria) and for a waiver of non-observance of the performance criterion on the ceiling on contracting or guaranteeing of new non-concessional external debt. Upon completion of the review, a disbursement of SDR 82.8 million (30 percent of quota) will be made available, for a cumulative amount of SDR 207 million or 75 percent of quota disbursed under the ECF for 2017.

Approved By
David Owen and Bob Traa

Discussions took place in Yaoundé during October 24–November 3, 2017. The staff team comprised Ms. Deléchat (head), Ms. Chen and MacDonald, Messrs. Barry and Kalonji (AFR), Messrs. Dupont (MCM), Kpodar (SPR), and Sow (FAD). The team was supported by Mr. Tchakoté (local economist). Mr. N'Sonde (OED) participated in the discussions. Staff of the African Development Bank and the World Bank attended some of the policy meetings.

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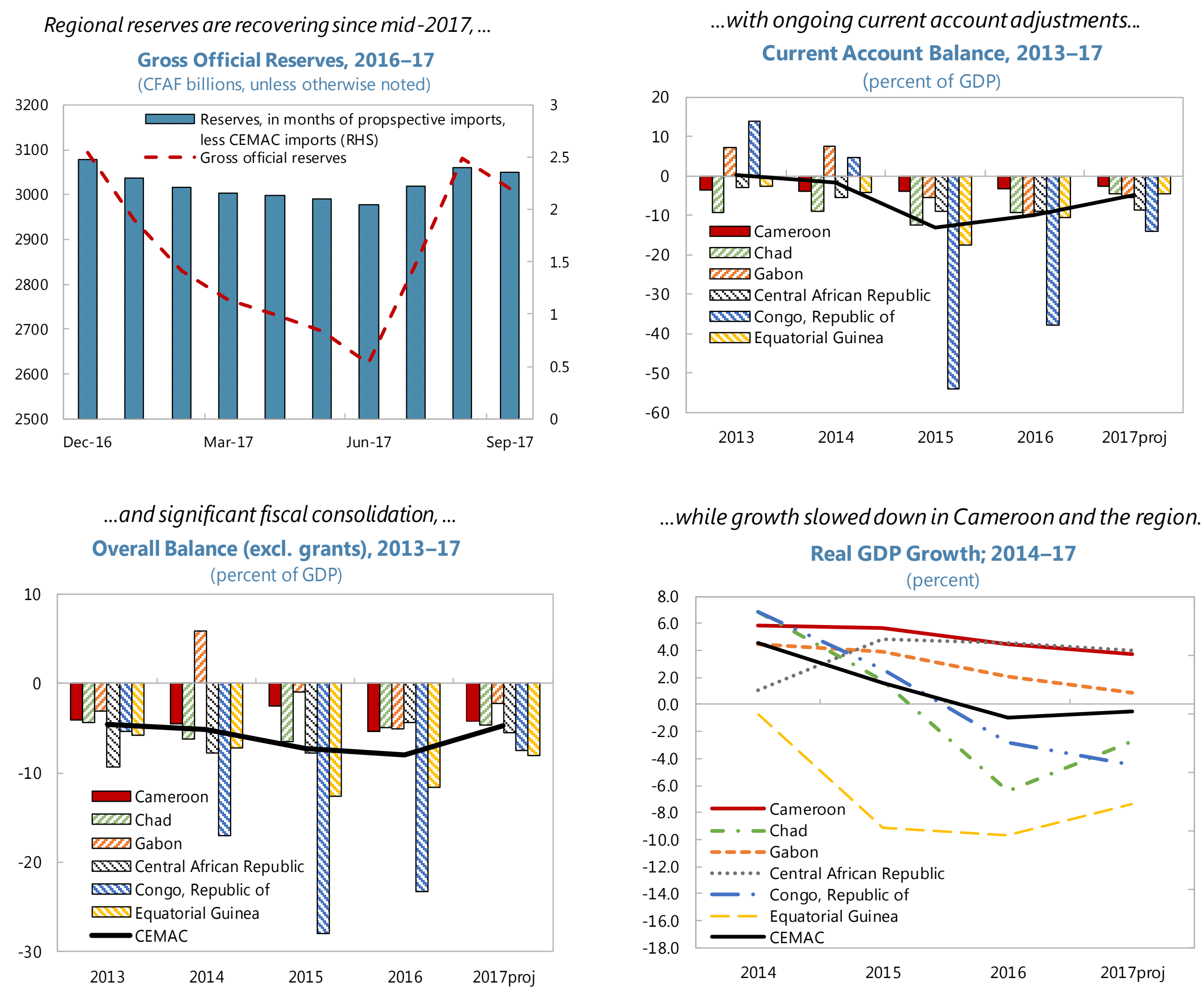
Glossary

BEAC	Regional Central Bank (*Banque des États de l'Afrique Centrale*)
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*)
CNDP	National Public Debt Committee (*Comité National de la Dette Publique*)
COBAC	Regional Supervisory Body (*Commission Bancaire de l'Afrique Centrale*)
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
EPA	European Partnership Agreement
FSAP	Financial Sector Assessment Program
GESP	Growth and Employment Strategy Paper
GFSM 2001	Government Financial Statistics Manual of 2001
HIPC	Heavily Indebted Poor Countries
MFI	Micro-Finance Institution
MTBF	Medium Term Budgetary Framework
MTEF	Medium Term Expenditure Framework
NOPD	Non-Oil Primary Deficit
NPL	Nonperforming Loan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PPP	Public-Private Partnerships
REER	Real Effective Exchange Rate
SME	Small and Medium-Size Enterprise
SOE	State-Owned Enterprise
SNH	National Hydrocarbons Company (*Société Nationale des Hydrocarbures*)
SONARA	National Oil Refinery (*Société Nationale de Raffinage*)
SSA	Sub-Saharan Africa(n)
VAT	Value-Added Tax
WEO	World Economic Outlook
WAEMU	West African Economic and Monetary Union

RECENT DEVELOPMENTS

1. **Cameroon's performance under the three-year ECF-supported arrangement is satisfactory, against the backdrop of an incipient recovery in regional reserves.** The Cameroonian authorities have played a leadership role in the adoption of a concerted regional approach by CEMAC heads of state at the Yaoundé Summit in December 2016. Since then, Fund-supported programs have been put in place or enhanced in four CEMAC countries including Cameroon. While still early days, the regional fiscal and external adjustments have supported stabilization and a gradual recovery in BEAC reserves, which have reached 2.4 months of projected imports in September 2017 (Text Figure 1).

Text Figure 1. CEMAC: Macroeconomic Indicators, 2013–17



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

2. **However, the domestic and regional fiscal consolidations, together with a tighter regional monetary policy, are weighing on activity in Cameroon.** Growth was revised downwards to 4½ percent (from 4.7 percent) in 2016, and slowed to 3 percent (y/y) in H1 2017, owing to a contraction in construction in the first quarter partly related to weak public investment, compounded by lower-than-anticipated oil production as existing wells age and new explorations yield less-than-expected proven reserves. Some high-frequency indicators nonetheless suggest that the recovery started in Q2 continued in Q3, led by agriculture and manufacturing. Inflation remained low at 0.8 percent at end-September (y/y), owing to declining food prices (Table 1, Figure 1). In July 2017 Cameroon rebased its national accounts from 1989/90 to 2005, leading to an upward revision of nominal GDP by 8.2 percent (Box 1).

Box 1. Rebasing of National Accounts

In July 2017 Cameroon published rebased national accounts. The base year moved from 1989/90 to 2005 and the system of National Accounts (SNA) changed from 1968 to 1993. The process started in 2008 and was supported by AFRITAC-Centre, AFRISTAT, and INSEE of France. The 2005-base nominal GDP is 8.2 percent higher than the previous one, and growth has been revised up to 4.1 percent on average for 1993–2013 from 3.8 percent under the old base. Relative to other SSA countries who recently rebased their national accounts, the revision is mild (Box 1 Table).

Box 1. Table1. Cameroon: Rebasing Comparisons

Country	Change	Increase in nominal GDP (percent and year)
Cameroon	SNA 1968 to 1993	8.2% in (2005)
	Base 1989/90 to 2005	
Comoros	SNA 1968 to 1993	50 % (2007)
France	Base 2000 to 2005	0.8% (2008)
Ghana	SNA 1968 to 1993	60 % (2006)
Morocco	SNA 1968 to 1993	11.8 % (1998)
Nigeria	Base 1990 to 2010	75% (2012)
Tunisia	SNA 1968 to 1993	10% (1997)

Source: Cameroonian authorities

Under the new base the primary sector's value added fell to 16 percent (from 23 percent) and the tertiary sector's value added rose to 54 percent (from 46 percent). The financial sector's share increased to 2.3 percent (from 1.3 percent) and the share of non-profit institutions serving households increased to 1.5 percent (from 0.1 percent), while the non-financial sector share fell to 29.4 percent (from 32.1 percent). The share of the informal sector declined to 46 percent (from 49 percent).

3. **Fiscal consolidation is on track.** The overall deficit (payment order basis) narrowed to below 2 percent of GDP for Q1-Q3 2017, as compared to 2½ percent of GDP in the program and 6¼ percent of GDP in 2016 (Tables 2a-b, Figure 2). Consolidation in both current and capital expenditure has been the main driver of the deficit reduction, while revenue collection has underperformed, mainly due to lower oil receipts and weaker customs collections.

4. **Monetary conditions are tight.** With slower budget execution and economic activity, broad money growth has decelerated to 5 percent (y/y) at end-October 2017. Credit to the economy grew by 4.4 percent (y/y, but by only 1.4 percent since end-2016), and bank deposits by 3.3 percent. Tight bank liquidity led to lower-than-anticipated placements of bonds and T-bills through end-October, and at higher interest rates, resulting in below-programmed net government borrowing (Figure 3, Table 3).

The liquidity situation improved however in July with the early repayment of securitized debt from the proceeds of an offshore escrow account (which also contributed to improved net foreign assets).[1]

5. The balance of payments is improving (Figure 4, Table 4). The current account deficit narrowed to 0.7 percent of GDP in H1 2017, from 1.8 percent of GDP in H1 2016. Weaker imports resulting from fiscal and monetary policy tightening, combined with strong agricultural and manufacturing exports due to favorable weather and improved electricity supply, are contributing factors. The financial account also improved, likely owing to tighter enforcement of foreign exchange regulations and enhanced confidence in the peg.

6. Public debt remains contained, but the rapid accumulation of newly-contracted loans remains a concern (Text Table 1). Public debt dropped to 31.2 percent of GDP in Q3 2017, from 31.6 percent of GDP in 2016. While the contracting of new loans has considerably slowed since program approval in June, new loans contracted in Q1-Q3 2017 totaled CFAF 1,485 billion (7½ percent of GDP). This led to an increase in the total stock of committed, but undisbursed debt to 24.7 percent of GDP.

Text Table 1. Cameroon: Gross Public Debt, September 2017

(Percent of GDP)

	Dec-15	Dec-16	Sep-17
Public debt contracted and disbursed	**26.5**	**27.9**	**28.0**
External debt	19.3	20.7	21.3
Domestic debt	5.9	5.6	5.1
BEAC statutory advances	0.8	1.2	1.4
Public guaranteed debt	0.5	0.4	0.2
SONARA debt 1/	**1.1**	**0.4**	**0.3**
Domestic arrears	**3.3**	**3.2**	**2.9**
Total public debt	**30.9**	**31.6**	**31.2**
Memo items			
Stock of contracted but undisbursed debt	**19.2**	**20.1**	**24.7**
External	17.7	18.8	23.5
Domestic	1.5	1.3	1.2

Sources: Cameroonian authorities; and IMF staff calculations.

1/ Suppliers' arrears associated with unfunded fuel subsidies.

7. The socio-political environment is increasingly tense ahead of the Fall 2018 elections. The crisis in the two Anglophone regions has intensified and led to a separatist movement. "Ghost towns" or "sit-at-home" days are observed three days a week in parts of these regions and there have been large protests which have turned violent at times. Additionally, terrorist activities in the Lake Chad Basin and insecurity in the Central African Republic have led to a large influx of refugees, with over 350,000 people having fled the C.A.R. and Nigeria, and more than 250,000 internally-displaced persons.

[1] In 1996, in support to distressed banks, the government issued two CFAF 80 billion bonds, to be repaid through an earmarked account at the BEAC. The account was fed by the future taxes generated by the banks. In 2008, the first bond with a 12 year-maturity was repaid. For the second bond, with a 30 year-maturity, the government opened an offshore account in Luxembourg fed by French treasury bonds acquisitions. At end-June 2017, the balance of the account was equivalent to CFAF 73 billion, which was enough to retire the bond in July, allowing the government to save on interest payments and banks to get more liquidity.

8. Program performance has been mostly satisfactory so far.

- *All end-June quantitative targets were met with some margin* (Appendix I, Table 1). However, the continuous performance criterion on the contracting or guaranteeing of new non-concessional external debt was missed by a large margin, mostly as the authorities advanced the entry into force of a CFAF 63 billion loan from 2018 to November 2017.[2] As a corrective measure, and to ensure that new total non-concessional external borrowing for 2017 and 2018 combined remains unchanged, the authorities propose to reduce by CFAF 64 billion the ceiling in the 2018 budget.

- *All but two structural benchmarks (SBs) through end-November were met* (Appendix I, Table 2). The August SB on the plan for ailing banks was not met, and the plan received in September lacked important elements such as financial projections and sound valuation of non-performing loans' portfolios. Staff and the authorities agreed that a revised plan aiming at minimizing fiscal costs and aligned with COBAC regulations would be prepared in consultation with Fund staff (new SB). On the internal audit of domestic arrears (September SB), staff supports the authorities' proposal to convert this into an external audit to ensure the integrity of the findings, and to reset it to March 2018. Two related SBs, the preparation of a domestic arrears clearance plan (December 2017 SB) and quarterly reports on arrears balance (April 2018 SB) are proposed to be re-phased, to March and July 2018, respectively. Citing remaining technical difficulties with the collection of the land tax through its monthly payment as part of the electricity bill, as well as potential social tensions associated with the measure ahead of the election, the authorities propose to reprogram this structural benchmark for end-2018 (December 2017 SB). The authorities also noted that the land tax is already included in electricity bills since 2016, which has already significantly helped broaden the taxpayer registry (from about 300,000 tax payers in 2016 to 747,000 in 2017).

POLICY DISCUSSIONS

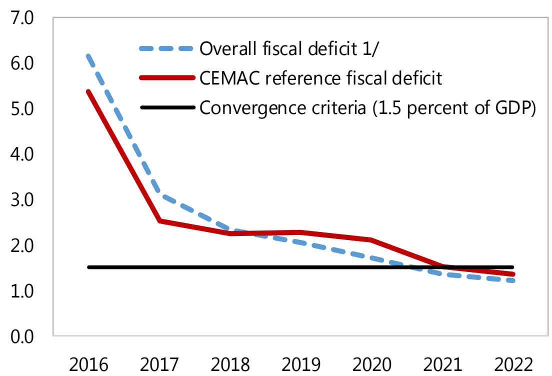
A. Regional Context

9. Cameroon's reform program remains fully consistent with the regional economic and financial reform program (PREF-CEMAC). In particular, Cameroon's fiscal consolidation path is consistent with the new regional convergence criterion,[3] and is predicated on a cumulative adjustment of 4.7 percent of GDP (payment order basis) between 2016 and 2020, in line with program objectives (MEFP ¶20, Text Figures 2–3). Key structural reforms, including the full transposition of the CEMAC PFM Directives, and measures to boost non-oil revenue mobilization and private sector development, are similarly supportive of regional objectives.

[2] The authorities also reported that insurance premia of CFAF 3 billion had been incorrectly excluded from the loan amounts reported as of end-October (CFAF 98 billion), bringing the total amount of new non-concessional borrowing in 2017 to CFAF 164 billion, compared with a CFAF 100 billion ceiling.

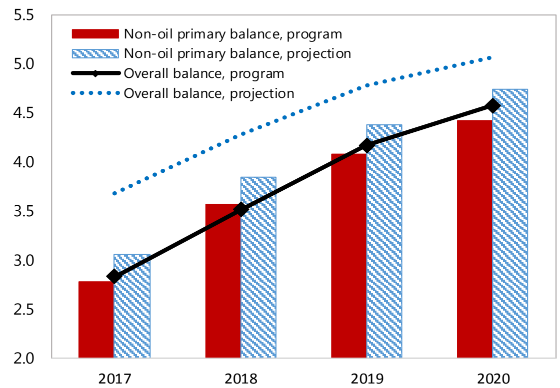
[3] The CEMAC's Baseline Fiscal Balance (BFB) is the difference between the overall fiscal balance (OFB) and the savings from oil revenue (SOR). The SOR is the sum of *i)* 20 percent of current year's oil revenue; and *ii)* 80 percent of the changes in oil revenue between current year, and the average of the three previous years.

Text Figure 2. Cameroon: Fiscal Deficits and CEMAC Convergence
(Percent of GDP)



Sources: Cameroonian authorities; and IMF staff calculations.
1/ Projections starting from 2017.

Text Figure 3. Cameroon: Cumulative Fiscal Adjustment, 2017–20
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

10. In turn, the recent progress with regional reforms is expected to support Cameroon's efforts at the national level.

- *The BEAC's tighter monetary stance is supporting the fiscal consolidation while monetary policy operations reforms would help deepen money and financial markets.* The BEAC raised its policy rate by 50 bp to 2.95 percent for the first time in six years in March 2017. The resulting tighter bank liquidity, together with fiscal consolidation and repatriation of the assets in the offshore escrow account, have allowed for a faster buildup of Cameroon's net foreign assets than initially envisaged (with end-October NFAs exceeding the December program projection by CFAF 75.4 billion). Following implementation of key governance reforms, the BEAC has also stepped up efforts to transform monetary policy operations. In particular, the elimination of statutory advances will over time help promote financial market development and reinforce the build-up of external reserves (Annex I, MEFP ¶30).
- *The recent approval by CEMAC heads of state of free movement of people and goods and the unification of the two regional stock exchanges in Douala will promote private sector development.* Cameroon will be able to fully leverage its strategic position as a regional hub, reinforced by the beginning of operations of the Kribi deep sea port and the expansion of the national airline to regional routes.

B. Outlook and Risks

11. The growth outlook remains broadly as envisaged at the time of program approval. With declining oil output, delays in gas production, and mixed non-oil activity, growth is projected to decelerate to 3.7 percent in 2017 (4 percent in the program) but is expected to rebound to 4.2 percent in 2018, attributed to new natural gas production, stronger manufacturing and agro-industry that are boosted by improved energy supply, and a rise in construction and building activity leading up to the 2019 Africa Soccer Cup (CAN). The coming on stream of transport and energy projects would support medium-term growth in the range of 5–5½ percent (Text Table 2).

Text Table 2. Cameroon: Key Macroeconomic Indicators, 2016–22

	2016	2017		2018		2019		2020	2021	2022
	Est.	*Prog.*	Proj.	*Prog.*	Proj.	*Prog.*	Proj.	Proj.	Proj.	Proj.
Real GDP	4.5	*4.0*	3.7	*4.6*	4.2	*5.0*	4.8	5.0	5.4	5.6
Inflation (period average)	0.9	*0.7*	0.5	*1.1*	1.0	*1.4*	1.2	2.0	2.0	2.0
Overall fiscal balance (payment order basis, incl. grants)	-6.2	*-3.1*	-3.1	*-2.3*	-2.3	*-1.8*	-1.8	-1.4	-1.1	-1.0
Non-oil primary balance(payment order basis, percent of non-oil GDP)	-7.9	*-4.7*	-4.1	*-4.0*	-3.5	*-3.3*	-2.9	-2.6	-2.3	-2.0
Current account balance (percent of GDP)	-3.2	*-2.8*	-2.6	*-2.8*	-2.5	*-2.6*	-2.3	-1.7	-1.3	-1.2
Public debt (percent of GDP)	31.6	*33.3*	33.7	*33.5*	34.5	*33.7*	34.4	33.7	32.4	31.1

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

12. External and domestic risks could however affect the outlook. External risks from commodity price movements are broadly balanced, but continued security threats and insufficient regional adjustment could weigh on growth. Domestically, reform fatigue and spending overruns ahead of the 2018 elections, and borrowing pressures related to the elections for the 2019 CAN, or other fiscal risks related to contingent liabilities, could derail fiscal consolidation. Continued unrest and disruptions of economic activity in the Anglophone regions could also weaken growth. The authorities' ownership of the program's key objectives and reforms, higher external buffers, and a still-growing non-oil sector mitigate some of the downside risks.

C. Fiscal Policy: Staying the Course on Consolidation

13. Revenue shortfalls in 2017 have required a larger spending consolidation than initially envisaged. Revenue is projected to fall short by 0.7 percent of GDP compared with the program, owing to weaker oil receipts (0.3 percent of GDP) and non-oil revenue stemming from lower customs and direct taxes collection (0.4 percent of GDP). In response, the authorities have contained budget execution while protecting social spending, and have indicated their intention to continue doing so to achieve the program's 2017 fiscal targets (Text table 3, MEFP ¶18). They also plan to lower domestically-financed investment by about CFAF 90 billion (½ percent of GDP) to accommodate an over-execution of foreign-financed capital spending.

14. Prudent cash management will be essential to achieve key December program targets. The 2017 overall deficit remains fully financed, but the authorities stressed that the liquidity situation for the last quarter would be extremely tight. This is mainly due to: (i) budget support disbursements all expected in December; (ii) lower-than-programmed domestic issuances of T-bills and bonds; and (iii) somewhat higher-than-anticipated execution of past year's commitments (Annex III). In response, the authorities agreed to scale up the issuance of short-term treasury bills. Ahead of the consolidation of statutory advances in a special account at the BEAC, and within existing program parameters, staff and the authorities also agreed that limited and temporary drawings on statutory advances, to be reimbursed by year-end when the budget support disbursements materialize, could help support budget execution (MEFP ¶19).

Text Table 3. Cameroon: Fiscal Framework, 2016–20
(Percent of GDP)

	2016		2017		2018			2019	2020
	Prog.	Est.	Prog.	Proj	Budget	Prog.	Proj	Proj.	Proj.
Total revenue and grants	14.9	15.0	15.4	14.6	15.0	16.0	15.1	15.5	15.8
Oil sector revenue	2.2	2.2	2.2	1.9	1.7	2.3	1.8	1.8	1.8
Non-oil sector revenue	12.3	12.5	12.8	12.4	13.0	13.5	13.0	13.5	13.8
Total grants	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Total expenditure	20.8	21.2	18.5	17.7	17.6	18.4	17.5	17.3	17.2
Current expenditure	13.0	12.6	11.8	11.2	11.4	12.0	11.2	11.2	11.1
Capital expenditure	7.5	8.4	6.7	6.5	6.2	6.4	6.2	6.1	6.1
o/w Domestically financed investment	4.8	5.6	3.8	3.2	3.2	3.3	3.2	3.2	3.2
o/w Foreign-financed investment	2.6	2.6	2.7	3.2	2.9	2.9	2.9	2.8	2.8
Overall balance (payment order basis, incl. grants)	-5.9	-6.2	-3.1	-3.1	-2.6	-2.3	-2.3	-1.8	-1.4
Overall balance (cash basis, incl. grants)	-4.9	-5.1	-3.9	-3.9	-3.5	-3.6	-3.5	-2.5	-2.0
Non-oil primary balance (payment order basis, incl. grants) [1]	-7.6	-7.9	-4.7	-4.1	-3.5	-4.0	-3.5	-2.9	-2.6
Non-oil primary balance (cash basis, incl. grants) [1]	-6.6	-6.8	-5.5	-4.9	-4.4	-5.3	-4.7	-3.6	-3.3
External financing, net	1.8	1.8	1.8	2.3	1.6	1.7	1.7	1.6	1.6
Domestic financing, net	3.2	3.0	-0.5	-0.9	0.2	0.1	0.2	-0.7	0.2
Financing gap	0.0	0.0	2.6	2.5	1.6	1.8	1.6	1.6	0.2
o/w IMF			0.9	0.8	0.4	0.5	0.4	0.4	0.2
o/w budget support (excl. IMF)			1.7	1.6	1.2	1.3	1.2	1.2	0.0

Sources: Cameroonian authorities; and IMF staff estimates and projections.
[1] In percent of non-oil GDP.

15. **The draft 2018 budget is broadly in line with the program and entails a consolidation of 0.8 percent of GDP in 2018** (MEFP ¶20). However, with lower projected revenue (by 0.9 percent of GDP, of which half from lower oil revenue), reaching the initial deficit target will require raising non-oil revenue by 0.6 percent of GDP and consolidating spending by a further 0.3 percent of GDP.

16. **Staff highlighted that achieving the 2018 revenue-collection objectives would involve substantial collection efforts from the tax and customs administrations.** The authorities estimated the yield of the new tax policy and administration measures to be around 0.4 percent of GDP (Text Table 4, Annex II, MEFP ¶23). Staff however noted that this fell short of the 0.6 percent of GDP increase in non-oil revenue envisaged in the budget. Staff encouraged the authorities to continue to exploit the results of the enhanced cooperation between the tax and customs administrations, particularly the cross-checking of the tax and customs databases, which had already yielded concrete benefits (MEFP ¶10)

Text Table 4. Cameroon: Revenue Measures, 2018

Measures	CFAF billions	Percent of GDP
New domestic tax policy measures	5.0	0.02
New tax administration measures	10.0	0.05
Existing tax administration measures	15.0	0.07
Strengthened custom collections	46.6	0.22
Other efficiency gains	39.2	0.19
Total	115.8	0.56

Sources: Cameroonian authorities; and IMF staff calculations.

and could generate additional revenue of about 0.15–0.2 percent of GDP based on estimates from a recent Fund technical assistance mission (SB, MEFP ¶23).

17. Staff and the authorities agreed that expenditure consolidation should focus on continued rationalization of lower-priority investment spending. For 2018, the authorities would contain current spending, while preserving social spending, at 11.2 percent of GDP as in 2017, with an extra 0.3 percent of GDP in goods and services budgeted for election and CAN-related expenses offset by lower transfers and subsidies. At the same time, they would rationalize investment spending to generate budgetary savings of about 0.3 percent of GDP in 2018. This will be achieved through strictly prioritizing projects according to the following criteria: (i) projects with high socio-economic impact and/or contributing to gross fixed capital formation, (ii) ongoing priority infrastructure and related projects, and (iii) projects related to the 2019 CAN (MEFP ¶21, ¶27).

18. Financing of the 2018 budget mostly relies on disbursements of the second round of budget support operations (MEFP ¶28). Staff urged the authorities to continue to advance with the structural reforms underpinning the budget support, while encouraging development partners to phase disbursements through 2018 to avoid bunching at end-year. On domestic financing, staff recommended the use of market-based instruments to help deepen the financial market and accompany the modernization of regional monetary policy operations. With the consolidation of statutory advances effective at end-2017, staff and the authorities agreed that any further use of the available deposits from these consolidated advances should remain strictly for transitory liquidity management within existing program parameters (MEFP ¶19).

19. Noting considerable spending pressures and downside risks on the revenue side for 2018, the authorities have identified contingency measures in case fiscal risks materialize. Spending and borrowing related to the election and the CAN are included in the budget and the 2018 borrowing plan (MEFP Text Table 2). In addition, to address potential fiscal risks stemming from additional spending needs, revenue shortfalls, or contingent liabilities including ailing banks' recapitalization needs, the authorities have identified contingent expenditure items mainly in domestically-financed capital spending.

D. Structural Fiscal Reforms: Expanding the Non-Oil Revenue Base and Improving Public Financial Management

Revenue Mobilization

20. The authorities have updated their medium-term revenue mobilization strategy, which centers on expanding the non-oil revenue base and enhancing the equity of the tax system. The strategy entails four main components:

- *Reviewing and reducing tax expenditures*. The authorities are attaching for the first time a report on tax expenditures to the 2018 budget law, showing that total tax expenditures amounted to about 20 percent of total revenue in 2016 (2.4 percent of GDP, Text Table 5). The study also finds that the exemptions were proportional to the level of consumption but not income, and that excessive incentives were given to investments that can only pay off in the long term. Starting with the 2019 budget, the authorities will gradually phase out some exemptions, while also working on amending the 2013 law on investment incentives, in collaboration with the World Bank (MEFP ¶10).

Text Table 5. Cameroon: Tax Expenditures, 2016

Items	CFAF billions	Percent of GDP
Food and health related	187	0.98
Agricultural sector	20	0.10
Rice imports	29	0.15
Fish exemptions	71	0.37
Investments	61	0.32
Other	83	0.43
Total	**451**	**2.36**
VAT related	330	1.73
Tariff	107	0.56
Excise	9	0.05

Sources: Cameroonian authorities; and IMF staff calculations.

- *Enhancing VAT efficiency*. This will entail increasing the VAT threshold to optimize taxpayer segmentation (while also simplifying the tax regime for small and medium-sized enterprises), continuing to improve reimbursement procedures and eliminating VAT withholding for large enterprises.
- *Developing the potential of personal income taxation,* building on progress made with the land tax and the integration of the existing single taxpayer identification number in the tax administration IT system (reformulated SB, MEFP ¶23, 34).[4]
- *Pursuing ongoing efforts to improve tax and customs administration*. The tax administration will focus on improving VAT collection through the operationalization of new medium-sized enterprises tax administration centers; and expanding electronic payments. The customs administration is working on upgrading its IT system to improve the tracking of imported products and merchandises in transit, and on enhancing the efficiency of customs clearance procedures. Both revenue agencies are also committed to accelerate efforts to collect tax arrears (MEFP ¶23).

Public Financial Management (PFM)

21. Public financial management (PFM) reforms are advancing.

- *The authorities have finalized decrees aiming at transposing the six CEMAC PFM Directives* and envisage to finalize transposition by end-2018, with implementation starting with the 2019 budget cycle (Box 2, MEFP ¶24, 25). Staff and the authorities agreed that effective implementation of the Directives would help ensure the sustainability of ongoing PFM reforms.

[4] This reformulates the SB on completion of the biometric registration of taxpayers, which is no longer efficient/relevant given its cost and that the new tax administration IT system will include its own taxpayer registration module.

Box 2. CEMAC PFM Directives

The CEMAC Commission has adopted in 2011 six directives, aiming at improving the transparency and good governance in PFM and at harmonizing PFM in the CEMAC to enhance regional surveillance. Transposition of these directives into members' national legislation, initially due by 2017, is now planned by 2019. Cameroon has prepared six draft decrees for the transposition of the directives, of which three have been validated by the CEMAC Commission (Directives 1, 2 and 5), with only minor modifications to Directive 4.

Directive 1: *Transparency and Good Governance in Public Financial Management*. Principles and requirements that governments should respect in managing public funds.

Directive 2: *Budget Laws*. Guidelines and rules governing the presentation, the preparation and the adoption of the budget law. The Directive also provides some guidelines regarding the implementation of medium-term fiscal policy, and the accountability of public finance managers.

Directive 3: *General Regulation for Public Accounting*. Basic rules governing the budget execution, public accounting and auditing of all government financial and non-financial transactions.

Directive 4: *Budget Classification*. Rules governing the presentation of the general budget, budget annexes and Treasury's special accounts.

Directive 5: *Public Finances' Charts of accounts*. Norms, principles and rules relative to public accounting, and the production of governments' financial statements.

Directive 6: *Government's Financial and Non-Financial Operations*. Guiding principles relative to the preparation of General governments' financial and non-financial transactions, and the presentation method under the financial and non-financial operations' table (TOFE).

- *To ensure respect of the principle of annuality of the budget*, the authorities intend to shorten the complementary period, currently de-facto stretching to three months, to two months as prescribed by the law, and ultimately to one month, in line with the Finance Laws Directive (new SB, MEFP ¶25).
- *The authorities are also continuing to limit exceptional budgetary procedures*, including the gradual reduction of direct off-budget spending by the national oil company (SNH) to safeguard the integrity of the budget and increase transparency in budget execution (IT).[5] They are also working on gradually reducing the balances of Treasury correspondent accounts, some of which are used to safeguard budgetary allocations for investment projects beyond a given fiscal year and complicate cash management (Annex III). Staff welcomed the authorities' commitment to prohibit new budget

[5] In 2017 the program objective was to cap direct SNH interventions under 50 percent of total SNH projected oil revenue. With lower production, staff estimates that the program ceiling of CFAF 168 billion will represent 55 percent of oil revenue.

appropriations to these accounts, while requiring that all investment projects follow regular budgeting and execution procedures (new SB, MEFP ¶25).

- *A strategy to broaden the coverage of the Treasury Single Account (TSA) has been elaborated* (September SB, MEFP ¶25).
- *The authorities are taking measures to enhance investment efficiency*. The closer integration of the annual budget with the medium-term budget framework (MTBF) will support enhanced planning of multi-year projects and more effective program budgeting, as recommended by the PIMA (MEFP ¶24). In addition to strengthening the coordination between the Ministries of Economy and Finance and line ministries, the authorities have elaborated a project maturation guide to improve prioritization and selection prior to projects' inclusion in the MTBF. Staff welcomed these developments, and encouraged the authorities to address remaining obstacles to efficient project execution, including reforming procurement procedures and ensuring availability of counterpart funds in the budget.

E. Debt Policy: Maintaining Sustainability and Containing Risks

22. Staff urged the authorities to resist pressures to sign new loans, in light of the large deviation from the 2017 ceiling on new non-concessional borrowing and continued slow disbursement of the existing stock of contracted loans. The authorities noted that the signature of a project on the rehabilitation of the Douala stadium ahead of the 2019 CAN had been advanced to November to ensure that the project would be ready on time. They agreed however to reduce the non-concessional borrowing limit by the same amount in the 2018 budget law to ensure that there would be no negative impact on debt sustainability as a result. They restated their commitment to align new loans with absorption capacity, and to ensure that only those backed by mature projects are signed (MEFP ¶26–27). While debt management capacity is assessed as adequate, staff noted that transparency in debt reporting and accounting ought to be strengthened. Staff will work with the authorities to ensure that debt reporting is comprehensive and timely. Staff also encouraged greater cooperation between the National Public Debt Committee (CNDP) and the Ministry of Economy, Planning and Regional Development, to ensure that the CNDP examines all new borrowing requests before final authorization and that they are aligned with the government's strategic priorities as defined in the MTBF (MEFP ¶26).

23. The authorities have reviewed the portfolio of contracted but undisbursed debt, which amounted to 24.7 percent of GDP in September 2017. While some of these amounts reflect the normal execution lags, particularly for complex infrastructure projects, the review identified a total of CFAF 1,490 billion (about a third of the current stock) in projects that are not disbursing as scheduled or have not performed well. The CNDP is expected to review the report and opine on loans that should be cancelled or redirected to more mature projects (MEFP ¶29). Staff highlighted the fiscal costs associated with these loan obligations in terms of commitment and other fees, and urged the authorities to accelerate implementation of the report's recommendations, including improving budget planning to secure counterpart funds, strengthening project management units' capacity, and streamlining land expropriation procedures. In parallel, to minimize risks of rapid debt accumulation, the authorities would cap disbursements of foreign project financing on non-concessional loans contracted before the start of the program at CFAF 596 billion, in line with the budget.

24. Staff and the authorities agreed that the recording and monitoring of fiscal risks linked with public enterprises needed strengthening (MEFP ¶25, Annex IV). Following the adoption in June 2017 of two framework laws addressing the main impediments to SOE competitiveness and performance, the authorities noted that they would, in cooperation with the WB, work on implementing regulations including requirements for regular and standardized financial reporting, financial audits, oversight and governance. Staff welcomed this development while urging faster action to address the situation of the 3–4 SOEs holding the bulk of short-term debt. In particular, staff encouraged prompt finalization and implementation of the strategy to avoid further subsidies to the state oil refinery (SONARA) and reduce existing liabilities of the company, as rising oil prices would further jeopardize its already-fragile financial situation (SB, MEFP ¶22).[6] Staff also welcomed the enhanced budget annex on fiscal risks linked to SOEs and PPPs, noting that the latter also involved significant fiscal costs (2.7 percent of GDP at end-October, of which 1.4 percent of GDP for projects already completed or under way).

F. Financial Sector Policy: Accelerating Reforms and Expanding Access

25. The financial sector has remained resilient in comparison to other CEMAC countries, reflecting the less acute crisis in Cameroon and a more diverse economy (Text Table 6). Compared with 2016, bank credit and deposits have increased, while they decreased in the CEMAC overall. BEAC refinancing of commercial banks fell and the level of overdue loans decreased (while it increased in all other CEMAC countries). Excluding banks in distress, banks remain well capitalized. Their exposure to the recent increase in risk-weighting of their portfolios of government securities will likely be mitigated by the derogation rules recently validated by the COBAC, which will limit the potential to reduce capital ratios and to breach concentration ratio obligations (Annex I).

Text Table 6. Cameroon: Financial Sector Indicators, 2014–17

	2014	2015	2016	Q1-17	Q2-17	Aug. 17
Capital Adequacy						
Capital/Risk-weighted Assets	11.4	10.1	9.0	9.5	9.5	10.2
Base Capital/ Risk-weighted Assets [1]	9.1	9.3	7.6	8.1	8.2	8.3
Non-Performing Loans less Provisions/Equity	10.3	8.9	12.1	14.2	12.0	11.6
Capital/Assets [1]	8.4	8.3	7.5	7.7	7.3	7.4
Asset Quality						
Loans in Arrears/Total Loans	12.3	12.5	14.1	13.9	14.0	13.3
Non-Performing Loans/Total Loans [1]	9.7	9.3	10.7	11.1	10.9	10.9
Large Exposures (> 25 % of Equity)/Equity	125.3	162.1	157.1	151.1	177.5	234.5
Results and Profitability						
Return on Assets (ROA)	0.8	0.7	0.7	0.9	0.7	0.7
Return on Equity (ROE)	14.8	14.1	17.0	20.7	15.3	16.5
Liquidity						
Reserves/Total Deposits	27.7	24.3	18.0	17.4	16.4	21.7
Liquid Assets/Total Assets [1]	23.0	23.1	23.2	21.0	19.1	21.0
Liquid Assets/ST Liabilities	139.5	147.5	148.7	133.9	125.2	151.2
Total Deposits /Total Loans	141	128.9	128.2	130.4	130.9	132.3

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

[1] Data from the IMF Financial Soundness Indicators database, and the last observations are for July-17.

[6] SONARA has accumulated tax arrears of 0.9 percent of GDP and debt to the banking system of 0.8 percent of GDP.

26. The authorities agreed that the plan for the resolution of distressed banks ought to be enhanced while aiming at limiting fiscal costs. The plan sent by the authorities to the COBAC in September still entailed several gaps including the lack of a sound methodology to value impaired assets. While still awaiting the COBAC's response, staff and the authorities proposed to reprogram this structural benchmark from August 2017 to June 2018 to help enhance the asset recovery company (SRC) capacity through Fund technical assistance and add to the strategy an in-depth analysis of all possible options in order to minimize fiscal costs (MEFP ¶31).

27. The authorities have prepared a strategy to address non-performing loans (September SB), and will prepare time-bound action plans. The action plans will cover: (i) mechanisms to encourage the renegotiation of overdue loans (in collaboration with the banking association); (ii) the role of the SRC, including the setting of pricing neutral for the State's budget; (iii) improvements in the judicial system; and (iv) the development of arbitration solutions (MEFP ¶32). As an important intermediate step, the authorities have agreed to train a number of judges on addressing banking disputes and deploy them in the largest business centers before December 2018 (new SB).

28. Broader access to financial services, particularly for SMEs, remains elusive. To address this issue and limit risks, staff urged the authorities to provide a timeline for their strategy to update the business model of the public SME bank to ensure its viability and to evaluate the possibility to replace its direct financing by indirect financing (funding lines to commercial banks or partial credit guarantees) (MEFP ¶33). The authorities will also support the reinforcement of credit risk assessments by further implementing and expanding the financial information database. In view of the progress made in developing a regional financial information database, the authorities agreed to liaise with the BEAC to work on the consistency of the national and regional initiatives (MEFP ¶32).

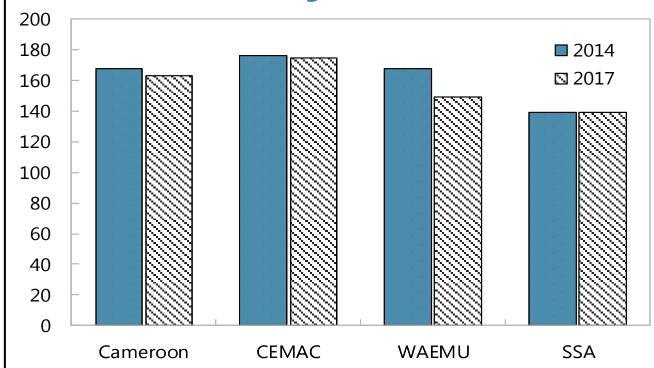
G. Structural Reforms: Promoting Diversification and Inclusive Growth

29. The authorities have updated their growth and employment strategy for 2018–20 and are strengthening social policies. Recognizing that both the macroeconomic and fiscal conditions have deteriorated relative to the projections of the original Growth and Employment Strategy Paper (GESP), the update presents interim objectives and strategies for the country to get back on course by 2020. The interim strategy discusses social and employment policies to achieve the GESP's poverty reduction and job creation objectives, including by allocating adequate budgetary resources to social sectors (Annex V). The social spending target was met in both June and September 2017, despite low budget execution.[7] In line with the new strategy, the social spending target will be set at 3.2 percent of GDP in 2018 (3.1 percent of GDP in 2017). The 2018 budget will provide resources to scale-up two successful ongoing donor-supported pilot programs: the social safety nets and the performance-based financing in the health sector. In addition, the authorities are finalizing their national social protection strategy through a participatory process (December 2017 SB).

[7] Social spending includes spending on key sectors such as education, health, employment promotion, youth and women protection.

30. The authorities have taken steps to encourage private investment and enhance the business environment. Cameroon's ranking in the 2018 Doing Business Report by the World Bank improved to 163 (out of 190 countries), from 166 in 2014, but remains below peers (Text Figure 4). The improvement was driven by a reduction in the minimum capital requirements to start a business and by the establishment of a credit bureau. The training of judges in the resolution of banking disputes, in line with the PREF-CEMAC objectives, ought to also enhance the business environment (MEFP ¶32). The coming on stream of major transport and energy projects should further unlock private sector investment. Finally, the authorities are implementing measures aiming at simplifying and computerizing tax procedures, reducing payment processing time for government bills to suppliers, and finalizing land reforms (MEFP ¶34).

Text Figure 4. Cameroon: Doing Business Rankings, 2014–17



Sources: World Bank Doing Business 2014 and 2017.

PROGRAM MODALITIES

31. The balance-of-payments need for 2017–18 is expected to remain unchanged. The authorities are adjusting to the lower oil revenue and maintaining the program's fiscal consolidation path. The current account balance is projected to be narrower than in the program, as lower imports compensate for the weaker oil and nonoil exports. As a result, fiscal and external buffers are being rebuilt somewhat faster than initially envisaged.

32. Donor support to close the financing gap has been confirmed (Text Table 7). Budget support commitments for 2017 (CFAF 319 billion) are expected to mostly materialize by end-year. However, due to technical delays in reform implementation, some disbursements could slide into early 2018. Therefore, staff supports the authorities' request to modify the program adjustor to net domestic and net BEAC financing for budget support shortfalls (from CFAF 70 billion to 120 billion). For 2018, the financing gap after Fund disbursements is projected at CFAF 251 billion which can be filled based on development partners' budget support commitments.

Text Table 7. Cameroon: Financing Gap, 2017–20
(CFAF Billion)

	2017	2018	2019	2020	Total
1. Financing gap	**487**	**336**	**341**	**43**	**1207**
2. IMF financing	**167**	**86**	**85**	**43**	**381**
percent of quota	*75*	*40*	*40*	*20*	*175*
3. Budget support from other donors	**319**	**251**	**256**	**0**	**826**
African Development Bank	118	113	112	0	**343**
World Bank	116	56	56	0	**228**
France	66	66	66	0	**197**
European Union	20	16	23	0	**59**
4. Residual financing gap (1-2-3)	**0**	**0**	**0**	**0**	**0**
Share of Fund financing	34	25	25	100	**31.5**

Source: Cameroonian authorities; and IMF staff calculations.

33. The attached Letter of Intent and MEFP describe the authorities' progress in implementing their economic program and set out their commitments. The authorities propose end-June 2018 performance criteria. The June fiscal quantitative targets are set based on the draft 2018 budget framework. The 2018 continuous performance criterion on new-non-concessional external borrowing is being lowered to an annual level of CFAF 436 billion compared to the CFAF 500 billion initially envisaged based on the June 2017 debt sustainability analysis,[8] while the ceiling on net BEAC financing of the government remains set based on the program's deposit accumulation target and maximum drawings of statutory advances at CFAF 300 billion (MEFP ¶19, ¶30). The ceiling on SNH interventions is set at 50 percent of total oil revenue for the year (Appendix I, Table 1, MEFP ¶25). The authorities request a waiver for the nonobservance of the continuous performance criterion on non-concessional borrowing for 2017. As a corrective measure the authorities have proposed to lower the 2018 non-concessional borrowing limit in the 2018 budget law by the amount of the breach (CFAF 64 billion). They also propose modifications to two end-December 2017 performance criteria (ceiling on net domestic financing of the central government and the net borrowing of the central government from the central bank), March 2018 ITs and structural benchmarks (reprogramming of four existing SBs and four new SBs, Appendix I, Table 2). An updated assessment on the policy assurances by the CEMAC regional institutions, which remain essential to the success of Cameroon's program, is discussed in detail in the Staff Report on Common Policies of CEMAC Member Countries.

34. Cameroon's capacity to repay the Fund remains strong. Repayments under the ECF-supported program will remain below 0.2 percent of GDP during the program period, and peak at 1.3 percent of exports as well as revenue in 2025–26 (Table 9).

35. A full safeguards assessment under the four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to complete amendments to its Charter to strengthen governance provisions and plans to strengthen financial reporting transparency.[9]

STAFF APPRAISAL

36. The December 2016 heads of state summit in Yaoundé has unlocked a mutually-reinforcing regional and national reform momentum, but much remains to be done. Fiscal and external adjustment in Cameroon and three other CEMAC countries, together with external financing from the region's development partners, are supporting a gradual recovery in BEAC reserves. Regional monetary and financial sector policies are being rapidly modernized, and long-awaited progress is being made on regional integration. However, the region's recovery remains fragile and Cameroon's continued leadership of the regional effort will be essential to its sustainability.

[8] The definition of the continuous PC on contracting or guaranteeing of new non-concessional external debt is being modified so that the ceiling applies per calendar year and not on a cumulative basis from the date of program approval.

[9] See Staff Report on Common Policies of CEMAC Member Countries, November 2017.

37. The Cameroonian authorities have stayed the course on fiscal consolidation under challenging circumstances. The authorities are delivering on the fiscal consolidation in 2017 despite revenue shortfalls caused by lower oil and non-oil activity. For 2018, maintaining fiscal discipline by accommodating spending and borrowing related to the Fall elections and the 2019 CAN fully within existing budget envelopes will be essential to consolidate early gains and restore fiscal and external sustainability. Steadfast implementation of structural reforms will be also key to resilience and sustained growth in the long term.

38. The program is on track and original targets remain appropriate. The end-June quantitative performance criteria and indicative targets were observed with comfortable margins. However, the continuous performance criterion on the ceiling on the contracting or guaranteeing of new non-concessional external debt was unexpectedly missed by a significant amount in November. While noting the authorities' commitment to maintain overall non-concessional borrowing in 2017–18 in line with initial program limits, staff regrets the nonobservance of an important program target. In this context, staff will work with the authorities to improve debt transparency and reporting, including reflecting disbursed and contracted but not yet disbursed debt, concessional and non-concessional debt, and other classifications and breakdowns of debt as needed, and report on this debt accounting and transparency in the next review. All but two structural benchmarks through end-November were met. Staff is of the view that end-December targets remain within reach. However, with lagging revenue and accelerated investment execution, extremely cautious cash budget execution and stepped-up efforts to mobilize additional resources will be needed, ahead of budget support disbursements planned for the end of the year.

39. The elimination of BEAC statutory advances as of end-2017 will further support the rebuilding of reserves and the deepening of money and financial markets. Cameroon has remained cautious in its use of advances and is the only CEMAC country with a remaining available balance. Staff welcomes the authorities' firm commitment to continue to use these resources for short term liquidity management only as a last resort by turning first to money markets to raise short-term financing, within existing program parameters.

40. Boosting non-oil revenue mobilization and enhancing spending efficiency are key to sustainable public finances. Starting in 2018, enhanced revenue collection is expected to drive the fiscal adjustment, with a lesser role for further expenditure consolidation. In this regard, staff regrets that tax-base broadening measures are delayed to 2019 and notes that delivering on the 2018 revenue mobilization objectives will be essential. Staff urges the authorities to identify additional contingency measures to ensure that the deficit target is met. On the expenditure side, enhancing the credibility and transparency of the budget are key to ensure an efficient allocation of public resources. Staff encourages the authorities to steadfastly move ahead with the effective transposition and implementation of the CEMAC PFM Directives, which will effectively limit resort to exceptional procedures and facilitate treasury management.

41. Debt management should focus on limiting new non-concessional loans and closely monitoring contingent liabilities. Staff welcomes the authorities' commitment to limit the volume of new non-concessional borrowing, and encourages them to further strengthen project preparation and execution. Debt management capacity is adequate, but transparency and accounting in debt reporting, as well as coordination between key government agencies, ought to be enhanced for accurate and comprehensive monitoring of debt and contingent liabilities. In parallel, the authorities are encouraged to pursue efforts to address the backlog of already-contracted but undisbursed loans. Contingent liabilities from state-owned enterprises and PPPs need to be closely monitored and contained through more comprehensive and standardized reporting, enhanced capacity to assess related risks, and deeper structural reforms.

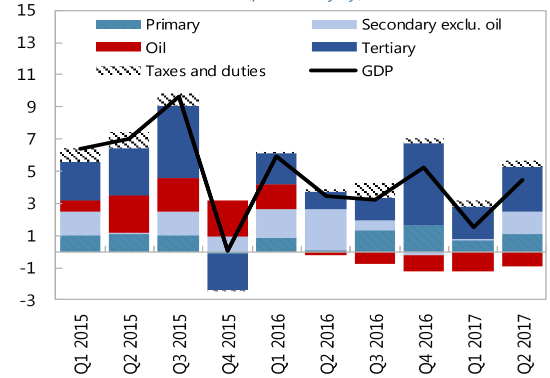
42. The interim growth and employment strategy aims at boosting inclusive and private-sector led growth. Together with improved delivery of basic social services supported by the social spending floor and structural reforms implemented in cooperation with development partners, the forthcoming social protection strategy ought to help address the needs of the poorest and reduce inequality. In spite of recent progress the business environment remains challenging, and staff urges the authorities to resolutely address remaining obstacles to private sector development. Measures to support financial stability and broader access to financial services should focus as a priority on resolving ailing banks and addressing non-performing loans, while minimizing fiscal costs. Staff particularly welcomes the authorities' commitment to upgrade the asset valuation methodology and to consider all available options to resolve distressed banks.

43. Staff supports the authorities' request for the completion of the first review under the Extended Credit Facility. Staff also supports the authorities' requests for: (i) a waiver of the non-observance of the continuous performance criterion on the contracting or guaranteeing of new non-concessional external debt; (ii) a modification of the continuous performance criterion on the contracting or guaranteeing of new non-concessional external debt; and (iii) a modification of the end-December 2017 performance criteria on the ceiling on the net domestic financing of the central government and the ceiling on the net borrowing of the central government from the central bank and of the end-March 2018 ITs. The attached LOI and MEFP set out appropriate policies to pursue the program objectives.

Figure 1. Cameroon: Real Sector Developments, 1999–2017

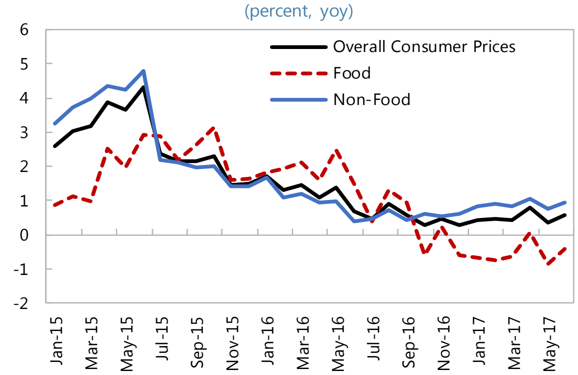
Growth has decelerated, driven by weaker oil output.

Growth Composition, 2015–17
(percent, yoy)



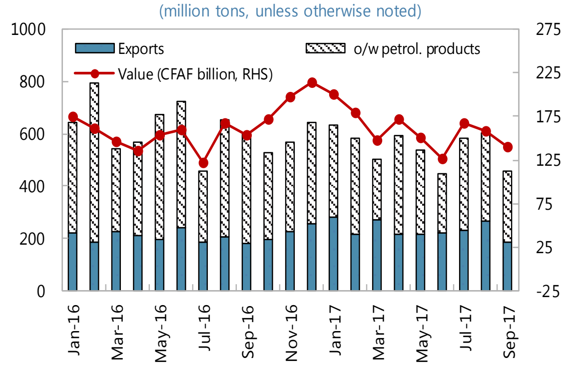
After a significant decline, inflation is stabilizing in 2017, albeit at a low level.

Consumer Price Indices, 2015–17
(percent, yoy)



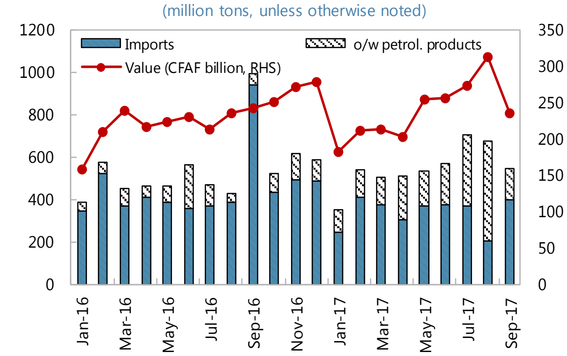
Lower oil production is leading to lower export volumes...

Export Volume, 2016–17
(million tons, unless otherwise noted)



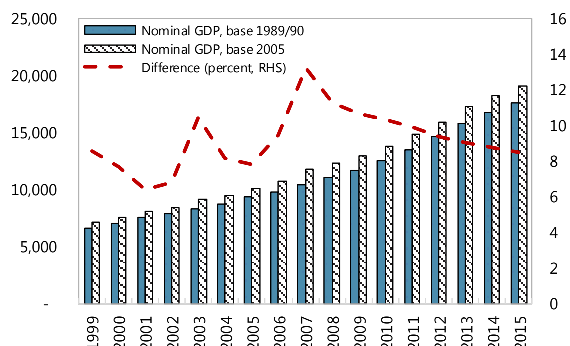
...while import volumes have remained relatively constant despite lower prices in 2017.

Import Volume, 2016–17
(million tons, unless otherwise noted)



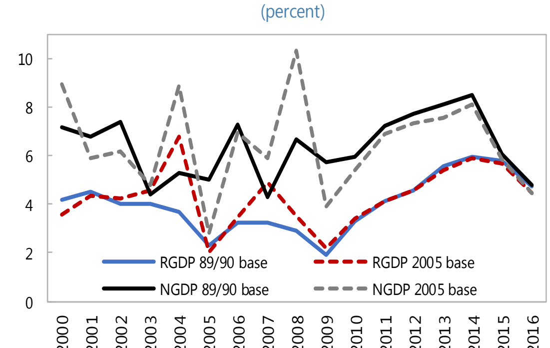
Rebased GDP series were published in 2017, raising nominal GDP by 8.2 percent on average.

Nominal GDP, Impact of Rebasing, 1999–2015
(CFAF billions, unless otherwise noted)



Rebasing only marginally impacted nominal and real GDP growth since 2010.

GDP Growth, Impact of Rebasing, 2000–16
(percent)



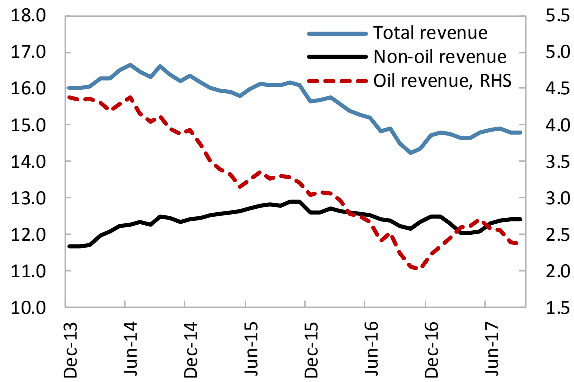
Sources: BEAC; Cameroonian authorities; and IMF staff calculations.

Figure 2. Cameroon: Fiscal Sector Developments, 2013–17

Revenues are weakening due to lower oil receipts...

Revenue and its Composition

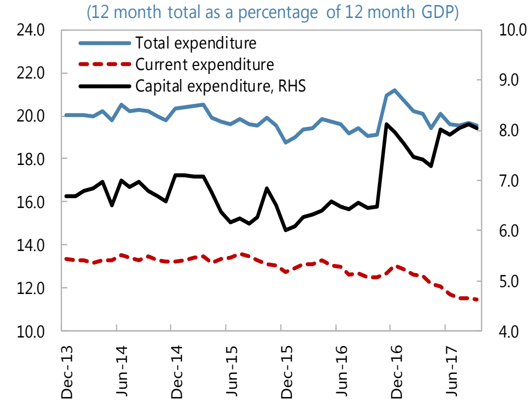
(12 month total as a percentage of 12 month GDP)



...and expenditure has started to adjust.

Expenditure and its Composition

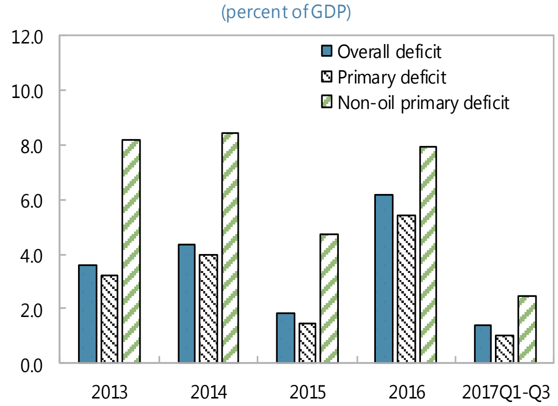
(12 month total as a percentage of 12 month GDP)



The fiscal deficit has narrowed....

Fiscal Deficit

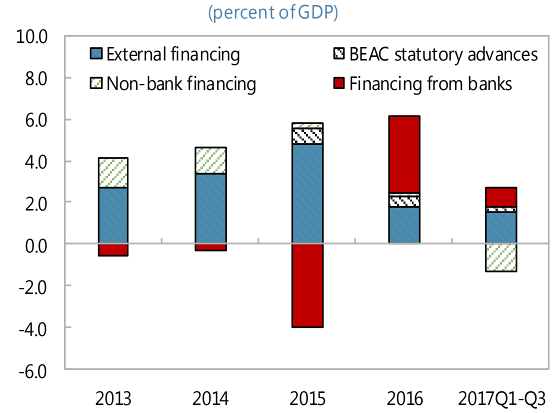
(percent of GDP)



...and so have the financing needs.

Financing

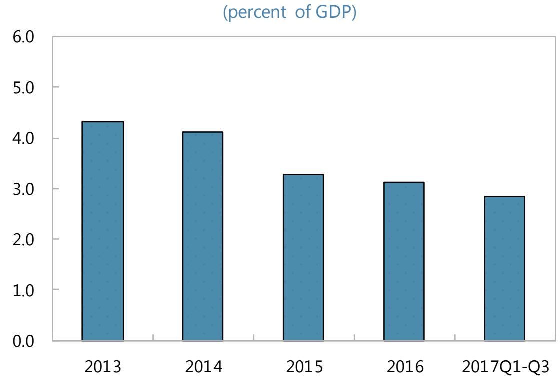
(percent of GDP)



Unpaid government obligations are declining...

Unpaid Government Obligations

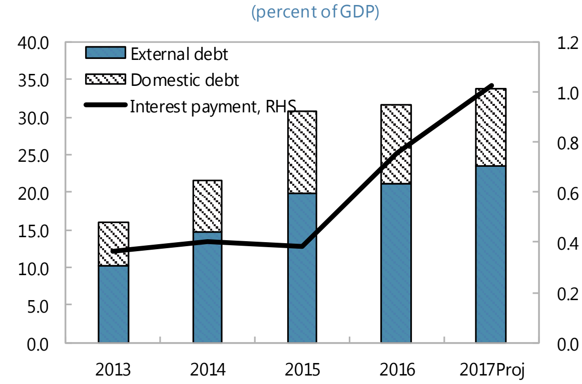
(percent of GDP)



...but public debt and interest expenses remain high.

Public Debt and Interest Payments

(percent of GDP)

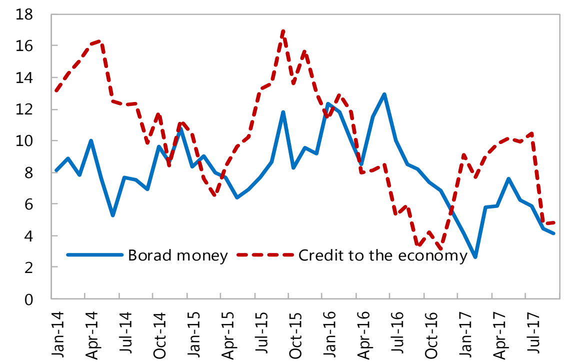


Sources: Cameroonian authorities; and IMF staff calculations.

Figure 3. Cameroon: Monetary Developments, 2014–17

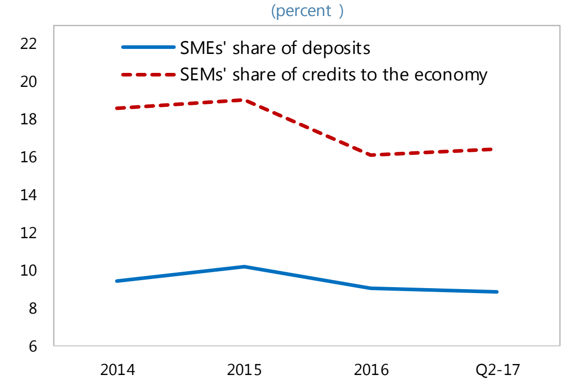
Broad money and credit growth are trending down…

Broad Money and Credit, 2014–17
(y/y growth, percent)



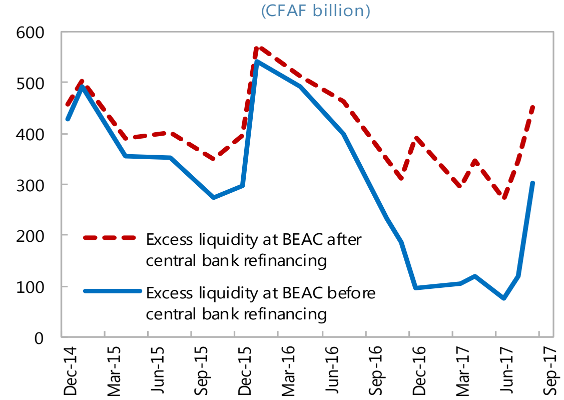
… and credits to SMEs has been falling.

SMEs' Deposits and Credits, 2014–17
(percent)



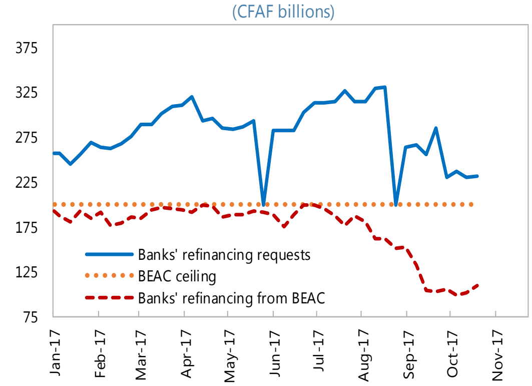
Banks' liquidity improved in Q3…

Banks' Excess Liquidity at BEAC, 2014–17
(CFAF billion)



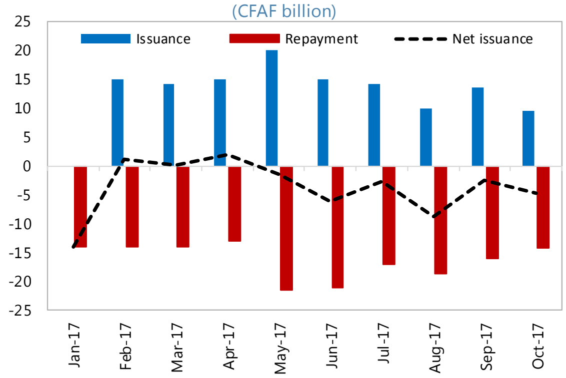
… and banks' refinancing from BEAC has declined…

Banks' Refinancing from BEAC (Money market), 2017
(CFAF billions)



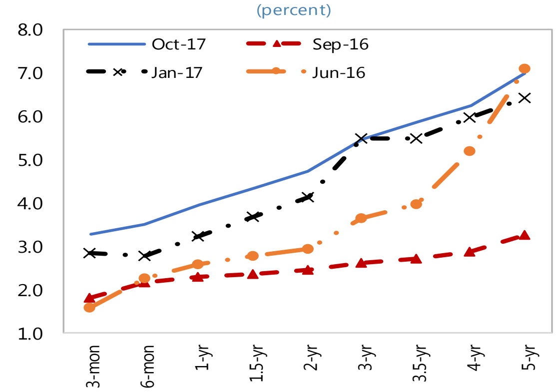
The rollover of Tbills has declined…

Net Issuance of Treasury Bonds in 2017
(CFAF billion)



… while the cost has been rising.

Yield Curve, 2016–17
(percent)

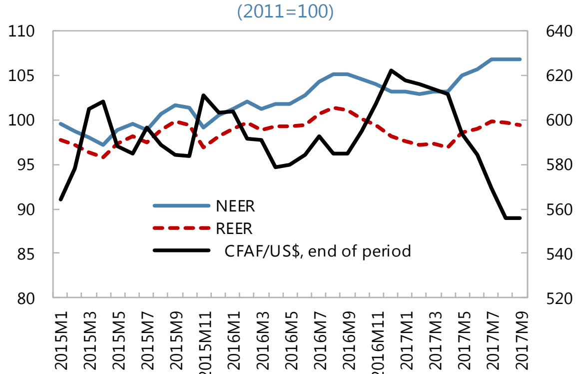


Sources: BEAC; Cameroonian authorities; and IMF staff calculations.

Figure 4. Cameroon: External Sector Developments, 2011–17

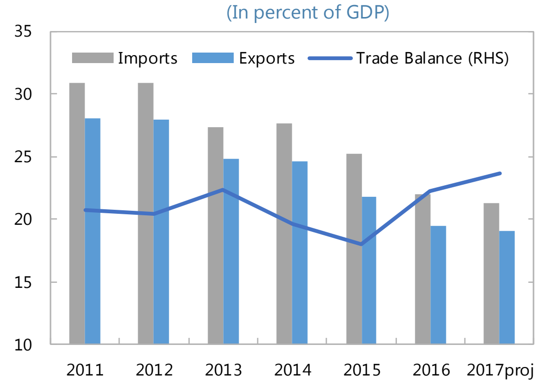
Effective exchange rates are appreciating, along with a depreciating USD.

Effective Exchange Rate, 2015–17
(2011=100)



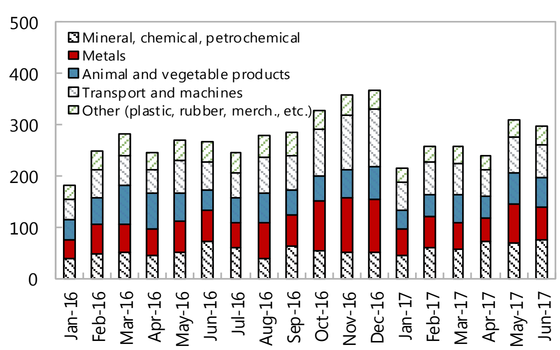
The trade balance is improving, driven mostly by declining imports.

Trade Balance, 2011–17
(In percent of GDP)



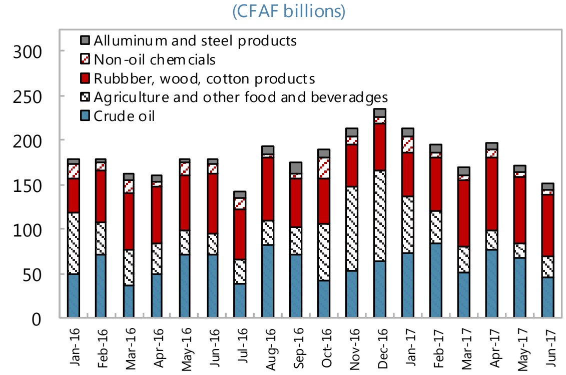
The import decline in 2017 is driven by lower metals, consumption and machinery sectors…

Imports by Sector, 2016–17
(CFAF billions)



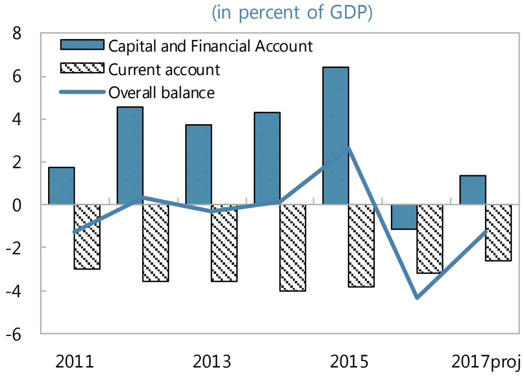
… while the export decline is driven by a reduction in agriculture and agri-food products

Exports by Sector, 2016–17
(CFAF billions)



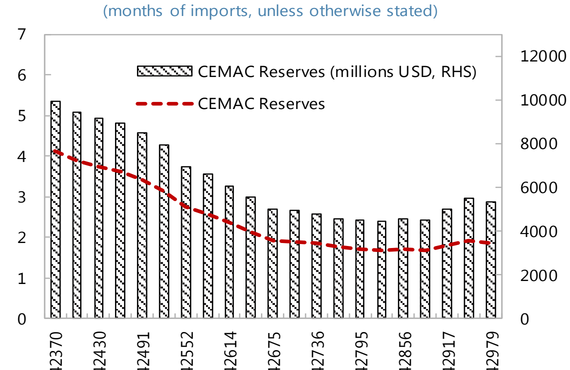
The overall balance of payments has improved.

Balance of Payments, 2011–17
(in percent of GDP)



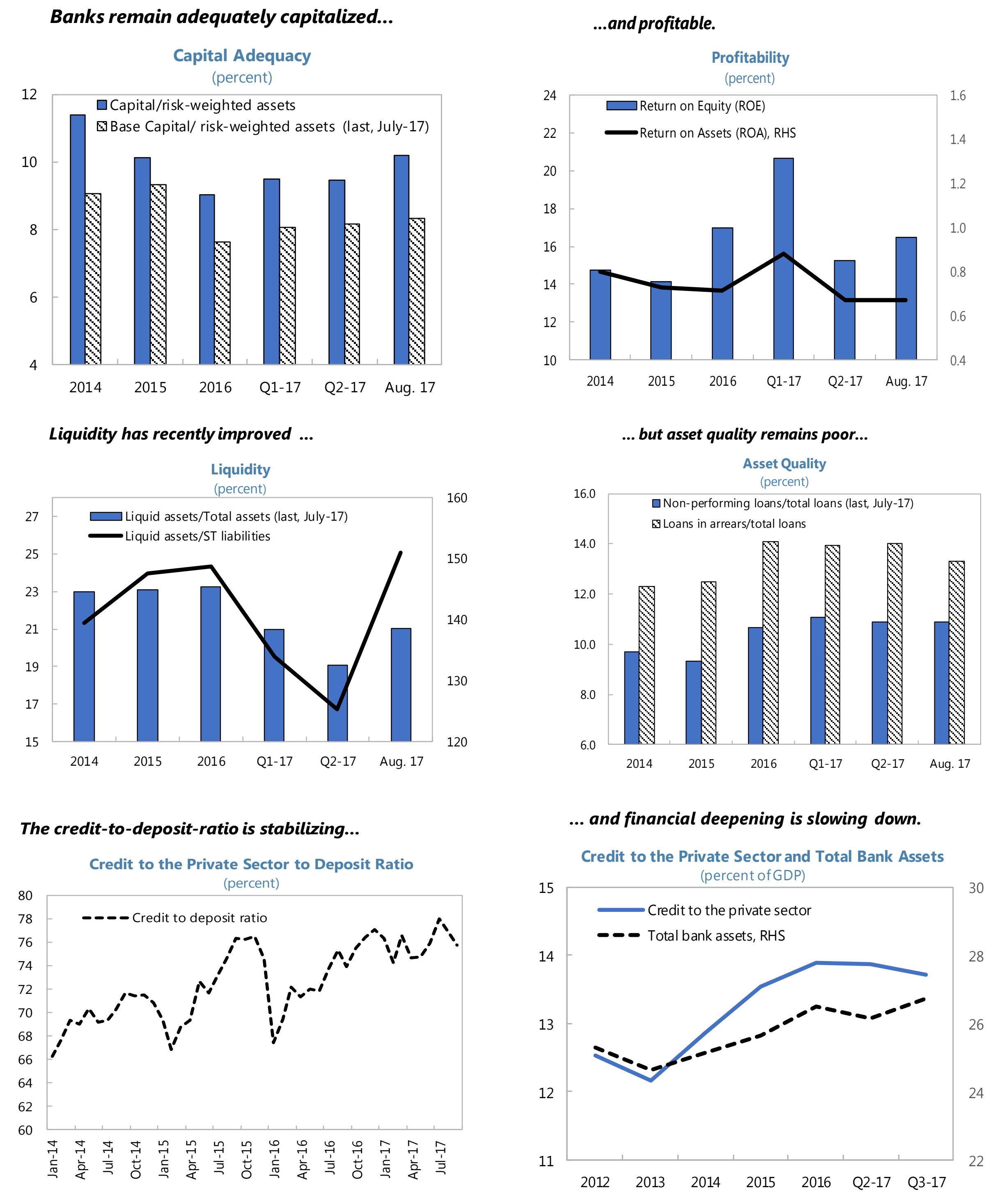
Reserves have stabilized and started to increase in July.

BEAC Reserves, 2016–17
(months of imports, unless otherwise stated)



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

Figure 5. Cameroon: Financial Sector Developments, 2014–17



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

Table 1. Cameroon: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016		2017		2018		2019	2020	2021	2022
		Est.	Prog	Est.	Prog	Proj.	Prog	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
National account and prices												
GDP at constant prices	5.9	5.7	4.7	4.5	4.0	3.7	4.6	4.2	4.8	5.0	5.4	5.6
Oil GDP at constant prices	14.4	24.8	-4.5	-3.7	-2.4	-4.7	-0.1	0.2	-2.7	-2.9	-2.1	-3.9
Non-Oil GDP at constant prices	5.4	4.4	5.1	5.1	4.3	4.3	4.8	4.4	5.3	5.4	5.8	6.0
GDP deflator	2.6	0.3	-1.2	0.0	0.9	0.0	1.0	0.6	0.9	1.5	1.6	1.7
Nominal GDP (at market prices, CFAF billions)	17,276	18,285	17,386	19,105	18,242	19,810	19,273	20,758	21,941	23,392	25,030	26,862
Oil	1,149	784	700	657	917	694	913	678	660	647	643	627
Non-Oil	16,128	17,502	16,686	18,448	17,325	19,116	18,360	20,080	21,280	22,745	24,387	26,234
Oil output (thousands of barrels per day)	75.4	95.8	92.8	92.8	90.4	86.8	89.5	86.3	83.7	80.8	77.8	74.6
Consumer prices (average)	1.9	2.7	0.9	0.9	0.7	0.5	1.1	1.0	1.2	2.0	2.0	2.0
Consumer prices (eop)	2.6	1.5	0.3	0.3	1.2	1.0	1.1	1.0	1.2	2.0	2.0	2.0
External trade												
Export volume	17.6	17.8	1.0	1.0	2.0	0.8	5.2	3.2	6.2	7.8	7.3	6.5
Oil sector 1/	20.6	27.9	-3.1	-3.1	-2.4	-4.7	-0.1	0.2	-2.7	-2.9	-2.1	-3.9
Non-oil sector	16.9	15.2	2.2	2.2	3.2	2.3	6.5	3.9	8.3	10.1	9.1	8.2
Import volume	15.0	1.9	-19.0	-5.9	4.0	-1.4	5.3	3.2	4.4	4.4	4.0	5.0
Nominal effective exchange rate (depreciation -)	1.6	-3.7	3.6	3.6	...	...	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	1.3	-3.0	2.0	2.0	...	...	...	...	...	...	...	...
Terms of trade	-7.3	-13.8	-20.4	-4.7	3.4	-5.0	-1.0	-3.2	-2.1	-2.5	-2.3	-1.5
Export price index	-8.1	-19.2	-13.1	-12.6	10.9	-0.5	-0.3	-3.7	-1.3	-1.8	-0.9	-1.0
Non-oil export price index	-2.6	-12.4	-0.7	0.4	3.5	-5.5	0.5	-3.4	-0.7	-1.5	-0.4	-0.6
Import price index	-0.8	-6.3	9.2	-8.2	7.2	4.7	0.8	-0.5	0.9	0.7	1.5	0.5
Money and credit												
Broad money (M2)	10.8	9.2	5.6	5.5	3.3	5.0	5.7	5.3	5.9	7.1	7.4	8.3
Net foreign assets 2/	3.4	16.3	-18.3	-14.0	-0.3	1.9	1.3	-0.4	0.5	1.1	3.5	4.6
Net domestic assets 2/	7.3	-7.2	23.9	19.5	3.6	3.1	4.3	5.7	5.4	6.0	3.9	3.7
Domestic credit to the private sector	14.4	11.4	6.4	7.2	5.8	5.6	9.3	8.1	11.5	11.7	12.6	12.6
	(Percent of GDP, unless otherwise indicated)											
Gross national savings	18.0	16.7	15.0	16.7	15.6	16.3	16.5	16.6	17.1	17.8	18.7	19.6
Gross domestic investment	21.9	20.5	18.3	19.9	18.4	18.9	19.3	19.1	19.4	19.5	19.9	20.8
Public investment	7.1	6.2	7.5	8.4	6.7	6.5	6.4	6.2	6.1	6.1	6.0	6.0
Private investment	14.9	14.3	10.8	11.5	11.7	12.4	12.9	12.9	13.3	13.4	13.9	14.8
Central government operations												
Total revenue (including grants)	16.6	16.5	14.9	15.0	15.3	14.6	16.0	15.1	15.5	15.8	15.9	16.0
Oil revenue	3.9	3.0	2.2	2.2	2.2	1.9	2.3	1.8	1.8	1.8	1.7	1.6
Non-oil revenue	12.4	13.4	12.3	12.5	12.8	12.4	13.5	13.0	13.5	13.8	14.0	14.2
Non-oil revenue (percent of non-oil GDP)	13.3	14.0	12.8	12.9	13.3	12.9	13.9	13.4	13.9	14.2	14.4	14.6
Total expenditure	20.8	20.9	20.8	21.2	18.5	17.7	18.4	17.5	17.3	17.2	17.0	17.0
Overall fiscal balance (payment order basis)												
Excluding grants	-4.4	-4.5	-6.2	-6.4	-3.5	-3.5	-2.6	-2.6	-2.1	-1.7	-1.3	-1.2
Including grants	-4.2	-4.4	-5.9	-6.2	-3.1	-3.1	-2.3	-2.3	-1.8	-1.4	-1.1	-1.0
Overall fiscal balance (cash basis)												
Excluding grants	-4.5	-2.5	-5.2	-5.4	-4.2	-4.3	-3.9	-3.8	-2.7	-2.3	-1.3	-1.2
Including grants	-4.3	-2.5	-4.9	-5.1	-3.9	-3.9	-3.6	-3.5	-2.5	-2.0	-1.1	-1.0
Non-oil primary balance (payment basis, percent of non-oil GDP)	-8.2	-7.4	-7.6	-7.9	-4.7	-4.1	-4.0	-3.5	-2.9	-2.6	-2.3	-2.0
External sector												
Current account balance												
Excluding official grants	-4.4	-4.2	-3.3	-3.6	-3.2	-3.0	-3.1	-2.9	-2.7	-2.1	-1.6	-1.5
Including official grants	-4.0	-3.8	-3.7	-3.2	-2.8	-2.6	-2.8	-2.5	-2.3	-1.7	-1.3	-1.2
Public debt												
Stock of public debt 3/ 4/	21.5	30.9	31.0	31.6	33.3	33.7	33.5	34.5	34.4	33.7	32.4	31.1
Of which: external debt	14.6	19.8	20.7	21.1	24.5	23.8	27.2	26.0	27.7	27.8	27.7	27.3

Sources: Cameroonian authorities; and IMF staff estimates and projections using the rebased 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.

4/ Projections are taken from an update to the 2015 Debt Sustainability Analysis (DSA), which excludes the stock of debt on which France provided debt relief under the "Contrat de désendettement et de développement" (C2D).

Table 2a. Cameroon: Central Government Operations, 2014–22

(CFAF billions, unless otherwise indicated)

	2014	2015	2016		2017			2018			2019	2020	2021	2022
			Prog	Est.	Budget	Prog	Proj.	Budget	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	2,870	3,013	2,838	2,866	3,119	3,046	2,897	3,123	3,330	3,142	3,406	3,694	3,985	4,298
Total revenue	2,825	3,002	2,784	2,812	3,033	2,978	2,829	3,059	3,266	3,078	3,346	3,635	3,928	4,243
Oil sector revenue	679	556	425	425	455	445	370	362	471	380	393	413	416	418
Non-oil sector revenue 1/	2,146	2,446	2,359	2,387	2,578	2,532	2,459	2,697	2,795	2,698	2,953	3,223	3,512	3,825
Direct taxes	613	684	636	636	667	683	629		753	660	710	767	822	893
Special tax on petroleum products	119	104	106	106	128	128	128		149	128	146	165	186	200
Other taxes on goods and services	938	1,024	1,125	1,152	1,216	1,211	1,177		1,339	1,330	1,468	1,603	1,749	1,898
Taxes on international trade	357	338	349	348	399	356	369		385	411	448	489	537	591
Non-tax revenue	119	154	144	146	169	155	155	168	170	168	181	198	218	242
Exceptional revenue	0	143	0	0	0	0	0		0	0	0	0	0	0
Total grants	45	11	54	54	86	69	69	64	64	64	60	58	57	55
Projects	6	11	36	36		36	36		36	36	36	36	36	36
Other (debt relief)	39	0	18	18		32	32		28	28	23	22	20	19
Total expenditure	3,591	3,822	3,964	4,044	3,845	3,663	3,514	3,653	3,813	3,625	3,797	4,026	4,260	4,568
Current expenditure	2,286	2,433	2,493	2,406	2,258	2,334	2,225	2,362	2,486	2,332	2,451	2,594	2,750	2,944
Wages and salaries	852	917	940	948	999	999	975	1,024	1,065	1,024	1,100	1,173	1,263	1,361
Goods and services	768	841	919	829	694	718	680	790	803	761	791	845	893	955
Subsidies and transfers	597	604	489	485	367	454	368	381	463	380	403	430	452	472
Interest	69	70	145	145	198	164	203	167	155	167	157	145	141	156
External	56	52	131	131	155	98	174	126	146	126	139	131	128	143
Domestic	13	18	14	14	43	66	30	41	26	41	18	15	13	12
Capital expenditure	1,319	1,389	1,441	1,608	1,587	1,329	1,289	1,291	1,328	1,292	1,346	1,433	1,511	1,623
Domestically financed investment	615	809	919	1,070	927	754	634	658	684	658	699	746	775	832
Foreign-financed investment	655	523	489	489	625	540	630	596	607	596	607	645	690	743
Rehabilitation and participation	49	57	33	49	35	35	25	37	37	38	40	42	46	49
Net lending	0	0	30	30	0	0			0	0	0	0	0	0
Adjustment to fiscal year spending 2/	-14													
Overall balance (payment order basis) 2/														
Excluding grants	-766	-820	-1,180	-1,232	-811	-685	-686	-594	-547	-546	-451	-391	-332	-325
Including grants	-721	-809	-1,126	-1,178	-726	-617	-617	-530	-483	-482	-392	-333	-276	-270
Adjustment to cash basis 2/ 3/	-14	356	183	201	-10	-148	-156	-200	-261	-249	-146	-146	0	0
Unexecuted payment orders (-=reduction)			166	203		-91	-99		-75	-103				
Floats and arrears (- = reduction)	-14	356	17	-2	-10	-57	-57	-200	-186	-146	-146	-146		
o/w Arrears (- = reduction)							-57			-146	-146	-146		
Overall balance (cash basis)														
Excluding grants	-780	-463	-997	-1,031	-821	-833	-842	-794	-808	-796	-597	-537	-332	-325
Including grants	-734	-452	-943	-977	-736	-765	-774	-730	-744	-732	-538	-479	-276	-270
Financing	734	452	943	977	736	250	287	730	374	396	196	436	276	270
External financing, net	579	880	340	340	415	359	464	340	356	347	343	379	420	386
Amortization	-70	-82	-113	-113	-170	-184	-170	-231	-215	-213	-228	-229	-234	-250
Drawings	649	962	453	453	585	544	634	571	571	560	571	608	654	636
Domestic financing, net	137	-429	615	578	320	-109	-177	43	18	49	-146	58	-144	-116
Banking system	-3	-367	610	610	260	-286	-262	96	-128	-110	-263	-129	-293	-168
o/w statutory advances from BEAC		138	93	93		35	346		0	0	0	0	0	0
Amortization of domestic debt	-83	-109	-237	-237	-240	-119	-85	-313	-134	-100	-88	-68	-51	-48
Other domestic financing	223	48	242	205	300	296	170	260	279	259	205	255	200	100
Errors and omissions	19	1	-12	59	0	0	0		0	0	0	0	0	0
Financing gap	0	0	0	0	0	514	486	335	370	335	341	42	0	0
Of which: IMF	…					178	167	86	95	86	85	43	0	
Of which: budget support (excl. IMF)						337	319	250	275	250	256	0	0	0
AFDB						126	118		126	113	112	0	0	0
WB						124	116		62	56	56	0	0	0
France						66	66		66	66	66	0	0	0
EU						22	20		22	16	23			
Memorandum items:														
Floor of social spending						624	624		668	668	711			
Primary balance (payment order basis, incl. grants)	-651	-739	-981	-1,033		-453	-414		-328	-315	-234	-187	-134	-114
Primary balance (cash basis, incl. grants)	-665	-236	-798	-832		-600	-571		-589	-564	-380	-333	-134	-114
Non-oil primary balance (payment order basis, incl. grants)	-1,330	-1,295	-1,406	-1,458		-898	-784		-800	-695	-627	-600	-550	-532
Non-oil primary balance (cash basis, incl. grants)	-1,344	-793	-1,223	-1,257		-1,046	-941		-1,060	-945	-773	-746	-550	-532
Unpaid government obligations	241	598	615	596		558	539		372	393	247	101	101	101
Float	146	301		101			101			101	101	101	101	101
Arrears	95	297		495			438			292	146	0	0	0

Sources: Cameroonian authorities; and IMF staff estimates and projections with the rebased 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/ The payment of float and past unpaid obligations was included in individual expenditure lines prior to 2016. From 2016 onward, fiscal data report payment orders for the current fiscal year; payments of the float and unpaid obligations are recorded between the overall deficit on a payment order basis and the overall balance on a cash basis.

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

Table 2b. Cameroon: Central Government Operations, 2014–22

(in percent of GDP)

	2014	2015	2016		2017			2018			2019	2020	2021	2022
			Prog.	Est.	Budget	Prog.	Proj.	Budget	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants 1/	16.6	16.5	14.9	15.0	15.7	15.4	14.6	15.0	16.0	15.1	15.5	15.8	15.9	16.0
Total revenue	16.4	16.4	14.6	14.7	15.3	15.0	14.3	14.7	15.7	14.8	15.3	15.5	15.7	15.8
Oil sector revenue	3.9	3.0	2.2	2.2	2.3	2.2	1.9	1.7	2.3	1.8	1.8	1.8	1.7	1.6
Non-oil sector revenue	12.4	13.4	12.3	12.5	13.0	12.8	12.4	13.0	13.5	13.0	13.5	13.8	14.0	14.2
Direct taxes	3.6	3.7	3.3	3.3	3.4	3.4	3.2		3.6	3.2	3.2	3.3	3.3	3.3
Special tax on petroleum products	0.7	0.6	0.6	0.6	0.6	0.6	0.6		0.7	0.6	0.7	0.7	0.7	0.7
Other taxes on goods and services	5.4	5.6	5.9	6.0	6.1	6.1	5.9		6.4	6.4	6.7	6.9	7.0	7.1
Taxes on international trade	2.1	1.8	1.8	1.8	2.0	1.8	1.9		1.9	2.0	2.0	2.1	2.1	2.2
Non-tax revenue	0.7	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9
Exceptional revenue	0.0	0.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Total grants	0.3	0.1	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Projects	0.0	0.1	0.2	0.2		0.2	0.2		0.2	0.2	0.2	0.2	0.1	0.1
Other (debt relief)	0.2	0.0	0.1	0.1		0.2	0.2		0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	20.8	20.9	20.8	21.2	19.4	18.5	17.7	17.6	18.4	17.5	17.3	17.2	17.0	17.0
Current expenditure	13.2	13.3	13.0	12.6	11.4	11.8	11.2	11.4	12.0	11.2	11.2	11.1	11.0	11.0
Wages and salaries	4.9	5.0	4.9	5.0	5.0	5.0	4.9	4.9	5.1	4.9	5.0	5.0	5.0	5.1
Goods and services	4.4	4.6	4.8	4.3	3.5	3.6	3.4	3.8	3.9	3.7	3.6	3.6	3.6	3.6
Subsidies and transfers	3.5	3.3	2.6	2.5	1.9	2.3	1.9	1.8	2.2	1.8	1.8	1.8	1.8	1.8
Interest	0.4	0.4	0.8	0.8	1.0	0.8	1.0	0.8	0.7	0.8	0.7	0.6	0.6	0.6
Capital expenditure	7.6	7.6	7.5	8.4	8.0	6.7	6.5	6.2	6.4	6.2	6.1	6.1	6.0	6.0
Domestically financed investment	3.6	4.4	4.8	5.6	4.7	3.8	3.2	3.2	3.3	3.2	3.2	3.2	3.1	3.1
Foreign-financed investment	3.8	2.9	2.6	2.6	3.2	2.7	3.2	2.9	2.9	2.9	2.8	2.8	2.8	2.8
Rehabilitation and participation	0.3	0.3	0.2	0.3	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment to fiscal year spending 2/	-0.1	0.0	0.0											
Overall balance (payment order basis) 2/														
Excluding grants	-4.4	-4.5	-6.2	-6.4	-4.1	-3.5	-3.5	-2.9	-2.6	-2.6	-2.1	-1.7	-1.3	-1.2
Including grants	-4.2	-4.4	-5.9	-6.2	-3.7	-3.1	-3.1	-2.6	-2.3	-2.3	-1.8	-1.4	-1.1	-1.0
CEMAC reference fiscal balance (payment order basis) 4/	-4.5	-4.0		-5.4			-2.5			-2.3	-2.0	-1.7	-1.3	-1.2
Adjustment to cash basis 2/ 3/	-0.1	1.9	1.0	1.1	-0.1	-0.7	-0.8	-1.0	-1.3	-1.2	-0.7	-0.6	0.0	0.0
Unexecuted payment orders (-=reduction)			0.9	1.1		-0.5	-0.5			-0.5	0.0			
Arrears (- = reduction)	-0.1	1.9	0.1	0.0	-0.1	-0.3	-0.3	-1.0		-0.7	-0.7	-0.6	0.0	0.0
Overall balance (cash basis)														
Excluding grants	-4.5	-2.5	-5.2	-5.4	-4.1	-4.2	-4.3	-3.8	-3.9	-3.8	-2.7	-2.3	-1.3	-1.2
Including grants	-4.3	-2.5	-4.9	-5.1	-3.7	-3.9	-3.9	-3.5	-3.6	-3.5	-2.5	-2.0	-1.1	-1.0
CEMAC reference fiscal balance (cash basis) 4/				-4.3			-3.3			-3.5	-2.7	-2.3	-1.3	-1.2
Financing	4.3	2.5	4.9	5.1	3.7	1.3	1.5	1.8	1.8	1.9	0.9	1.9	1.1	1.0
External financing, net	3.4	4.8	1.8	1.8	2.1	1.8	2.3	1.6	1.7	1.7	1.6	1.6	1.7	1.4
Amortization	-0.4	-0.4	-0.6	-0.6	-0.9	-0.9	-0.9	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9
Drawings	3.8	5.3	2.4	2.4	3.0	2.7	3.2	2.8	2.7	2.7	2.6	2.6	2.6	2.4
Domestic financing, net	0.8	-2.3	3.2	3.0	1.6	-0.5	-0.9	0.2	0.1	0.2	-0.7	0.2	-0.6	-0.4
Banking system	0.0	-2.0	3.2	3.2	1.3	-1.4	-1.3	0.5	-0.6	-0.5	-1.2	-0.6	-1.2	-0.6
o/w statutory advances from BEAC		0.8	0.5	0.5		0.2	1.7	0.0						
Amortization of domestic debt	-0.5	-0.6	-1.2	-1.2	-1.2	-0.6	-0.4	-1.5	-0.6	-0.5	-0.4	-0.3	-0.2	-0.2
Other domestic financing	1.3	0.3	1.3	1.1	1.5	1.5	0.9	1.3	1.3	1.2	0.9	1.1	0.8	0.4
Errors and omissions	0.1	0.0	0.0	0.3										
Financing gap	0.0	0.0	0.0	0.0	0.0	2.6	2.5	1.6	1.8	1.6	1.6	0.2	0.0	0.0
Of which: IMF	…	…		…		0.9	0.8	0.4	0.5	0.4	0.4	0.2	0.0	0.0
Of which: budget support (excl. IMF)						1.7	1.6	1.2	1.3	1.2	1.2	0.0	0.0	0.0
Memorandum items:					(Percent of non-oil GDP)									
Non-oil revenue	13.3	14.0	12.8	12.9		13.2	12.9		13.9	13.4	13.9	14.2	14.4	14.6
Non-oil primary balance (payment order basis, incl. grants)	-8.2	-7.4	-7.6	-7.9		-4.7	-4.1		-4.0	-3.5	-2.9	-2.6	-2.3	-2.0
Non-oil primary balance (cash basis, incl. grants)	-8.3	-4.5	-6.6	-6.8		-5.5	-4.9		-5.3	-4.7	-3.6	-3.3	-2.3	-2.0
					(Percent of GDP)									
Floor of social spending				…		3.1	3.1		3.2	3.2	3.2	…		
Primary balance (payment order basis, incl. grants)	-3.8	-4.0	-5.1	-5.4		-2.3	-2.1		-1.6	-1.5	-1.1	-0.8	-0.5	-0.4
Primary balance (cash basis, incl. grants)	-3.9	-1.3	-4.2	-4.4		-3.0	-2.9		-2.8	-2.7	-1.7	-1.4	-0.5	-0.4
Non-oil primary balance (payment order basis, incl. grants)	-7.7	-7.1	-7.4	-7.6		-4.5	-4.0		-3.9	-3.4	-2.9	-2.6	-2.2	-2.0
Non-oil primary balance (cash basis, incl. grants)	-7.8	-4.3	-6.4	-6.6		-5.3	-4.7		-5.1	-4.6	-3.5	-3.2	-2.2	-2.0
Unpaid government obligations	1.4	3.3	3.2	3.1		2.8	2.7		1.8	1.9	1.1	0.4	0.4	0.4
Float	0.8	1.6		0.5			0.5			0.5	0.5	0.4	0.4	0.4
Arrears	0.6	1.6		2.6			2.2			1.4	0.7	0.0	0.0	0.0

Sources: Cameroonian authorities; and IMF staff estimates and projections with the rebased 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/ The payment of float and past unpaid obligations was included in individual expenditure lines prior to 2016. From 2016 onward, fiscal data report payment orders for the current fiscal year; payments of the float and unpaid obligations are recorded between the overall deficit on a payment order basis and the overall balance on a cash basis.

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

4/ The CEMAC reference fiscal balance is calculated as the overall fiscal balance minus the savings from oil revenue, which is the sum of 20 percent of oil revenue of the current year and 80 percent of the oil revenuye in excess of the average oil revenues in the previous three years.

Table 3. Cameroon: Monetary Survey, 2016–22

(CFAF billions, unless otherwise indicated)

	2016	2017						2018				2019	2020	2021	2022
		Q1	Q2 Prog.	Q2	Q3 Proj.	Q4 Prog.	Q4 Proj.	Q1 Proj.	Q2 Proj.	Q4 Prog.	Q4 Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	1,706	1,664	1,302	1,656	1,754	1,424	1,789	1,761	1,800	1,483	1,772	1,796	1,853	2,043	2,311
Bank of Central African States (BEAC)	1,106	1,018	867	1,000	1,176	1,091	1,188	1,160	1,199	1,151	1,171	1,195	1,252	1,443	1,711
Of which : BEAC foreign Assets	1,406	1,308	1,120	1,305	1,565	1,586	1,639	1,611	1,693	1,689	1,692	1,787	1,887	2,077	2,336
Of which: IMF credit	-50	-41	-148	-39	-128	-210	-200	-200	-243	-288	-270	-341	-384	-384	-374
Commercial banks	601	646	435	656	579	332	601	601	601	332	601	601	601	601	601
Net domestic assets	2,639	2,627	3,003	2,725	2,623	3,066	2,772	2,879	2,920	3,260	3,030	3,291	3,596	3,808	4,027
Domestic credit	2,993	3,021	3,178	3,102	3,071	3,212	3,126	3,234	3,274	3,406	3,384	3,645	3,950	4,161	4,380
Net claims on the public sector	301	324	386	343	330	353	286	336	320	292	316	229	140	-131	-437
Net credit to the central government	410	452	508	433	589	369	315	352	322	337	291	113	26	-267	-435
Central Bank	-11	2	114	-22	124	-78	-202	-75	-114	-124	-162	-307	-335	-546	-715
Claims	281	307	414	320	422	476	777	777	820	554	847	918	960	903	835
Credit under statutory ceiling	231	266	266	281	294	266	577	577	577	266	577	577	577	519	462
Counterpart of IMF credit	50	41	148	39	128	210	200	200	243	288	270	341	384	384	374
Deposits	-292	-305	-300	-341	-298	-553	-880	-852	-934	-677	-1,009	-1,225	-1,296	-1,449	-1,550
Commercial Banks	421	450	394	454	465	447	418	427	436	460	453	420	361	279	279
Claims on the Treasury	451	476	396	476	475	449	428	436	445	462	463	429	371	289	289
Deposits	-30	-27	-2	-22	-10	-2	-10	-10	-10	-2	-10	-10	-10	-10	-10
Deposits of other public entities	-302	-321	-303	-280	-420	-214	-190	-185	-179	-244	-168	-108	-128	-168	-218
Credit to autonomous agencies	32	25	-11	34	19	-10	32	33	35	-9	38	46	46	59	45
Credit to public enterprises	161	167	191	155	141	209	129	135	142	209	155	178	196	245	171
Credit to financial institutions	39	57	56	61	73	35	39	39	39	28	39	39	39	46	37
Credit to the private sector	2,653	2,641	2,736	2,698	2,669	2,824	2,802	2,859	2,916	3,086	3,029	3,377	3,771	4,246	4,781
Credit to the economy 1/	2,853	2,865	2,983	2,914	2,883	3,067	2,969	3,033	3,096	3,323	3,223	3,594	4,006	4,537	4,989
Other items (net)	-354	-394	-174	-377	-449	-147	-354	-354	-354	-146	-354	-354	-354	-354	-354
Broad money	4,345	4,291	4,306	4,382	4,377	4,490	4,561	4,640	4,719	4,743	4,802	5,087	5,449	5,851	6,338
Currency outside banks	905	844	834	829	856	934	850	931	942	985	898	955	1,028	1,108	1,206
Deposits	3,440	3,447	3,471	3,553	3,521	3,556	3,711	3,709	3,777	3,759	3,903	4,132	4,421	4,743	5,132
Memorandum items:															
Contribution to the growth of broad money (percentage points)															
Net foreign assets	-14.0	...	...	...	...	-0.3	1.9	...	...	1.3	-0.4	0.5	1.1	3.5	4.6
Net domestic assets	19.5	...	...	...	...	3.6	3.1	...	...	4.3	5.7	5.4	6.0	3.9	3.7
Of which : net credit to the central government	16.6	...	...	...	...	-2.5	-2.2	...	...	-0.7	-0.5	-3.7	-1.7	-5.4	-2.9
Credit to the economy (annual percentage change)	5.8	9.0	9.9	9.9	4.8	5.2	4.1	5.9	6.2	8.3	8.5	11.5	11.5	13.3	10.0
Credit to the private sector															
Annual percentage change	7.2	9.5	10.8	10.1	4.9	5.8	5.6	8.3	8.1	9.3	8.1	11.5	11.7	12.6	12.6
In percent of GDP	13.9	13.3	13.8	13.6	13.5	14.3	14.1	13.8	14.0	14.9	14.6	15.4	16.1	17.0	17.8
Broad money (annual percentage change)	5.5	5.8	3.5	6.3	4.1	3.3	5.0	8.1	7.7	5.7	5.3	5.9	7.1	7.4	8.3
Currency outside banks	12.8	18.2	17.8	16.5	12.2	3.2	-6.1	10.3	13.7	5.4	5.7	6.4	7.6	7.8	8.8
Deposits	3.7	3.1	0.5	4.2	2.4	3.3	7.9	7.6	6.3	5.7	5.2	5.8	7.0	7.3	8.2
Velocity (GDP/average M2)	4.5	4.6	4.2	4.5	4.5	4.1	4.3	4.5	4.4	4.1	4.3	4.3	4.3	4.3	4.2

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 4. Cameroon: Balance of Payments, 2014–22

	2014	2015	2016		2017		2018	2019	2020	2021	2022
	Act.	Act.	Est.	Prog	Proj	Prog	Proj	Proj	Proj	Proj	Proj
					(CFAF billions)						
Current account balance	-689.1	-694	-613	-563	-518	-578	-520	-512	-396	-317	-311
Trade balance	-222	-220	-137	-91	-143	-117	-162	-173	-130	-113	-122
Exports, goods	3,244	3,085	2,725	3,064	2,733	3,214	2,715	2,846	3,012	3,204	3,377
Oil and oil products	1,353	1,176	767	994	841	1,000	815	803	796	795	786
Non-oil sector	1,891	1,909	1,958	2,070	1,893	2,214	1,900	2,043	2,216	2,409	2,591
Imports, goods	-3,466	-3,306	-2,862	-3,155	-2,877	-3,331	-2,877	-3,019	-3,142	-3,317	-3,499
Services (net)	-310	-403	-351	-331	-302	-326	-304	-308	-267	-222	-218
Exports, services	1,003	897	986	1,078	1,044	1,118	1,052	1,077	1,132	1,215	1,300
Imports, services	-1,313	-1,300	-1,336	-1,408	-1,346	-1,445	-1,356	-1,385	-1,399	-1,437	-1,517
Income (net)	-334	-258	-331	-365	-304	-364	-293	-277	-265	-262	-257
Of which: interest due on public debt	-56	-52	-105	-116	-98	-148	-120	-139	-131	-128	-143
Transfers (net)	177	187	205	223	232	228	239	246	266	281	286
Inflows	316	347	377	401	418	414	433	444	466	482	489
Outflows	-139	-160	-171	-178	-186	-186	-194	-198	-200	-201	-202
Capital and financial account balance	741	1177	-225	194	265	345	237	265	453	507	569
Capital account	6	11	36	36	36	36	36	36	36	36	36
Capital transfers	6	11	36	36	36	36	36	36	36	36	36
Of which: private transfers	0	0	0	0	0	0	0	0	0	0	0
Financial account	735	1,166	-261	157	228	309	201	229	416	471	533
Official capital	483	821	335	371	464	369	370	349	385	426	475
Long-term borrowing	583	990	458	574	639	602	566	577	614	660	713
Of which: SDR allocation	0	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	0
Amortization	-100	-169	-123	-202	-175	-234	-195	-228	-229	-234	-238
Principal not yet due (relief)	0	0	0	0	0	0	0	0	0	0	0
Non-official capital (net)	252	345	-597	-214	-236	-60	-169	-120	31	45	58
Oil sector (net)	156	83	82	97	91	96	87	86	85	84	84
Non-oil sector	97	262	-679	-311	-327	-156	-256	-205	-53	-39	-26
Errors and omissions	-23	0	14	0	0	0	0	0	0	0	0
Overall balance	29	483	-824	-370	-253	-233	-283	-246	57	190	259
Financing	-29	-483	824	370	253	233	283	246	-57	-190	-259
Bank of Central African States	-29	-483	824	-145	-233	-137	-53	-95	-99	-190	-259
Use of IMF credit (net)	-3	-18	-18	-18	-17	-18	-16	-15	-1	-1	-1
Change in imputed reserves (net, BEAC) 1/	-26	-465	842	-126	-216	-119	-37	-80	-98	-190	-258
Financing gap	0	0	0	514	487	370	336	341	43	0	0
Of which:				0	0	0	0	0	0	0	0
Possible IMF financing	0	0	0	178	167	95	86	85	43	0	0
Remaining financing gap	0	0	0	337	319	275	251	256	0	0	0
AFDB				126	118	126	113	112	0	0	0
WB				124	116	62	56	56	0	0	0
France				66	66	66	66	66	0	0	0
EU				22	20	22	16	23	0	0	0
						(Percent of GDP)					
Trade balance	-1.3	-1.2	-0.7	-0.5	-0.7	-0.6	-0.8	-0.8	-0.6	-0.5	-0.5
Oil exports	7.8	6.4	4.0	5.0	4.2	4.8	3.9	3.7	3.4	3.2	2.9
Non-oil exports	10.9	10.4	10.2	10.4	9.6	10.7	9.2	9.3	9.5	9.6	9.6
Imports	20.1	18.1	15.0	15.9	14.5	16.0	13.9	13.8	13.4	13.3	13.0
Current account balance											
Including grants	-4.0	-3.8	-3.2	-2.8	-2.6	-2.8	-2.5	-2.3	-1.7	-1.3	-1.2
Excluding grants	-4.4	-4.2	-3.6	-3.2	-3.0	-3.1	-2.9	-2.7	-2.1	-1.6	-1.5
Overall balance	0.2	2.6	-4.3	-1.9	-1.3	-1.1	-1.4	-1.1	0.2	0.8	1.0
Foreign direct investment	2.6	1.9	1.7	1.8	1.6	1.6	1.6	1.7	1.7	2.1	2.3
					(Percentage change, unless otherwise indicated)						
Export volume	17.6	17.8	1.0	2.0	0.8	5.2	3.2	6.2	7.8	7.3	6.5
Crude oil	20.6	27.9	-3.1	-2.4	-4.7	-0.1	0.2	-2.7	-2.9	-2.1	-3.9
Nonoil	16.9	15.2	2.2	3.2	2.3	6.5	3.9	8.3	10.1	9.1	8.2
Import volume	15.0	-5.0	-5.9	4.0	-1.4	5.3	3.2	4.4	4.4	4.0	5.0
Terms of trade	-7.3	-13.8	-4.7	3.4	-5.0	-1.0	-3.2	-2.1	-2.5	-2.3	-1.5
Non-oil export price index	-2.6	-12.4	0.4	3.5	-5.5	0.5	-3.4	-0.7	-1.5	-0.4	-0.6
Export price index	-8.1	-19.2	-12.6	10.9	-0.5	-0.3	-3.7	-1.3	-1.8	-0.9	-1.0
Import price index	-0.8	-6.3	-8.2	7.2	4.7	0.8	-0.5	0.9	0.7	1.5	0.5
Exchange rate (CFAF per US$; period average)	493.6	591.2	592.7	…	…	…	…	…	…	…	…
Memorandum items											
Gross imputed reserves 2/											
US$ billions	3.2	3.5	2.3	2.5	2.9	2.7	3.0	3.2	3.4	3.7	4.2
CFAF billions	1,687	2,104	1,406	1,552	1,639	1,689	1,692	1,787	1,887	2,077	2,336

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

1/ Excluding new IMF financing

2/ Nationally imputed reserves are not foreign exchange reserves, since they do not meet the standard set out in the IMF's Balance of Payments Manual, which requires foreign reserves to be readily available to and controlled by monetary authorities for meeting balance of payments financing needs. However, under the statutes of the BEAC, if a country's imputed reserves fall below zero the CEMAC Council of Ministers can call for adjustment measures. Private sector access to foreign exchange is not affected by the level of nationally imputed reserves, but only its access to CFAF and the availability or foreign reserves at the level of the union.

Table 5. Cameroon: Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Policy and geopolitical uncertainties	**High**	**Medium** Two-sided risks to U.S. growth with difficult-to-predict policies; uncertainty associated with negotiating post-Brexit arrangements; and evolving political processes, including elections in several large advanced and emerging market economies weigh on trading partner growth. Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa, Asia, and Europe, leading to socio-economic disruptions.	Improve CEMAC integration and economic relationship with Nigeria; improve business environment; implement structural reforms to improve competitiveness.
Tighter global financial conditions	**High**	**Medium** Fed normalization and tapering by ECB could increase global rates and term premia, strengthen the U.S. dollar and the euro, and correct market valuations. This could affect Cameroon's competitiveness and the ongoing efforts to reduce the internal and external imbalances. Rise in risk premia and flight to safety currency could increase capital flow volatility and external financing conditions. Significant curtailment of cross-border financial services in emerging and developing economies could hamper cross-border payments and trade finance.	Continue necessary fiscal consolidation and structural reforms to reduce external imbalances and boost investor confidence.
Weaker than projected global growth	**Medium**	**High** Structurally weak growth in advanced economies and significant slowdown in large emerging and frontier economies could reduce external demand and put additional pressure on Cameroon's adjusment efforts.	Improve regional integration and facilitate intra-regional trade; implement structural reforms to improve business climate and competitiveness.
Lower energy prices	**Low**	**High** Persistently low oil prices will cause further decline in oil revenues and put extra strain for fiscal and balance of payment needs.	Widen the non-oil tax base, increase efficiency of the national oil refinery (SONARA) and spur competition in the oil import sector.
Spillovers of the worsening economic situation of other CEMAC countries	**High**	**High** 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** 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.
Contingent risks from state-owned enterprises	**Medium**	**High** 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.

Table 6. Cameroon: External Financing Requirements, 2014–22

(CFAF billions, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Projection					
1. Total financing requirements	**817.9**	**1346.6**	**-88.6**	**926.1**	**768.5**	**835.1**	**724.6**	**741.3**	**807.3**
Current account deficit	689.1	694.1	613.0	518.0	520.4	511.6	396.0	316.8	310.5
Debt amortization	99.9	169.5	122.7	174.9	195.2	228.4	229.4	234.0	238.1
Repayment to the Fund	2.6	18.4	17.7	17.2	16.2	15.3	0.8	0.8	0.8
Change in gross reserves (increase=+)	26.3	464.6	-842.0	215.9	36.6	79.7	98.4	189.7	257.9
2. Total financing sources	**817.9**	**1346.6**	**-88.6**	**439.6**	**432.5**	**493.6**	**682.0**	**741.3**	**807.3**
Capital transfers	6.4	11.1	36.3	36.3	36.3	36.3	36.3	36.3	36.3
Foreign direct investment (net)	455.1	352.3	324.7	309.8	331.3	369.2	407.9	520.5	629.2
Portfolio investment (net)	11.6	12.0	12.3	12.7	13.1	13.5	13.9	14.3	14.7
Debt financing	344.8	971.3	-462.0	80.8	51.8	74.6	224.0	170.2	127.1
Public sector	582.8	990.3	458.0	638.9	565.5	577.0	614.4	660.3	713.1
Non-public sector	-237.9	-19.1	-920.0	-558.0	-513.7	-502.3	-390.4	-490.2	-586.0
Short-term debt	-237.9	-19.1	-920.0	-558.0	-513.7	-502.3	-390.4	-490.2	-586.0
Other net capital inflows	-23.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Total financing needs	**0.0**	**0.0**	**0.0**	**486.5**	**336.1**	**341.5**	**42.5**	**0.0**	**0.0**
Expected financing				**319.2**	**250.5**	**256.3**			
AFDB				117.6	112.8	112.2			
WB				116.3	55.8	55.5			
France				65.6	65.6	65.6			
EU				19.7	16.4	23.0			
Residual financing gap				**167.3**	**85.6**	**85.2**	**42.5**		
IMF ECF financing 1/				167.3	85.6	85.2	42.5		

Sources: IMF staff estimates and projections.
1/ Including IMF ECF disbursement of CFAF 99 billion in July 2017.

Table 7. Cameroon: Gross Fiscal Financing Needs, 2016–22

	2016	2017	2018	2019	2020	2021	2022
	Est.	Projections					
A. Overall fiscal deficit (cash basis, including grants)	977	774	732	538	479	276	270
B. Other financing needs	394	863	423	580	427	578	466
Amortization (including arrears)	367	271	329	331	298	285	307
External	131	186	228	243	229	234	259
o/w Amortization (excl. IMF)	113	170	213	228	229	234	250
o/w Repayment of IMF credit	18	17	15	15	0	0	10
Domestic	237	85	100	88	68	51	48
Banking System	27	591	94	249	129	293	158
C=A+B Total financing needs	1372	1636	1154	1117	906	854	735
D. Identified sources of financing	1312	1150	819	776	863	854	736
External	453	634	560	571	608	654	636
Drawing	453	634	560	571	608	654	636
o/w Project financing (ext.)	453	544	560	571	608	654	706
Domestic	859	516	259	205	255	200	100
Banking System	655	346	0	0	0	0	0
BEAC Statutory advances	93	346	0	0	0	0	0
Government deposits	475	0	0	0	0	0	0
Bank loans	83	0	0	0	0	0	0
Other bank financing	4	0	0	0	0	0	0
Other non-bank financing	205	170	259	205	255	200	100
o/w Bond issuance	82	0	0	0	0	0	0
Privatization receipts	0	0	0	0	0	0	0
Recovery of domestic tax arrears							
Unpaid government obligations	0	0	0	0	0	0	0
E=C-D Financing gap	59	486	335	341	42	0	0
Errors and omissions	59	0	0	0	0	0	0
F. Exceptional external financing		319	251	256	0	0	0
Multilateral		254	185	191	0	0	0
Bilateral		66	66	66	0	0	0
E-F Residual financing needs							
IMF -ECF 1/		167	86	85	43	0	0

Sources: IMF staff estimates and projections.

1/ Including IMF ECF disbursement of CFAF 99 billion in July 2017.

Table 8. Cameroon: Proposed Schedule of Disbursements Under the ECF Arrangement, 2017–20

	Date of Availability	Amount (in millions of SDR)	In percent of quota 1/	Conditions for Disbursement
1	6/26/2017	124.2	45	Executive Board approval of the ECF arrangement.
2	12/20/2017	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	175.0	

Source: IMF staff calculations.

1/ Cameroon's current quota is SDR 276.0 million, of which 162.936 million was outstanding credit as of December 31, 2017.

Table 9. Cameroon: Capacity to Repay the Fund, 2016–31

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
		Projection														
Fund obligations based on existing credit (SDR millions)																
Principal	21.5	20.7	19.9	18.8	-	-	-	24.8	24.8	24.8	24.8	24.8	-			
Charges and interest	-	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Fund obligations based on existing and prospective credit (In millions of SDRs) 1/																
Principal	21.5	20.7	19.9	18.8	-	-	-	46.9	69.0	91.1	96.6	96.6	49.7	27.6	5.5	-
Charges and interest	-	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total obligations based on existing and prospective credit																
SDR millions	21.5	21.3	20.9	19.9	1.0	1.0	1.0	48.0	70.0	92.1	97.6	97.6	50.7	28.6	6.6	1.0
CFA F billions	17.7	17.2	16.2	15.3	0.8	0.8	0.8	37.2	54.4	71.5	75.8	75.8	39.4	22.2	5.1	0.8
Charges and interest	-	0.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Principal	17.7	16.7	15.4	14.5	-	-	-	36.4	53.6	70.7	75.0	75.0	38.6	21.4	4.3	-
Prcent of government revenue	0.6	0.6	0.5	0.5	0.0	0.0	0.0	0.8	1.1	1.3	1.3	1.2	0.6	0.3	0.1	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	1.0	1.3	1.3	1.2	0.6	0.3	0.1	0.0
Percent of debt service 2/	9.7	7.4	5.9	4.7	0.2	0.2	0.2	6.5	9.0	10.9	13.6	13.1	6.9	3.7	0.8	0.1
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
Percent of quota	7.8	7.7	7.6	7.2	0.4	0.4	0.4	17.4	25.4	33.4	35.4	35.4	18.4	10.4	2.4	0.4
Percent of gross reserves	1.3	1.1	1.0	0.9	0.0	0.0	0.0	1.6	2.2	2.7	2.5	2.2	0.9	0.5	0.1	0.0
Outstanding Fund credit																
SDR millions	59.4	245.7	336.2	427.8	483.0	483.0	483.0	436.1	367.1	276.0	179.4	82.8	33.1	5.5	0.0	0.0
CFA F billions	49.0	198.6	260.6	330.0	372.0	373.3	374.9	338.5	284.9	214.2	139.3	64.3	25.7	4.3	0.0	0.0
Percent of government revenue	1.7	6.9	8.3	9.7	10.1	9.4	8.5	7.4	5.7	4.0	2.4	1.0	0.4	0.1	0.0	0.0
Percent of exports of goods and services	1.3	5.3	6.9	8.4	9.0	8.4	8.0	6.9	5.5	3.9	2.4	1.0	0.4	0.1	0.0	0.0
Percent of debt service 2/	26.7	84.9	94.3	101.6	110.6	106.0	97.5	58.8	47.3	32.6	25.0	11.1	4.5	0.7	0.0	0.0
Percent of GDP	0.3	1.0	1.3	1.5	1.6	1.5	1.4	1.2	0.9	0.6	0.4	0.2	0.1	0.0	0.0	0.0
Percent of quota	21.5	89.0	121.8	155.0	175.0	175.0	175.0	158.0	133.0	100.0	65.0	30.0	12.0	2.0	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
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	19,105	19,810	20,758	21,941	23,392	25,030	26,862	28,885	31,206	33,854	36,865	40,302	44,239	48,763	53,964	59,960
Exports of goods and services	3,710	3,777	3,767	3,923	4,144	4,419	4,677	4,917	5,208	5,531	5,860	6,250	6,681	7,140	7,628	8,138
Government revenue	2,866	2,897	3,141	3,405	3,693	3,984	4,408	4,591	4,973	5,407	5,899	6,465	7,108	7,832	8,684	9,642
Debt service 2/	183.1	233.8	276.3	324.8	336.3	352.2	384.5	576.0	603.0	656.7	557.1	580.6	574.5	599.2	616.6	643.8
CFA francs/SDR (period average)	823.8	808.3	775.0	771.5	770.2	772.9	776.2	776.2	776.2	776.2	776.2	776.2	776.2	776.2	776.2	776.2

Sources: 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. Impact of the BEAC Monetary Policy and Liquidity Management Reforms

The regional policy commitments from the BEAC and the COBAC, which include: (i) tightening monetary policy and liquidity management consistent with external stability and (ii) strengthening of the financial sector, have a significant impact on the Cameroonian economy:

- The **increase in the policy rate** by 50 basis points to 2.95 percent in March 2017 caused the Cameroonian bonds yield curve to move up. This could also have affected credit growth, in conjunction with the fiscal consolidation.
- The August BEAC Board's decision to **eliminate the statutory advances** by end-2017 is a significant milestone in restoring fiscal discipline and in modernizing the BEAC monetary policy framework. Also, the absence of this easy access and cheap financing is expected to boost monetary and financial market development through more government security issuances. As of end-2017, all outstanding BEAC statutory advances are to be consolidated into a 14-year loan, with a 4-year grace period and a 2 percent interest rate. Cameroon, the only CEMAC country to have not drawn on advances up to the statutory limit, is allowed to access its remaining balance (CFAF 296 billion, at end-August) on the following terms: (i) the full amount is drawn before end 2017; (ii) the amount withdrawn is immediately deposited in a remunerated account at the BEAC with a 2 percent interest; and (iii) IMF program requirements are fully met.
- The 2015 **ceiling for refinancing government securities by the BEAC** (CFAF 200 billion for Cameroon) became binding, in late 2016 and H1-2017 in a context of declining bank liquidity and non-existent interbank market. Together with the forced rollover of Chadian and Congolese government securities and delays in government payments to suppliers, this has contributed to tighter liquidity conditions and a decline in banks' appetite to extend new credit, including to the government.
- A strict enforcement of the supervisory requirement of **non-zero risk weight on sovereign exposures** to countries not compliant with the regional convergence criteria would significantly deteriorate banks' solvency. With Cameroon not respecting the criterion on arrears accumulation and the fiscal deficit, its risk weight could increase to 85 percent. To mitigate the impact of this measure on banks' prudential ratios, in October 2017, the COBAC issued a decision allowing banks located in countries with an IMF program to request a derogation for up to three years. The derogation allows banks to maintain a 0 percent weight for two years, and 50 percent of the regulatory rate for the third year. In order to qualify, the bank should first provide: (i) a plan to rebuild capital; (ii) a board decision to limit dividend payments during the derogatory period; (iii) a board decision with a timetable to sell its government securities' holding to reduce the sovereign exposure; and (iv) a board decision prohibiting the acquisition of new government securities that could lead to a breach of the regulation on large exposure and capital adequacy after taking into account the derogation; and also respect both the individual large exposure regulation on all other entities; as well as the capital adequacy ratio excluding the holdings of other CEMAC countries' securities.

- In addition, the **monetary policy measures adopted by the BEAC in August and October 2017, which are set to come into effect in 2018,** ought to help smooth banks' liquidity management and improve the monetary policy transmission mechanism. These measures include:

  (i) The targeting by the BEAC of the **policy rate** (rather than monetary aggregates), trying to ensure that the interbank rate remains close, and relying on autonomous factors to calibrate its interventions.

  (ii) The adoption of a **new liquidity management framework** with: (i) a primary refinancing instrument based on open market operations; (ii) two permanent facilities (deposit and lending); iii) intraday advances; and (iv) medium-term refinancing operations. The primary refinancing is provided through auctions, up to a regional ceiling compatible with a sustainable reserves level.

  (iii) The admission of a **larger set of loan instruments as collateral** for refinancing, while maintaining a limit on the amount of government securities that can be brought as collateral for refinancing.

  (iv) The creation of an **emergency liquidity facility** for banks.

- The development of the interbank market and the move to an average reserve requirement rule will also facilitate liquidity management and reduced the need to hold large excess liquidity, therefore providing room for credit growth and enhance the effectiveness of monetary policy.

Annex II. 2018 Finance Law—Key Measures

Customs

Taxes and Exemptions

a. Exemption of the 2% export tax on certain goods (incl. domestically manufactured, animal products, minerals processed domestically, among others).
b. Export duty of 5% on certain products (incl. palm oil, kola nuts, gum Arabic, chili, millet, sorghum, and eru).
c. Levy raised from 20% to 30% on the assessed value of exported timber.
d. Customs duty exemptions for petroleum products refined domestically.
e. Harmonization of excise duties on weapons and ammunition from 12.5% to 25%.
f. Reduction in customs duties of 5% on imports of capital goods intended for investment.
g. Abolition of the exemptions of the prepayment of liquidity on imports of vehicles by private persons.
h. Exemptions on import VAT for 2018 on gas cylinders for domestic use, certain pharmaceutical products, and sprinklers for agriculture.

Administration

a. Clarification of payment and appeals processes to be in accordance with CEMAC codes.
b. Common external CEMAC tariff implemented.

Domestic Taxes

Direct taxes

a. Requirement to provide transfer pricing documentation.
b. All public contracts must be inclusive of all taxes, with necessary budget coverage to cover all taxes, duties, and customs duties.

VAT Taxes

a. Exemption of interest payments on loans of less than CFAF 2 million from first class microfinance institutions.
b. All public contracts must be inclusive of all taxes, with necessary budget coverage to cover all taxes, duties, and customs duties.

VAT Taxes

a. Exemption of interest payments on loans of less than CFAF 2 million from first class microfinance institutions.
b. Additional excise taxes on imported wine and non-reusable packaging.
c. Electronic submission of VAT refund requests; automatic refunds for low-risk companies, process of credit validation for medium-risk companies.

Misc. Taxes

a. 15% tax on gambling and entertainment.
b. 15% special income tax on certain non-domiciled persons or companies.
c. Restrictions on exporting timber products unless all taxes and duties can be proven paid.
d. Airport stamp duty of CFAF 25,000 per person per trip for international flights and CFAF 1,000 per person per trip for domestic flights.

Source: Cameroonian Authorities.

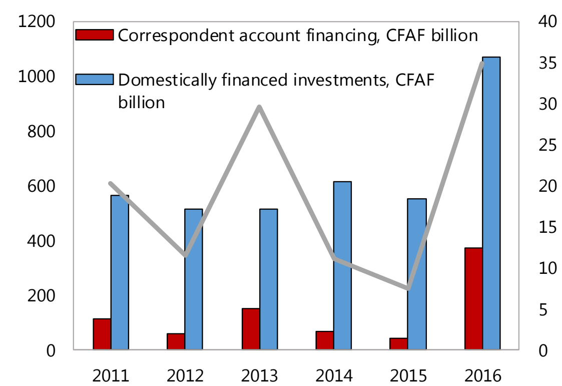
Annex III. Correspondent Accounts and the Need for Cash Adjustment

1. **The Treasury Single Account (TSA) reform, which aimed at consolidating public resources and improving liquidity management, has led to the creation of many correspondent accounts at the Treasury following the transfer of autonomous public entities (EPA) accounts previously held in commercial banks.** These correspondents accounts are third parties' accounts held at the Treasury, and used to transfer resources of EPAs. These transfers were expected to reduce the holdings of idle cash at commercial banks, and more importantly consolidate public resources. As of December 2016, the balance of the correspondent accounts amounted to 5.8 percent of GDP (3.9 percent of GDP in 2015), with 5.2 percent of GDP held by EPAs. At end-September 2017, the balance has decreased by 0.7 percent of GDP, mainly due to a net reduction in the stock of EPAs' accounts.

2. **Several issues have arisen with the use of the correspondent accounts, which have been diverted from their main objective of improving public resources management.** First, subsidies are being transferred to EPAs' correspondent accounts beyond their absorption capacities, leading to the accumulation of unused budget appropriations. Second, accounts are being created for some line ministries and projects in violation of the Organic Law on Finance Laws, as line ministries operations should be fully reflected in the central government budget. More importantly, some budgetary transfers to the correspondent accounts are made without the availability of cash revenue for the payment of the corresponding spending. For example, the capital spending and road maintenance allocations of some Ministries were transferred to the road fund as their implementation unit, regardless of its absorption capacity and the readiness of projects, as well as availability of cash resources to cover these expenses. This has led to the accumulation of large accounting balances in the road fund while budgetary funding for regular road maintenance remains insufficient.

3. **These practices complicate the calculation of the cash budget execution, as budget appropriations are considered executed with no payment or cash transaction involved; and increase liquidity management constraints by the time the corresponding spending will be truly executed.** In this regard, a cash adjustment of CFAF 203 billion (1.1 percent of GDP) was made for 2016 to account for these irregular operations. The adjustment was based on the historical level of correspondent account financing to domestically financed investment (Figure 1), which is 16 percent on average for 2011–15. Accordingly, the cash adjustment for 2017–19 projects the disbursement of these amounts, taking into account the execution rate observed in 2017 H1.

Annex III. Figure 1. Cameroon: Correspondent Account Financing, 2011–16



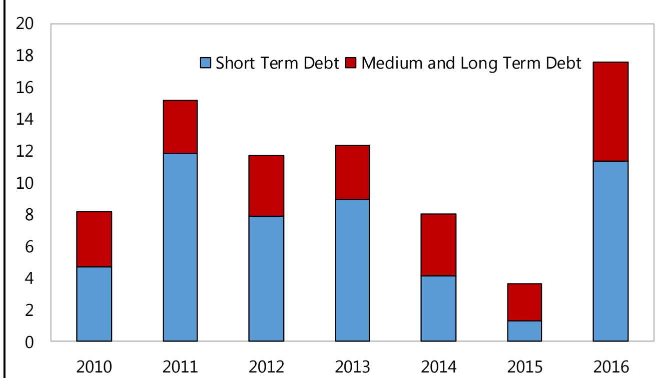
Sources: Cameroonian authorities; and IMF staff calculations.

Annex IV. State-Owned Enterprises and Public-Private Partnerships

1. State-owned enterprises (SOEs) are an important part of the Cameroonian economy. They collectively employ over 34 thousand people and their business lines range from postal services to water, oil refining, electricity, telecommunications, industrial agriculture, and an airline. In 2016, 27 of the main SOEs reported their financial statements.

2. SOEs indebtedness has historically been high and is an ongoing fiscal risk (Figure 1). SOE debt levels rose significantly in 2016 to 17 percent of GDP (from 4 percent in 2015), driven by a 290 percent rise in debt of the state-owned oil refinery, SONARA. This followed a temporary decline in 2015 of SONARA's debt due to repayments by the state and improved profitability stemming from lower oil prices. The magnitude of SOEs short-term debt constitutes the largest fiscal risk, and is equal to 6 percent of GDP. Of this short-term debt, 73 percent is owed by only four SOEs.[1] These debts represent significant contingent liabilities for the state, as three of the four SOEs have negative operating margins.

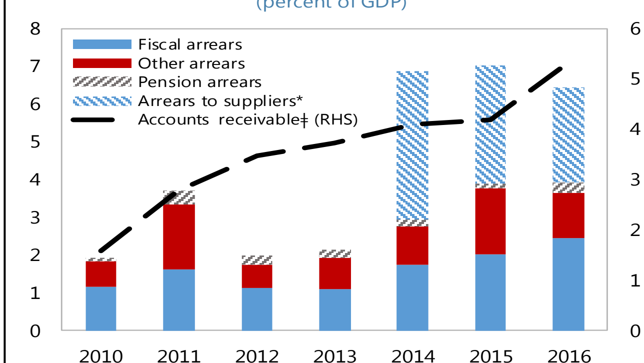
Annex IV. Figure 1. Cameroon: SOE Debts, 2010–16
(percent of GDP)



Sources: Cameroonian authorities; and IMF staff calculations.

3. Arrears are growing (Figure 2). Fiscal arrears of SOEs (tax liabilities), have increased by over 1 percent of GDP since 2013, driven by SONARA, the Cameroon Petroleum Deposit Society, and the Electricity Development Corporation whose tax liabilities each increased by over 200 percent. Combined these left substantial gaps in the state budget. Non-pension and non-fiscal arrears doubled in 2016 to about 1.2 percent of GDP. Significant arrears to suppliers, equal to 2.5 percent of GDP in 2016, leave private enterprises vulnerable to cash flow problems and could increase non-performing loans in the banking sector. A possible driver of arrears is the rise in accounts receivable, a large proportion of which may be attributable to non-payments between SOEs and non-payment of subsidies by the central government.

Annex IV. Figure 2. Cameroon: SOE Arrears, 2010–16
(percent of GDP)



Sources: Cameroonian authorities; and IMF staff calculations.
‡ 2015 and 2016 accounts receivable for SOEs with unavailable data are projected from previous years.
* Arrears to suppliers' data not available before 2014.

[1] In the short-term debt category, the four most indebted SOEs are SONARA, Camtel, Chantier naval et industriel du Cameroun, and the Port Autonome de Douala. In the medium to long term debt category, the four most indebted SOEs are SONARA, Camtel, Camwater, and the Electricity Development Corporation.

4. **The government classifies 18 SOEs as financially at risk.** The financial analysis and risk assessment of SOEs annexed to the 2018 Finance Law classifies 14 SOEs as highly unprofitable and 4 as unprofitable. In 2016 these 18 SOEs had an average debt-to-asset ratio of 66 percent, an operating profit ratio (operating income to revenue) of -48 percent, and average default ratio (equity/share capital) of -4, a ratio of salaries to revenue of 100 percent (and to operating profit of 38 percent).

5. **As of October 2017, Cameroon's PPP portfolio consists of 36 projects, whose stages of completion range from fully completed to under evaluation without tendering process begun.** Projects currently underway are priority investment spending projects that should spur growth in the medium-term and improve social indicators. These include the purchase, maintenance, and operation of hospital equipment and labs, mass urban transport, construction of pipelines, electricity towers, a wharf, a bus station, and a container terminal, among others. The immediate investment costs to the government are as follows:

- Completed projects (1 project): CFAF 220 million (0.001 percent of GDP);
- Projects under execution (6 projects): CFAF 280 billion (1.4 percent of GDP);
- Projects with contracts signed but not started (7 projects): CFAF 261 billion (1.3 percent of GDP).

6. **The remaining 22 projects do not have confirmed investment costs.** In addition to investment costs the government has conditional and firm liabilities to private partners. Conditional liabilities amount to CFAF 76 billion, or 0.38 percent of GDP, and include loan guarantees to private partners, surety with creditors of a percentage of total costs, and a guarantee of a minimum passage through a pipeline. Firm liabilities amount to CFAF 31.182 billion, or 0.16 percent of GDP, and include reimbursement of pre-financing or investments made by private partners, subsidies to guaranteed low user fees, and guaranteed rent payments.

7. **Monitoring the risks associated with contingent liabilities of SOEs and PPPs is imperative for fiscal sustainability**. The first financial analysis and risk assessment of SOEs in the 2018 Finance Law along with a new requirement for the national debt policy committee's (CNDP) opinion before any external borrowing by SOEs are critical improvements, and their effective implementation is essential. Going forward, it will be important to improve the coverage of public debt by systematically incorporating all claims on the State in order to avoid substantial revisions of the stock of debt. It will be equally important to maintain the permanent monitoring mechanism via oversight committee that the government has established to limit the fiscal risks related to PPPs.

Annex IV. Table 1. Cameroon: Key Financial Indicators for State Owned Enterprises, 2009–16

	2009	2010	2011	2012	2013	2014	2015	2016
	(percent of nominal GDP)							
Gross Sales	7.2	9.0	10.9	9.8	8.7	6.9	4.8	5.7
Net Income	0.1	0.2	0.3	0.0	-0.1	-0.4	-0.3	-0.4
Gross arrears	1.3	1.9	3.7	2.0	2.1	2.9	3.0	3.9
Liabilities owed to the SOE	1.1	2.8	4.4	5.6	5.7	5.6	3.5	6.1
Gross debt	7.1	8.1	15.2	11.7	12.3	8.0	3.7	17.6
No. SOEs covered	21	21	22	22	22	17	13	27

Sources: Cameroonian authorities and IMF staff estimates.

Annex V. Interim Growth and Employment Strategy Paper 2018–20

1. **Cameroon's interim document aligns the objectives of the 2010-20 Growth and Employment Strategy Paper (GESP) to recent challenges facing the country.** The interim document will be the reference framework for the government's development agenda for 2018–20, with the intention of attaining emerging country status by 2035 and achieving the United Nation's Sustainable Development Goals (SDGs). This strategy aims at maintaining a sustainable macroeconomic framework by pursuing the consolidation and reform efforts built into the ECF-supported program. This includes enhancing social and poverty reduction policies, addressing the impediments to private sector development, and capitalizing on the investment efforts made since 2010, including the PLANUT, to spur private sector development. In the current context of scarce resources and rising debt, efforts to improve quality and efficiency in public expenditure will be key to the pursuit of the GESP's core objectives.

2. **Despite some progress, implementation of the GESP over 2010–17 suffered from falling petroleum revenue, security threats in the region, and lower than expected investment execution.** Average growth over the period was slightly lower than expected (4.7 percent compared to 5.2 percent), fiscal imbalances increased and the primary fiscal deficit deteriorated to 5.4 percent of GDP in 2016. There was an acceleration of debt-financed infrastructure projects that more than doubled the debt-to-GDP ratio, which reached 31.6 percent in 2016, pushing the risk of debt distress to high. Lower growth and higher-than-expected debt are partly attributable to delays in the implementation of certain major projects and of public financial management reforms, which were aimed at spurring private investment and growth.

3. **Progress has been made in improving aggregate social indicators in the health and education sectors, but is unequally distributed across regions.** Poverty has been increasing in the Far North region affected by Boko-haram and the conflict in CAR which have both led to a large inflow of refugees and internally displaced persons. Since November 2016 schools and businesses in the Northwest and Southwest regions have been periodically closed, related to social unrest and government protests, limiting access to education and basic services for the local population.

4. **To address these challenges, the main objectives of the interim strategy are:**

- Increasing growth progressively to reach 5 percent in 2020;
- Reducing underemployment from 71.1 percent in 2007 to 50 percent in 2020;
- Reducing the poverty rate from 39.9 percent in 2007 to less than 25 percent in 2020.

5. **The government has set key sectoral and reform priorities to attain these objectives, namely:** (i) development of large public infrastructure projects that will promote private sector investment and growth; (ii) modernization of production systems to move up to the value chain in the agriculture and livestock sectors, thereby generating productivity gains and economic diversification; (iii) promotion of regional integration and trade diversification; (iv) improving social policies in health, education, gender and social protection; (v) promoting job creation; and (vii) improving governance and public financial management. Like the GESP, this interim document will be subject to semi-annual and annual assessments and the production of an annual progress report that will redefine the targets based on performance and the environment.

Appendix I. Letter of Intent

December 13, 2017

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

Madame Managing Director:

The government is continuing to implement its economic and financial program supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) approved by the IMF's Executive Board on June 26, 2017 for the period 2017 to 2020. The government remains convinced that the policies and measures it has committed to implement under the ECF will help increase fiscal and external buffers while protecting priority social spending. Further, the government is also continuing to implement its economic reform program aimed in particular at supporting economic diversification and private sector development.

Despite challenging conditions as a result of lower GDP growth compared to 2016 and a decline in oil revenues, program implementation for the remainder of 2017 is in line with projections of the 2017–20 Memorandum of Economic and Financial Policies (MEFP). To protect key fiscal targets, the government will deploy additional efforts to improve non-oil revenue mobilization while controlling public spending.

The 2018 budget law is consistent with the program's objectives, in particular, fiscal consolidation, with a reduction in the deficit from 3.1 percent of GDP in 2017 to 2.3 percent of GDP in 2018. This will be achieved by strengthening efforts to mobilize additional non-oil revenue (up to 0.6 percent of GDP) and by continued streamlining and better control of public expenditure, of 0.33 percent of GDP. Special emphasis will also be placed on reforming public financial management, following the public financial management performance assessment (PEFA—Public Expenditure and Financial Accountability) conducted last April. The key elements of the reform are the transposition of CEMAC directives, a substantial reduction of exceptional spending procedures, and better control of the risks related to contingent liabilities from state-owned enterprises and Public-Private Partnerships (PPPs).

The government has updated its Growth and Employment Strategy Paper (GESP) for the period 2018–20. The GESP focuses mainly on infrastructure development, mainly in energy, water, roads, transport, and information and communication technologies. It also addresses the modernization of the production apparatus, the strengthening of regional integration, as well as economic diversification and transformation.

The attached MEFP supplements the MEFP attached to the letter of intent of June 16, 2017. It describes the economic and financial situation in 2017, sets out the economic and financial policies that the government intends to implement in 2017 and in the course of 2018, and establishes the benchmarks and reforms up to end-June 2018.

All the quantitative performance criteria and indicative targets (IT) for end-June 2017 under the program have been met. However, the continuous performance criterion on the contracting of new non-concessional external borrowings was exceeded by CFAF 64 billion mainly because of the signature in November 2017, of a loan originally planned in our 2018 borrowing plan. As a result, the government intends to reduce the new non-concessional borrowing limit by the same amount in the 2018 budget law. All of the structural benchmarks set for the period between June and November 2017 were met with the exception of two benchmarks, which have been reprogrammed. The September 2017 structural benchmark related to the audit and verification of the balances outstanding and arrears from prior fiscal years as well as the August 2017 structural benchmark on the strategy for the resolution of ailing banks were not met for technical reasons and the government proposes to revise them and reset them for end-March 2018 and end-June 2018.

Based on program performance, the governement requests the IMF's completion of the first review under the ECF-supported program as well as the disbursement of an amount of SDR 82.8 million. The governement is requesting a waiver for non-observance of the continuous ceiling on new non-concessional external debt for 2017 on the basis of the corresponding reduced ceiling in the 2018 budget. The governement also requests the modification of the continuous performance criterion on the contracting or guaranteeing of new non-concessional external debt and the end-December 2017 performance criteria on the ceiling on the net domestic financing of the government (excluding decentralized local communities) and the ceiling on the net borrowing of the government from the central bank and of the end-March 2018 ITs.

The government is convinced that the policies and measures defined in the MEFP are appropriate for meeting the objectives of the program and undertakes to implement any further measures to that effect. The Cameroonian authorities will consult with the Fund on such possible complementary 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.

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 review.

Sincerely yours,

/s/

Philemon Yang
Prime Minister, Head of Government

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

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

I. INTRODUCTION

1. The execution of the economic and financial program supported by the International Monetary Fund (IMF) through the Extended Credit Facility (ECF) over the period 2017–19 is proceeding satisfactorily; and the government is committed to pursuing the implementation of all the reforms set forth in the 2017–19 Memorandum of Economic and Financial Policies (MEFP). This supplement updates the data on the implementation of the IMF's ECF-supported arrangement and describes recent economic trends. It presents the economic outlook and policies for the remainder of 2017, as well as for 2018–19.

II. RECENT ECONOMIC DEVELOPMENTS AND POLICY FRAMEWORK

A. Recent Economic Developments

2. Economic growth continues to slow, mainly due to less favorable economic conditions and, in particular, weaker-than-expected oil production. Growth stood at 4.5 percent in 2016, compared to an initial estimate of 4.7 percent. In 2017, growth has slowed and is expected to reach 3.7 percent. In July 2017, Cameroon rebased its national accounts from 1989–90 to 2005, which resulted in an 8.2 percent upward revision of GDP. Inflation remains low, reaching 0.8 percent at end-September (y/y) owing to declining food prices.

3. Fiscal consolidation continues. In 2016, the budget deficit was revised upward on a year-on-year basis by 0.3 percentage point of GDP, due to higher capital spending, and stood at 6.2 percent of GDP (commitments basis). Despite an unfavorable environment and the persistence of security challenges, in the first half of 2017 non-oil revenue collection remained consistent with program objectives, although slightly below the projections of the budget law. This positive performance is attributable to the VAT, the new measures included in the 2017 budget law, as well as to administrative measures in particular in terms of tax and customs controls and recovery of tax arrears. The overall deficit declined to 0.8 percent of GDP (1.2 percent of GDP projected). At end-September 2017, the shortfall in revenue compared with the forecast for this period increased, due to the weak performance of oil and customs revenues. The overall deficit increased to 1.6 percent of GDP. However, due to a moderate execution of domestically-financed capital expenditure, the non-oil primary balance stood at CFAF 528 billion in compliance with the floor of CFAF 708 billion set in the program.

4. The current account deficit shrank in the first half of 2017. This improvement is due mainly to: (i) a reduction in import expenditures as a result of the completion of the first generation of large infrastructure projects and the substitution of some imports by local products—in particular cement, aluminum, and some food products; (ii) the favorable performance of lumber, agricultural, and manufacturing exports, as well as higher oil revenues as a result of a recovery in prices despite the fall in production. This trend, combined with more robust net capital inflows resulting from an improvement in the repatriation of export earnings, allowed to a faster-than-initially envisaged strengthening of Cameroon's net foreign assets.

5. Slower growth, as well as a tighter monetary policy, weighed on the monetary aggregates. At end-October 2017 money supply increased by 5 percent year-on-year, credit to the economy by 4.4 percent (1.4 percent since end-2016), and bank deposits by 3.3 percent. Bank liquidity has tightened. The BEAC refinancing ceiling is now binding, with weekly demands exceeding CFAF 200 billion. However, bank liquidity conditions improved since August 2017 following the advance repayment of CFAF 80 billion in securitized debt with the banks. Government indebtedness with the banking system remains lower than expected.

6. Public debt remains contained. From CFAF 6,031 billion at end-2016 (31.6 percent of GDP) the stock of public debt has grown modestly to reach CFAF 6,165 billion[1] at end-September 2017 (31.1 percent of GDP), including the balance of unpaid government obligations (3 percent of GDP) and SONARA's supplier debt (0.3 percent of GDP). However, the stock of loans contracted, but not yet disbursed, has increased substantially at end-September 2017 (from CFAF 3,842 billion at end-2016 to CFAF 4,844 billion), given the need to raise financing for major infrastructure projects, including under the Three-Year Emergency Plan for Accelerated Growth (PLANUT).

B. Update of the Growth and Employment Strategy over the Period 2018–20

7. Aware of the stakes related to its goal of economic emergence by 2035 (Vision 2035), the government reiterates its commitment to take all possible steps to pursue the objectives set out in the Growth and Employment Strategy Paper (GESP). The strategic framework updated in September 2017, which will cover the period 2018–20, remains in line with the orientations of the GESP.[2] The central objective for Cameroon in 2018–20 is to "maintain a stable macroeconomic framework by capitalizing on the investment efforts made since 2010, so that they might deliver their full benefits on the development of the private sector, and pursue social and poverty reduction policies." Under the current circumstances of major constraints and scarcity of resources, the efforts for quality and efficiency in government spending will be key to pursuing the core objectives of the GESP. The fourth Cameroon National Household Survey (ECAM-4), conducted in 2014, found that the poverty rate fell by 2.4 percentage points to 37.5 percent, compared with 39.9 percent in 2007 and 40.2 percent in 2001. This development results from a positive contribution of the average annual rate of real economic growth of 4.7 percent over the period 2010–14, representing an increase in per capita income of 2.1 percent per year on average over the same period. This performance fall short

[1] The debt monitored by the CAA (*Caisse Autonome d'Amortissement*—Autonomous Amortization Fund of Cameroon), which does not include the balance of unpaid government obligations and arrears on SONARA's (Société Nationale de Raffinage – National Oil Refinery) commercial loans, amounts to CFAF 5,500 billion (28 percent of GDP) at end-September 2017.

[2] See the "*Document Intérimaire de la Stratégie pour la Croissance et l'Emploi*" [Interim Growth and Employment Strategy Document] for the period 2018–20.

of the GGESP's projections, due to a still slower-than-expected growth and persistent disparities in the distribution of wealth, which explains the widening inequalities between the poor and the non-poor. In fact, if inequalities measured by the differences in consumption between the poor and the non-poor had remained unchanged, the levels of economic growth would have made it possible to take the poverty rate from 39.9 percent in 2007 to 21.8 percent in 2014, representing a decrease of 18 percentage points. But, as it happened, growing inequalities had a negative impact of 15.7 percentage points, which means that if growth had been zero between 2007 and 2014, the poverty rate would have increased to 55.6 percent in 2014. These two opposite trends explain the 2.4 percentage points decline in the poverty rate between 2007 and 2014.

8. In order to make up for the delay in the implementation of the GESP, the 2018–20 strategic framework will focus on the following priorities:

- Infrastructure development, particularly in the sectors of energy, water, roads, transportation, information and communications technologies, post offices and postal financial services, and urban and housing development infrastructures;
- Modernization of the production capacity;
- Regional integration and trade diversification;
- Social policies (health, education and vocational training, gender, and social protection);
- Employment;
- Governance and strategic public management.

III. IMPLEMENTATION OF THE ECONOMIC AND FINANCIAL PROGRAM

9. All of the quantitative performance criteria and indicatives targets of the program at end-June 2017 have been met (Table 1), but the ceiling on new non-concessional borrowing was missed. The end-June targets include the non-oil primary balance, which stood at CFAF -307 billion, against a floor of CFAF -392 billion, thanks to the important rationalization of current spending, as well as the good performance of domestic VAT revenues. Regarding the government net domestic financing excluding net IMF financing, it stood at CFAF -79 billion, against a ceiling of CFAF -18 billion, reflecting a better-than-expected budget balance. The net government position, excluding net IMF financing, has improved slightly. In addition, the disbursement of non-concessional external debt contracted prior to the program approval date amounted to CFAF 205 billion, against a ceiling of CFAF 280 billion. To date, the government has not accrued arrears toward its external creditors, in accordance with the zero ceiling. However, the continuous performance criterion on the contracting of new non-concessional external debt was exceeded by CFAF 64 billion, mainly due to the signature in November 2017 of a loan initially planned in the 2018 borrowing plan. As a result, the government is committed to reducing the new non-concessional borrowing limit by the same amount in 2018. All the indicative targets have been respected.

10. At end-November 2017, aside from two modified and reprogrammed benchmarks, all other structural benchmarks have been respected (Table 2).

Structural Benchmarks Respected

- *Submit to the CEMAC Commission a draft law transposing the CEMAC Directive on Finance Laws into the national legal system.* Transposition of the CEMAC public finance directives into Cameroon's legal system was fast-tracked, with the aim of bringing fiscal policy in line with regional regulation. Specifically, in addition to the draft law transposing the Directive on Finance Laws (structural benchmark), the five other CEMAC directives have also been sent to the CEMAC Commission for validation.
- *Strengthen information exchanges and collaboration between the tax and customs administrations.* This step has already yielded the following advances:

  - ✓ **Cleaning up of the taxpayer database** with the suspension of customs operations from September 15, 2017 for those taxpaying importers identified as inactive in the registry of the DGI.
  - ✓ **Control of tax expenditures,** a milestone for which was reached with the assessment and the production of a report on tax expenditure on indirect taxation for the 2016 fiscal year, accompanied by a plan for the rationalization of tax expenditures for the period 2019–21.
  - ✓ **A draft guidance note** has also been submitted to the Prime Minister to guide the procedures for granting derogation regimes and to clarify the roles of the various intervening parties.
  - ✓ **Finally, the joint assessment (by MINFI/MINEPAT/INS/API) of the April 2013 law on tax incentives for investment has started** and a related report will be available at end-2017.
  - ✓ **Organization of joint controls and investigations** is in effect and involves the sectors of cement, forests, hardware, and ICTs. They should yield results in the very short term.
  - ✓ **Harmonization and simplification of procedures** has allowed the harmonization of the VAT tariff positions for the two administrations, and above all the dematerialization of the tax registration process for used car imports.

- *Publish the petroleum product price structure on a monthly basis.* The petroleum product price structure has been published each month on a regular basis.
- *Indicate the total amount of oil revenues from the National Oil Company—Société Nationale des Hydrocarbures (SNH) and of the direct interventions in the Government Financial Operation Table (TOFE).* The direct interventions of SNH help to respond to emergencies mainly security-related, in a fast and flexible manner. In 2016, these interventions amounted to 60 percent of total petroleum royalties. The government intends to maintain SNH's direct interventions at a level compatible with the security challenges the country faces. however, to avoid a downstream shift of expenditure planned in the annual budgets, the level of these interventions will be limited to 50 percent of the amount of the SNH royalty in 2018, and

thereafter gradually reduced. All oil revenues, as well as the amount of the direct interventions, will be indicated as memorandum items in the TOFE, in addition to the amount of the royalty. Starting in 2018, we will aim to provide sufficient budget allocations to cover all security expenditure.

- *Develop a strategy for a progressive expansion of the scope of the Treasury Single Account (TSA) and make an inventory of all the accounts of public administrative entities (EPA) in commercial banks and strictly limit the opening of new bank accounts.* These two structural benchmarks aim at improving cash management by maximizing the use of the available resources and avoiding borrowing costs.
- *Adopt and submit to COBAC a strategy to clear the portfolio of commercial banks' non-performing loans.* A strategy document for the resolution of non-performing loans has been sent to COBAC for opinion and it identifies topics that will need to be further developed and addressed in the coming months.

Modified and Rephased Structural Benchmarks

- *Inventory and confirm by end-September 2017 at the latest, all unpaid obligations and amounts due by the central government from previous fiscal years.* This structural benchmark has not been respected. In fact, rather than itself carrying out an audit (inventory and validation) of the unpaid obligations and amounts due by the central government from the previous fiscal years, the government has chosen to bring in an independent outside firm, to give this exercise greater legitimacy. Consequently, the compliance with this benchmark will require more time; the government wishes to achieve this objective by end-March 2018 (rescheduled structural benchmark). On this basis, the government wants to reset to March 2018 the benchmark related to the preparation by end-December 2017 of a gradual plan for the clearance of these amounts, to be included in the budget (rescheduled structural benchmark). Similarly, the government proposes to reset the benchmark for the production of the quarterly monitoring reports reviewing the balances of outstanding unpaid government obligations and other amounts due to July 2018 (from April 2018).
- *Adopt a resolution plan for distressed banks and submit it to the COBAC.* The resolution strategy for the distressed banks has been summited to the COBAC, slightly behind schedule (in September instead of August as required). However, this plan will still be completed by June 2018, along the lines defined in paragraph 31.
- *Strengthening the collection of the land tax by linking it to the electricity distribution system and share the proceeds of this tax between the central government and the decentralized local governments (December 2017 structural benchmark)*. This measure was not included in the 2018 budget law and the government proposes to postpone it to December 2018 for inclusion in the 2019 budget, in order to address remaining technical issues linked to the collection of this tax. However, since 2016 the pre-filled land tax declarations are included in the electricity bills, which has already and will continue to expand the taxpayer registry.

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

A. Program Objectives

11. The program objectives remain fiscal consolidation, aimed at increasing fiscal and external buffers while safeguarding social spending and social protection arrangements. In addition, the government will carry out structural fiscal reforms so as to broaden the non-oil revenue base, improve the effectiveness of public investment and the quality of the budgetary arrangements, and mitigate contingent liability risks on the budget. Finally, the program also targets reforms aimed at accelerating economic diversification driven by the private sector and at strengthening the resilience of the financial sector.

B. Macroeconomic Framework

12. The slowdown in economic growth is set to continue in 2017, in particular considering the unfavorable economic environment in the sub-region and weak petroleum production. Growth is estimated at 3.7 percent in 2017 and is projected at 4.2 percent in 2018. This growth is centered on the ongoing buoyancy of the agro-pastoral and manufacturing sectors, and on sustained growth in the construction sector, itself pulled along by public investments and preparations for the African Cup of Nations (*Coupe d'Afrique des Nations*—CAN) in 2019. It is expected to increase steadily, reaching 5.1 percent in 2020 and levelling out at 5–6 percent over the medium term. Growth will benefit from the coming into operation of natural gas production, and from the reinvigoration of manufacturing industry and agriculture.

13. Fiscal consolidation continues, despite a constraining economic and security environment. The government reasserts its commitment to meeting the objectives of lowering the fiscal deficit from 6.2 percent of GDP in 2016 to 2.1 percent of GDP in 2019 (on a commitments basis, including grants). This consolidation will be achieved simultaneously through non-oil revenue collection and expenditure control.

14. The slowdown in growth, as well as the more restrictive regional monetary policy that the BEAC is implementing, will continue to weigh on monetary aggregates. At end-2017, money supply growth is expected to decline to 5 percent, and that of credit to the private sector to 5.6 percent. The regional monetary policy also causes difficulties for the government to finance itself on the money market. These difficulties, combined with large payments under Treasury correspondents, could result in lower-than-expected accumulation of Treasury deposits at the BEAC compared to initial projections (but nevertheless in line with program objectives). However, the rapid increase in the banks' reserves, if sustained, could help maintain or even exceed the expected level of reserves.

15. The growth of foreign exchange reserves is set to continue to the end of 2017, sustained by the budgetary adjustment under way and the good performance of the external

accounts. The current account deficit is expected to be 2.6 percent of GDP, down from 3.2 percent of GDP in 2016, thus contributing to a larger-than-initially envisaged buildup of net foreign assets.

16. Public debt would increase with the disbursement of budget support, the implementation of planned investment projects, and the conversion of the statutory advances. It is likely to be around 33.8 percent of GDP, representing an increase of 2 percentage points of GDP compared to end-2016. However, almost half of this increase is due to the conversion of statutory advances into deposits at the BEAC, the remainder stemming from the drawdowns on project loans and expected budget supports under the program. Over the medium term, public debt should stabilize in 2018–19 before gradually declining under the combined effect of consolidation of public finances and resumption of growth.

17. However, this baseline scenario poses a number of risks, both external and domestic. These include: (i) a rapid widening of imbalances at the regional level following insufficient adjustment by the member states or insufficient control by the BEAC on the issue of "free riders", leading to further decline in foreign exchange reserves; (ii) a potential resurgence of the terrorist threat in the Lake Chad Basin, which would involve additional security costs and further drain the already scarce budget resources; or (iii) persistent sluggish external demand that would reduce non-oil exports. However, if the price of oil per barrel came to increase further, that could mitigate this risk. The government is prepared to implement additional measures if any of these risks were to materialize. The government has also committed to budget a larger part of its security expenses and to initiate efforts to seek funding, with the support of the United Nations, to help bear the additional humanitarian costs.

C. Fiscal Policy

Fiscal Policy Objectives for the Remainder of 2017

18. Low oil revenues require an increased effort to mobilize non-oil revenue, and to recalibrate spending so as to maintain the deficit target for 2017. In comparison with program's projections, a shortfall of about 0.7 percent of GDP is expected on tax revenues, mainly driven by a decline in oil revenues (0.3 percent of GDP).

- Additional revenue mobilization efforts will be implemented to meet the revenue increase and deficit reduction objectives set in the program. With regard to non-oil revenue, the tax and customs administrations will pursue resource mobilization efforts by enhancing the collection of tax arrears and by completing the joint tax controls and investigation efforts in selected sectors. These efforts, together with the use being made of the results of the cross-checking of customs and tax department files, as well as the strengthening of the monitoring of taxpayers' reporting obligations, should help achieve the program's objectives regarding the mobilization of non-oil tax revenues. As regards customs revenues, the goal will be to maximize revenue collection on end-year imports, finalize ongoing controls and strengthen arrears collection.

- The government is also committed to creating fiscal space on current expenditure, restructuring expenses, and some capital expenditures, in order to maintain the program's overall deficit target by end-2017. In particular, efforts will be made to keep the disbursement of non-concessional external financing within the program limits. At end-October 2017, these disbursements amounted to CFAF 447 billion, including CFAF 356.5 billion on non-concessional loans, in line with the program's limit of CFAF 540 billion.

19. Cash management is hindered by the delay in budget support disbursements to year-end. This challenge is exacerbated by the tightening of financing conditions on the domestic market, with relatively high interest rates. For the months of November and December 2017, the cash need to cover the budget execution would amount to some CFAF 130 billion. Nevertheless, benefiting from improved liquidity conditions of the banks in the third quarter, we envisage more substantial and more frequent Treasury bills issuances, which – supported by prudent cash management—will help limit the liquidity needs. Finally, the government could make limited and temporary recourse to statutory advances, not exceeding a total of CFAF 100 billion to meet some urgent budget outlays, which will be reimbursed thanks to the budget support disbursements made by some technical and financial partners, while continuing to observe the commitments made in the context of the program at end-December 2017, as well as under the Central African Monetary Union (*Union Monétaire d'Afrique Centrale—UMAC*). According to the decision of the Board of Directors of the BEAC of August 5, 2017 on the consolidation of governments' commitments towards the BEAC, by 31 December, 2017, Cameroon shall draw the available remaining balance remaining, up to the ceiling of CFAF 577 billion, which is to be deposited in an account at the BEAC remunerated at the consolidation rate. However, this consolidation will not affect the objectives of the program with regard to net accumulation of government deposits at the BEAC.

Fiscal Policy Objectives For 2018–19

20. The 2018 budget law is in line with program objectives. It envisages, in particular, the pursuit of the fiscal consolidation objective, with a reduction of the deficit from 3.1 percent of GDP in 2017 to 2.3 percent of GDP in 2018. This target will be met, on the one hand, through increased mobilization efforts of non-oil revenue (which would expand by 0.6 percent of GDP) and further prioritization of expenditure for around 0.3 percent of GDP. The key measures in the budget law are as follows:

- With regard to revenue, starting in 2018, the authorities are planning: the increase of the airport stamps duty rate; an increase in the excise tax on arms and ammunitions and in the export tax on processed timber; the elimination of the exemption of the pre-payment of duties on tourism vehicles' imports; and the institution of excise duties in the gambling sector, inter alia. These measures are included in the draft 2018 budget law and should contribute to improved revenues.
- To broaden the tax base, the authorities have already included the land tax in the electricity bill and share its proceeds between the central government and the decentralized local governments and will, starting with the 2019 budget law, link the payment of the land tax to that of the electricity bill (reprogrammed structural benchmark).

- In addition, a study on tax expenditures has been carried out; its report is attached to the draft 2018 budget law. Exemptions that are not pertinent will be subject to a gradual phasing out starting with the 2019 budget law. These measures will contribute, in the medium term, to a better supervision of derogatory regimes in order to limit shortfalls resulting from exemptions and other tax expenditures.
- In 2018, the DGD will focus on the overhaul of the overall export taxation policy, the renewed taxation of certain goods which were exempted in 2008, the improvement of the customs clearance procedures for petroleum products at the SONARA, and the submission of some products to excise duties on imports.
- As regards non-tax revenue, the measures being considered are aimed, on the one hand, at broadening the tax base through the creation of revenue boards at the organizations that do not already have one, and, on the other hand, at securing collected revenues through controls of their actual payment to the Treasury.

21. The expenditure projections are based on further containment of current spending and the implementation of priority investment projects. Under current expenditure, the government commits to: (i) strengthen the control of personnel costs; (ii) review the lists of reference prices (for public procurement) [mercuriale des prix] including that for rents; (iii) control expenditures on goods and services; and (iv) rationalize the subsidies granted to public entities. In terms of investment spending, the government will continue to prioritize projects with the greatest impact on growth, based on the pre-established criteria defined in the memorandum of June 2017.

22. The government has started to prepare a strategy looking to ensure the sustainability of the petroleum price structure, and to reduce the financial vulnerability of SONARA to the fluctuations in world oil prices (structural benchmark). This strategy includes simulations of the impact of a fixed mark-up coefficient for SONARA to reduce the volatility of its revenues, as well as other options aiming at making the pricing structure more transparent and equitable.

23. Tax policy measures will be accompanied by greater efforts to accelerate the implementation of the current reforms, aimed at improving the efficiency of the tax and customs administrations.

- Regarding the tax administration, the continuation in 2018 of the implementation of administrative measures aimed at improving VAT efficiency is envisaged, with the operationalization of seven new Tax Centers for Medium-Size Enterprises (CIMEs) starting in January 2018, and the improvement of revenues from registration fees, through the extension of the computerized procedure for registering ownership transfers of used vehicles to the other tax regions (in addition to the port of Douala, where the mechanism is already operational). Likewise, as in 2017, the tax revenue improvement strategy will also rely on strengthening of the collection of tax arrears.
- In addition, the strengthening of information exchanges and collaboration with customs through the taxation of importers unknown to the DGI registry, the optimal control over the derogatory regimes, and the finalization of the joint DGI/DGD investigations and controls should contribute to

improving the efficiency and performance of the tax and customs administrations in 2018. Regarding, in particular, the taxation of the importers unknown to the DGI registry, the tax authorities will implement measures to locate and retain these taxpayers to ensure their compliance with spontaneous tax payments. Regarding their previous operations, they will be subject to investigation and control procedures that could produce additional results in 2018. In any case, these taxpayers will no longer be able to import through customs unless they are registered in the DGI database. A measure in the 2018 budget law will confirm this prohibition.

- Regarding the DGD, apart from the joint actions initiated with the DGI, reforms that are aimed at increasing revenue mobilization will focus on consolidating the achievements of 2017, in particular the good performance of the new measures of the 2017 budget law, the strengthening of the monitoring system aimed at reducing fraud, the clarification of the taxation of software, the setting up of warehouses for vehicles less than 10 years old, the securing of revenue, the improvement of costs and transit times achieved through the 100 percent scanning of merchandise, and the acceleration of the move to paperless procedures before and after customs clearance, through the e-force application.

D. Structural Public Finance Reforms

24. The assessment of Cameroon's public financial management system under the Public Expenditure and Financial Accountability (PEFA) highlighted paths for strengthening public financial management. A dynamic has been observed in the steering of public finance reforms by the holding of sessions of the two main committees responsible for guiding this reform, namely, at the internal level, the Steering Committee for Public Finance Reforms and the Committee of the Platform for Dialogue on Public Finance Reforms, which includes, among others, the development partners as well as the civil society. The results already achieved are as follows:

- The six draft texts to transpose the 2011 CEMAC Guidelines of the Harmonized Framework of Public Financial Management have been sent to the CEMAC Commission for a notice of compliance.
- Progress has been made in streamlining the budget preparation process and the integration of the Medium-Term Budget Framework (MTBF) with the 2018 budget law, in particular the holding of the first Extended Programming Conferences as part of the institutionalization and steady improvements in reliability of the MTBF, and changeover of the MTBF in the budget preparation module for the application in PROBMIS.
- Regarding budget execution, the mid-term budget execution reports have been regularly produced and published and the committee for the migration of the TOFE from the cash basis to the payment order basis was created and its work has begun. On performance-based management, the implementation of management control has been amplified with the rollout of the management dialogue in the ministerial departments.
- Public investment management optimization is ongoing, by: (i) strengthening the system for monitoring the implementation of the government investment budget, put in place in 2017; (ii) the consolidation of the bank of projects with the support of the African Development Bank

(AfDB) and the World Bank; (iii) steady improvements in reliability of the management in Commitment Authorizations and Payment Credits for better budgetary monitoring of government commitments; (iv) the consolidation of the approach of reducing “disguised operating” expenditure in the Public Investment Budget; (v) the implementation of actions aimed at anticipating procurement procedures with a view to reducing project preparation times and giving more time to the effective implementation of projects; (vi) strengthening the preparation of the public investment projects according to the guidelines of the Guide of Maturation of Public Investment Projects revised at end-2017; and (vii) pursuing the review of the procurement code and the professionalization of the actors involved in the procurement system.

25. The government also envisages the following measures, in addition to those already taken under the program:[3]

- After receiving the opinion from the CEMAC Commission on the texts transmitted, continue the process of transposition of the Directives into the national legal system, through inter alia, the adoption by Parliament of the daft laws on the revision of the government financial regime and the code of transparency and good governance. In parallel, conduct the study on the institutional and regulatory impact of the reforms induced by the transposition of these directives.
- Revisit the performance frameworks of the ministerial departments and institutions in the run-up to entering the third triennium of program-based budgeting 2019–21.
- Effectively migrate to a TOFE on a payment order basis.
- Strengthen budget controls by gradually reducing the supplementary period to two months, in accordance with the 2019 budget law (new structural benchmark) and to one month in 2020, in line with the CEMAC directive.
- Continue to reduce the direct interventions of the Société Nationale des Hydrocarbures (SNH).
- Improve cash management by increasing the coverage of the TSA. In this regard, the inventory of bank accounts of the Administrative Public Entities (EPAs) has already been completed, and a strategy for broadening of coverage of the TSA prepared. In order to operationalize this strategy, the government has pledged to prepare a schedule for implementation of the actions adopted under the four focus areas, as well as of the enabling conditions, in particular: (i) the legal framework and cash management system, which should be adapted to the new circumstances; and (ii) the availability of technical assistance to support the public treasury in the carrying out of the various stages consistent with the effective implementation of the TSA. Deadlines will be defined in 2018, following the technical assistance support and the review of the legal framework.
- Reduce the exceptional procedures, in particular by prohibiting any new replenishment of the correspondent 450 accounts from budget allocations, and of the 420 accounts that do not have a senior accounting officer, in making all of the investment projects subject to the normal budget procedures (new structural benchmark; circular of the Minister of Finance).

[3] See the Memorandum of Economic and Financial Policies of June 26, 2017, paragraphs 28 to 34.

- Strengthen the monitoring of fiscal risks linked to the state-owned enterprises, and undertake audits of the largest structurally loss-making public enterprises. A government platform responsible for monitoring the performance of the state-owned enterprises has been set up. It is in this context that an assessment of the certified financial statements of the state-owned enterprises was carried out, based on a number of ratios, in particular the debt ratio and default ratio and the operating margin—the objective being to assess the level of exposure of the government budget in reference to these enterprises. This work resulted in a classification of the state-owned enterprises into four groups: (i) heavily loss-making companies; (ii) loss-making companies; (iii) profit-making companies; and (iv) strongly profit-making companies. In addition, an analysis of the fiscal risks incurred by the companies engaged in PPP contracts has been conducted.

E. Debt policy

26. Debt policy continues to be centered on the need to avoid the risk of overindebtedness and to place public debt on a sustainable path. The government intends to continue to limit non-concessional borrowing in line with the limits defined in the program, which are consistent with the findings of the debt sustainability analysis. For 2018–19, the non-concessional borrowing ceilings will be set in line with: (i) the execution rate for the three previous years; (ii) the volume of projects regarded as mature; and (iii) the disbursements envisaged under the committed but non-disbursed balances *("soldes engagés non-décaissés"—SENDs)*. It intends to strengthen the control by the National Public Debt Committee (CNDP) over all new borrowing proposals, including by the state-owned enterprises, at the very start of the process, specifically in advance of the ratification by the Boards of Directors of the financial partners and of the preparation of drafts of signing authorization decrees.

27. The government reasserts its commitment to containing new borrowing within the limits set in the program. Although the commitments signed in the first half of 2017 amount to CFAF 1,369 billion on an annual ceiling of CFAF 1,700 billion allocated in the budget, the signing of new commitments has slowed dramatically, in compliance with the program's parameters. However, the non-concessional loans contracted since the start of the program are valued at CFAF 164 billion, on a CFAF 100 billion ceiling adopted under the program mainly due to the signing in November 2017 of a loan initially planned in the 2018 borrowing plan (Text table 1). Hence, for 2018, this limit on non-concessional debt has been reduced from CFAF 500 billion to CFAF 436 billion. The government intends to incorporate this indebtedness threshold within the draft 2018 budget law, in prioritizing projects on the basis of the following criteria: (i) projects with high socio-economic impact and that contribute to gross fixed capital formation; (ii) completion of the first-generation projects; (iii) bridging projects for the commissioning of the first-generation projects; (iv) projects with concessional financing; and (v) urgent tourism and sports infrastructure projects in the context of the 2019 CAN (Text table 2).

Text Table 1. Cameroon: Concessional and Non-Concessional Borrowing, January-November 2017

	Project	Creditor	Sector	Amount (CFAF bn)	Grace Period (years)	Maturity (years)	Concessionality
	I. Before approval of the program with the International Monetary Fund						
1	Maternal, neonatal and child health project	IDB	Health	3	7	25	Concessional
2	Maternal, neonatal and child health project	FSID	Health	7	5	20	Concessional
3	Development Project for the Transport Sector	IBRD	Transport	113	7	30	Concessional
4	Development project for the marketing of livestock and farming infrastructure in Cameroon	IDB	Livestock	3	7	25	Concessional
5	Development project for the Yde-Brazzaville international corridor, phase II (mintom-lele)	JICA	Transport	31	10	40	Concessional
6	Transport sector support program Phase II	FAD	Transport	10	5	30	Concessional
7	Livestock Development Project	IDA	Livestock	58	7	25	Concessional
8	Project to upgrade the electricity tranmission network and to reform the sector (SONATREL)	IBRD	Energy	191	7	30	Concessional
9	Construction project for single-circuit 225 KV lines between Nkongsamba - Bafoussam and Yaoundé - Abongmbang	EXIMBANK INDIA	Energy	57	5	15	Non-concessional
10	Supply of drinking water to Meyomessala, Nkongsamba and Melong	EKSPORTKERDITT NORGE	Water	38	2	10.5	Non-concessional
11	Construction project for evacuation lines on the Memve'ele hydroelectric dam	EXIMBANK CHINA	Energy	88	3	15	Non-concessional
12	Construction project for 10,000 social housing units (1,000 homes)	INTESA SAN PAOLO	Logement	14	0.5	5	Non-concessional
13	Construction project for 10,000 social housing units (industrial base)	INTESA SAN PAOLO	Housing	101	2.5	12.5	Non-concessional
14	Maternal, neonatal and child health project	IDB	Health	7	3	15	Non-concessional
15	Project to provide water supply and sanitation in rural areas	IDB	Water	2	5	20	Non-concessional
16	Project to provide water supply and sanitation in rural areas	IDB	Water	16	5	19	Non-concessional
17	Construction project for the deep-water port of Kribi, phase 2	Eximbank China	Infrastructure	89	5	20	Non-concessional
18	Construction project for the deep-water port of Kribi, phase 2	Eximbank China	Infrastructure	322	5	20	Non-concessional
19	Development project for the marketing of livestock and farming infrastructure in Cameroon	IDB	Livestock	3	5	20	Non-concessional
20	Development project for the marketing of livestock and farming infrastructure in Cameroon	IDB	Livestock	19	5	20	Non-concessional
21	Integrated Rural Development Project (Chari Logone 2)	IDB	Agriculture	15	5	20	Non-concessional
22	Integrated Rural Development Project (Chari Logone 2)	IDB	Agriculture	3	5	20	Non-concessional
23	Transport sector support program Phase II	AfDB	Transport	177	5	25	Non-concessional
	TOTAL I			**1,369**			
	of which: **concessional**			**417**			
	non-concessional			**952**			
	II. After approval of the program with the International Monetary Fund						
24	Project for the management of hazardous hospital waste Phase 1	Raiffessen Bank	Health	3	7	20	Concessional
25	Project to upgrade the national system for blood transfusion in Cameroon	IDB	Health	4	5	12	Concessional
26	Project to upgrade the national system for blood transfusion in Cameroon	IDB	Health	8	3	15	Concessional
27	Project to upgrade the national system for blood transfusion in Cameroon	IDB	Health	3	7	25	Concessional
28	Project to strengthen and stabilize the electricity transmission networks of Yaoundé	Deutsche Bank	Energy	13	2.75	12.75	Non-concessional
29	Project to strengthen and stabilize the electricity transmission networks of Yaoundé	Deutsche Bank	Energy	11	2.75	12.75	Non-concessional
30	Project to strengthen and stabilize the electricity transmission networks of Yaoundé	Deutsche Bank	Energy	9	1	12.75	Non-concessional
31	Project for the electrification of 350 communities using a photovoltaic system Phase II	Bank of China	Energy	68	2	10	Non-concessional
32	Project to rehabilitate the Douala soccer stadium	Standard Chartered	Sport	63	0.5	8	Non-concessional
	Total I			**183**			
	of which: concessional			**19**			
	Non-concessional			**164**			
	Total (I+II)			**1,551**			
	of which: **concessional**			**436**			
	Non-concessional			**1,116**			

Source: Cameroonian authorities.

Text Table 2. Cameroon: Preliminary Borrowing Plan, 2018

Projects	Lender	Sector	Amount (billion CFAF)	Type
Inclusive and resilient cities project	World Bank	Infrastructure	94	Concessional
Logone bridge	EU and AfDB	Infrastructure	69	Concessional
Rural electrification project	OPEP Fund	Energy	8	Concessional
Credit line for the import of fertilizer	Arab Bank	Agriculture	16	Semi-concessional
Olama-Kribi road	Kuwaiti Fund and AfDB	Infrastructure	16	Semi-concessional
2019 Africa Soccer Cup	BMCE Bank international, Eximbank USA	Infrastructure	76	Non-concessional
Ebolowa-Kribi and Mbalmayo-Mekin electricity distribution lines	Bank of China	Energy	104	Non-concessional
Electricity distribution lines for Kribi port	China Development Bank	Energy	18	Non-concessional
Urban security project (phase 1)	Bank of China	Infrastructure	23	Non-concessional
Oil import by SONARA	Islamic Development Bank	Energy	45	Non-concessional
Project to strenghen and stabilize electricity transmission in Douala	Societe Generale	Energy	119	Non-concessional
Train cars for CAMRAIL (phase 1)	Standard Chartered Bank	Transport	8	Non-concessional
Total			**595**	
concessional			171	
semi-concessional			32	
non-concessional			393	

Source: Cameroonian authorities.

28. **Financing of the 2018 budget rests on a mix of domestic and foreign lending.** Based on the debt sustainability analysis, and taking into account the absorption capacity of the domestic market, domestic disbursements projected in the 2018 budget are evaluated at CFAF 356 billion, including CFAF 260 billion in government securities and CFAF 96 billion in direct borrowing with domestic banks. The external financing expected in 2018 includes, in addition to the budget support, loan disbursements in the amount of CFAF 560 billion, deriving mostly from project loans already signed. The list of projects selected mainly covers road infrastructure, the energy sector and the CAN.

29. **The government has undertaken a study on the SENDs and envisages a plan for the reduction of those related to projects that are not mature.** The CNDP has in fact identified projects subject to SENDs of more than four years, worth approximately CFAF 1,000 billion, for their elimination or reorientation in the event that they can no longer be justified. This should significantly reduce the stock of SENDs by end-2019. In addition, the envisaged reduction of the SENDs could also result in a controlled increase in disbursements on projects with a strong financial and socio-economic return, capable of significantly increasing national wealth, contributing to containing the budget deficit within the constraints targeted by the program.

F. Regional Monetary Policy and Financial Sector Stability

30. **The government is committed to continuing to implement policies that are consistent with maintaining the stability of the monetary arrangement.** The government takes note of the decision of the BEAC's Board of Directors to eliminate the statutory advances by December 31, 2017, and is committed to continuing to comply with the parameters of the program in terms of net central government financing by the BEAC. In addition, the government intends to continue to promote development of the financial market by financing itself mainly through the issuance of government securities.

31. The plan for resolution of distressed banks will aim to limit its fiscal cost. For that purpose, the government will strengthen the plan already submitted to the COBAC on September 27, 2017 by incorporating the following items: (i) an upgrade of the public asset recovery company's (*Société de recouvrement des créances—SRC*) methodology for assessing the transfer price of the impaired assets, so as to avoid additional costs for the government; (ii) an assessment (in terms of feasibility and cost) of the various options for the distressed private banks (from orderly liquidation to the continuation of operations) and the establishment of strong principles governing the support to the private banks, so that they may be recapitalized by June 2018. Otherwise, a solution according to the parameters defined in paragraph 43 of the memorandum of June 2017 will be implemented; (iii) an evaluation of the cost for restructuring the public bank, accompanied by a detailed restructuring plan for the bank (including the financial projections, the underlying assumptions, assessment of the capacity of the management to carry out the restructuring, the investment needs, etc.), as well as putting in place a performance contract with the management of the bank, specifying the main goals to be achieved (staff costs, intermediation margin, introduction of risk management tools, etc.). This reprogrammed structural benchmark will be finalized in consultation with IMF staff by June 2018.

32. The strategy for clearance of bad loans identified several areas, which will be developed in detailed action plans. The action plans will identify the authorities responsible, the initiatives undertaken, and a timetable for implementation. They will be prepared at the latest by June 2018 and will cover in particular the terms for renegotiation of bad loans between creditors and debtors and the strengthening of judicial and extrajudicial procedures. By December 2018, the Ministry of Justice will have trained judges in the resolution of bank conflicts, who sit in the commercial chambers of the main business centers (new structural benchmark). These actions will serve to supplement those in progress: the development of the CIP-FIBANE-CASEMF platform and the digitization of the movable collateral registry (structural benchmarks for March 2018). The National Credit Council will liaise with the BEAC to reconcile and ensure consistency between the national and regional initiatives for financial information databases (*Centrale des incidents de paiements—CIP*, credit risk bureau—*centrale des risques*, balance sheet information center—*centrale des bilans*).

33. The business model of the SMEs' bank will be reviewed. The business plan of the SMEs' bank will be updated. In particular, we will study the possibility of promoting the issuance of guarantees or financing facilities to the commercial banks, rather than direct lending.

G. Competitiveness and Private Sector Development

34. The government is committed to accelerating the implementation of measures designed to support the development of the private sector and the diversification of the economy. The commissioning of several large projects in the transportation and energy sectors starting in 2018 will help remove substantial bottlenecks on growth by promoting private investment. In addition, the government plans to pursue further efforts to provide support to private operators, through the business upgrade program, the establishment of land reserves for the benefit of agro-industries, the structuring of production areas, and a better supply of inputs. The government is also continuing to work on implementing measures to improve the business climate, in conjunction with its technical and financial partners. Ongoing reforms include:

a. The modernization of the legislative framework, through the revision of the CEMAC Customs Code and the implementation of the CEMAC Customs Tariff, in line with the 2017 version of the Harmonized System (HS), as envisaged in the context of the regional reforms. The CEMAC Customs Code has been revised and awaits ratification by the Ministerial Committee of the Central African Economic and Monetary Union. The CEMAC Customs Tariff in the 2017 version of the HS will be implemented in Cameroon starting from January 1, 2018.

b. The finalization in 2017 of the digitized land registry map of the cities of Douala, Yaoundé, Garoua and Maroua, as well as the national map;

c. The computerization of the commerce and equipment credit registry;

d. the setting up of an escrow account dedicated to the reimbursement of VAT credits is in effect and has allowed the reduction of the stock of credits due for reimbursement, from CFAF 51 billion on December 31, 2016 to CFAF 19 billion on October 20, 2017. An assessment of the functioning of this mechanism will be carried out by December 31, 2017. For 2018, the authorities intend to continue improving the system for VAT credits reimbursement, with the generalization of online tracking of reimbursement requests. Similarly, the possibility of reimbursement without prior checking for honest taxpayers will be enshrined in the 2018 budget law;

e. the implementation of the mobile phone declaration and payment procedure for micro and small-sized enterprises in the departmental tax centers;

f. The reduction of processing times for government invoices between the commitment and the acceptance for payment by the Treasury, in an effort to ease the liquidity constraints facing service providers (structural benchmark).

g. The finalization of the land reform, including reducing transaction times and facilitating access to ownership for all participants.

V. PROGRAM ARRANGEMENTS

35. The government will take all the measures needed to reach the objectives and 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 second review of the program will be based on end-December 2017 targets and is expected to be completed on or after June 30, 2018 and the third program review will be based on end-June 2018 targets and is expected to be completed on or after December 15, 2018.

Table 1. Cameroon: Quantitative Performance Criteria and Indicative Targets and Projections, 2017–18

(Billions CFA Francs, cumulative for each fiscal year)

	2017						2018			
	End-Mar	End-Jun			End-Sep	End-Dec	End-Mar	End-Jun	End-Sep	End-Dec
		PC	Actual	Status	IT	PC	IT	PC	Proj	Proj
A. Quantitative performance criteria and indicative targets 1/										
Floor on the non-oil primary fiscal balance (commitment basis)	**-61**	-392	-307	Met	-708	-974	-53	-320	-519	-777
Ceiling on the net domestic financing of the central government excluding IMF financing 2/	**-73**	-18	-79	Met	78	-200	-43	-153	-76	5
Ceiling on net borrowing of the central government from the central bank excluding IMF financing 2/	**-35**	0	-61	Met	85	-253	-304	-403	-316	-376
Ceiling on the disbursement of non-concessional external debt contracted as of the date of program approval		280	205	Met	540	540	350	350	596	596
B. Continuous quantitative performance criteria 3/										
Ceiling on the accumulation of new external payments arrears		0	0	Met	0	0	0	0	0	0
Ceiling on new non-concessional external debt contracted or guaranteed by the government 4/; 5/; 6/		100	0	Met	100	100	436	436	436	436
C. Indicative Targets										
Floor on non-oil revenue	**599**	1,185	1,231	Met	1,811	2,457	689	1,331	1,958	2,616
Ceiling on the net accumulation of domestic payment arrears	**-115**	0	-97	Met	0	-57	0	0	0	-146
Floor on social spending		253	265	Met	406	624	144	288	460	657
Ceiling on direct interventions of SNH	...	168	90	Met	168	168	156	156	156	156
Memorandum items:										
1. Cumulative external budget support, excluding IMF (earliest disbursement)	**0**	0	0		44	337	0	131	131	261
2. New concessional external debt contracted or guaranteed by the government 7/	**3**	100	0		100	100	152	152	152	152

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 of 2017.

3/ The targets for 2017 are set from the time of program approval.

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

5/ This criterion applies from the date of approval of the program for 2017, and from the beginning of each calendar year thereafter. As of October 17, the Government has signed CFAF 1050 billion of non-concessional borrowing in 2017.

6/ The ceiling will be adjusted upwards by the amount of non-concessional budget support excluding IMF financing for debt management purposes, up to the amounts specified in memorandum item No. 1 below.

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

Table 2. Cameroon: Structural Benchmarks, 2017–18

		Timetable	Indicator	Stage of progress
Fiscal policy and revenue mobilization				
1	Include the total petroleum receipts of national oil company SNH and direct interventions in the table of government financial operations (TOFE).	Monthly, starting in June 2017	Monthly TOFE	Met
2	Publish the petroleum product price structure on a monthly basis.	Monthly, starting in June 2017	Publication on line and in newspapers	Met
3	Publish quarterly budget execution reports.	Quarterly, starting in June 2017	Publication on line and in newspapers	Met
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.	Quarterly, starting in June 2017	Report submitted to Fund staff	Met
5	Submit to the CEMAC Commission a draft law transposing the CAEMC directive on budget laws into the national legal system.	September 2017	Revised draft law presented to the CEMAC Commission	Met
6	*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.*	December 2017	2018 budget law	Proposed to be re-programmed
7	Prepare a strategy aiming at ensuring the sustainability of the petroleum products' price structure and the financial viability of the SONARA.	December 2017	Strategy Paper submitted to Fund staff	Strategy being prepared
8	Prepare a report (i) evaluating the effectiveness of the new VAT escrow account funding mechanism and (ii) proposing, in cooperation with the Directorate General of Treasury, a plan to clear the stock of credits identified at December 31, 2016.	December 2017	Report submitted to Fund staff	Report being prepared
9	Prepare a national social protection strategy (or policy) to be implemented starting with the 2018 budget.	December 2017	Consultant Report	Strategy being prepared
10	Implement the interface between the taxpayer registration database (NIU) and the tax management application (MESURE)	June 2018	Interfacing report prepared by the DGI and submitted to Fund staff	Preparatory work for interfacing (Improving the reliability and cleaning up of the database) in progress
Public finance and debt management				
11	Prepare an inventory of all accounts of public administrative establishments with commercial banks, and strictly limit the opening of new bank accounts.	June 2017	Inventory submitted to Fund staff	Met
12	*Inventory and confirm balances payable and arrears from previous fiscal years.*	September 2017	Audit report submitted to Fund staff	Not Met; Proposed to be changed to a new structural benchmark
13	Adopt a strategy to gradually broaden the coverage of the Single Treasury Account.	September 2017	Strategy Paper submitted to Fund staff	Met
14	Report the nature and scale of the contingent liabilities in an annex to the budget including firm and contingent liabilities of all existing PPPs.	Annual, starting in October 2017	Annexed to the Budget Law	Met
15	*Adopt a plan for the gradual clearance of balances payable and arrears for prior fiscal years.*	December 2017	Report submitted to Fund staff	Proposed to be changed to a new structural benchmark.

Table 2. Cameroon: Structural Benchmarks, 2017–18 (Continued)

		Timetable	Indicator	Stage of progress
16	*Produce a quarterly report on balances payable and arrears for prior fiscal years.*	Quarterly, starting in April 2018 (information on balances at end-2017)	Report submitted to Fund staff	Proposed to be changed to a new structural benchmark
17	Update and implement the guide to the project maturity process.	December 2017	Circular signed by the Prime Minister	In progress
Financial sector stability and private sector led growth				
18	Adopt and submit the Central African Banking Commission (COBAC) a strategy to clear the commercial banks' nonperforming loans.	September 2017	Strategy submitted to COBAC by the Minister of Finance	Met, strategy to be completed
19	Adopt a plan to resolve troubled banks and submit it to the COBAC.	August 2017	Plan submitted to COBAC by the Minister of Finance	Not met, executed on 09/27/2017
20	Expand access to creditor databases to all credit and microfinance institutions.	March 2018	Database available	In progress
21	Computerize the register of movable collateral.	March 2018	Register available online	In progress
22	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	In progress
New structural benchmarks				
1	Verify the stock of domestic arrears at end-2016 by conducting an external audit.	March 2018	Submit the audit report	Recruitment of a consultant underway
2	Adopt a plan for the gradual clearance of domestic arrears for prior fiscal years.	March 2018	Submit a plan to Fund staff	
3	Produce a quarterly report on balances payable and arrears for prior fiscal years.	Quarterly, starting in July 2018	Submit a report to Fund staff	
4	Prohibit any new funding of 450 correspondent accounts using budget allocations and of 420 accounts for which there is no principal accountant, by making all investment projects subject to regular budgetary procedures.	January 2018	Circular issued by the Minister of Finance	
5	Ensure compliance with the supplementary fiscal period of two months provided for by law starting from 2018.	Apr-18	TOFE final 2017	
6	Revise the plan for dealing with troubled banks	Jun-18	Plan finalized in consultation with Fund staff	
7	Provide training in banking dispute resolution for commercial court judges in the major business centers	Dec-18	At least 10 judges trained in the fiscal year	
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	

Attachment II. Technical Memorandum of Understanding Provisions of the Extended Credit Facility (ECF)

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 targets for end-December 2017 and end-June 2018** 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.

Fiscal 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 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 Loans Signed Before the Date the Program was Approved

Performance criteria

28. A ceiling on disbursements of non-concessional external debt contracted before the date the program was approved is defined as a quantitative objective in Table 1 of the MEFP. This performance criterion is applicable to contractual debt arranged but not disbursed at the date the program is approved. This performance criterion is based on external debt as defined in paragraph 14 and uses the concept of concessionality as defined in paragraph 15 of this 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 statutory advanced (capped at CFAF 300 billion), refinancing of guaranteed bonds, and treasury securities held by the Central bank, and on the other hand deposits of the Treasury with the Central Bank and cash balances.

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 (above) 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 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. The 2017 ceiling applies to new non-concessional external debt contracted or guaranteed in the period between program approval until December 31st, 2017. The 2018 ceiling will apply to new non-concessional debt contracted or guaranteed in 2018. The 2018 ceiling is set at CFAF 436 billion.

Adjustment

37. The ceiling on new non-concessional external debt contracted or guaranteed by the government will be adjusted upwards to accommodate budget support from the World Bank, the AFDB and France for debt management purposes, up to the amounts indicated in memorandum item Nr 1 of MEFP Table 1.

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 QUANTITATIVE 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.

III. DATA SUBMISSION REQUIREMENTS

43. 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. 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 positon 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. 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
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
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
VAT reimbursement balance (requests for reimbursement, payments made, and status of the VAT reimbursement account)	MINFI/DGI	Monthly	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

Table 1. Summary of Data Reporting Requirements (concluded)			
Information	**Responsible institution**	**Frequency of the data**	**Reporting Lag**
Status of payment of invoices from the government to public enterprises. The status of payments of any subsidies and tax liabilities of these enterprises	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
Intervention rate and borrowing and lending interest rates	BEAC	Monthly	6 weeks
Balance of Payments			
Preliminary annual balance of payments data	MINFI	Annual	9 months
Foreign trade statistics	MINFI/National Statistics Institute (INS)	Monthly	3 months
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 15, 2017

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By
David Owen (AFR) and Bob Traa (SPR)

Prepared by The African Department in consultation with the Legal Department and the Strategy and Policy Review Department.

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on December 13, 2017**. The additional information does not change the thrust of the staff appraisal.

2. **Staff obtained preliminary data concerning the end-September 2017 indicative targets (ITs)** (Update to Attachment 1, Table 1)[1]. The end-September ITs appear to have all been met.

[1] The fiscal data is preliminary and subject to further revision. Reconciliation between the fiscal data and monetary data is also preliminary.

Update to Attachment 1, Table 1. Cameroon: Quantitative Performance Criteria, Indicative Targets, and Projections, 2017–18

(Billions of CFA francs, cumulative for each fiscal year)

	2017								2018			
	End-Mar	End-Jun			End-Sep			End-Dec	End-Mar	End-Jun	End-Sep	End-Dec
		PC	Actual	Status	IT	Prel	Status	PC	IT	PC	Proj	Proj
A. Quantitative performance criteria and indicative targets 1/												
Floor on the non-oil primary fiscal balance (commitment basis)	**-61**	-392	-307	Met	-708	-327	Met	-974	-53	-320	-519	-777
Ceiling on the net domestic financing of the central government excluding IMF financing 2/	**-73**	-18	-79	Met	78	-88	Met	-200	-43	-153	-76	5
Ceiling on net borrowing of the central government from the central bank excluding IMF financing 2/	**-35**	0	-61	Met	85	-4	Met	-253	-304	-403	-316	-376
Ceiling on the disbursement of non-concessional external debt contracted as of the date of program approval		280	205	Met	540	340	Met	540	350	350	596	596
B. Continuous quantitative performance criteria 3/												
Ceiling on the accumulation of new external payments arrears		0	0	Met	0	0	Met	0	0	0	0	0
Ceiling on new non-concessional external debt contracted or guaranteed by the government 4/; 5/; 6/		100	0	Met	100	101	Not met	100	436	436	436	436
C. Indicative Targets												
Floor on non-oil revenue	**599**	1,185	1,231	Met	1,811	1,822	Met	2,457	689	1,331	1,958	2,616
Ceiling on the net accumulation of domestic payment arrears	**-115**	0	-97	Met	0	-171	Met	-57	0	0	0	-146
Floor on social spending		253	265	Met	406	417	Met	624	144	288	460	657
Ceiling on direct interventions of SNH	...	168	90	Met	168	137	Met	168	156	156	156	156
Memorandum items:												
1. Cumulative external budget support, excluding IMF (earliest disbursement)	**0**	0	0		44	0		337	0	131	131	261
2. New concessional external debt contracted or guaranteed by the government 7/	**3**	100	0		100	19		100	152	152	152	152

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 of 2017.

3/ The targets for 2017 are set from the time of program approval.

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

5/ This criterion applies from the date of approval of the program for 2017, and from the beginning of each calendar year thereafter. As of October 17, the Government has signed CFAF 1050 billion of non-concessional borrowing in 2017.

6/ The ceiling will be adjusted upwards by the amount of non-concessional budget support excluding IMF financing for debt management purposes, up to the amounts specified in memorandum item No. 1 below.

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

Supplementary Letter of Intent

Yaoundé, December 15, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund

Dear Ms. Lagarde,

Further to the Cameroonian authorities' Letter of Intent of dated December 13th, 2017, we have communicated to staff preliminary information for the program's end-September indicative targets. This information can be used to update Table 1 ("Quantitative Program Targets, 2017" under the Memorandum of Economic and Financial Policies").

Sincerely yours,

/s/

Alamine Ousmane Mey
Minister of Finance

Statement by Mr. Sembene and Mr. N'Sonde on Cameroon
Executive Board Meeting
December 20, 2017

Oil price developments in recent years significantly impacted the economic situation in CEMAC countries, including Cameroon—albeit a more diversified economy relative to its peers. The Extraordinary Summit of CEMAC Heads of States held in December 2016 in Yaoundé has been a pivotal point in developing and implementing a regional strategy to restore macroeconomic and external stability in the region, with Fund assistance. In the context of their arrangement under the Extended Credit Facility (ECF), the Cameroonian authorities have been advancing their policy and reform agenda in line with this regional strategy and their Growth and Employment Strategy Paper (GESP). While they pursue the implementation of the ECF-supported program, they look forward to the Fund's valuable support and catalytic role as well as timely assistance from technical and financial partners.

RECENT ECONOMIC DEVELOPMENTS AND ECF PROGRAM IMPLEMENTATION

Following an economic growth rate of 4.5 percent last year, activity has slowed down somewhat this year and is expected to reach 3.7 percent, notably thanks to lower-than-expected oil production. Fiscal consolidation efforts continue and mid-year performance in this regard has been strong owing to improved non-oil revenue collection and restraint on domestically-financed capital spending. Public debt remains manageable, and is estimated to be about 31 percent of GDP as of end-September 2017.

In the external sector, the completion of large infrastructure projects and the increased supply of local products such as food, cement and aluminum have contributed to reducing imports. On the other hand, strong export receipts have been generated by favorable trade in agricultural and manufacturing products as well as the recovery in oil prices. These developments contributed to reduce significantly the current account deficit which, along with positive net capital flows allowed a build-up of net foreign assets.

The implementation of Cameroon's program under the Extended Credit Facility (ECF) has been strong. All quantitative performance criteria (QPCs) at end-June 2017 and indicative targets (ITs) have been me, including the zero ceiling on the accumulation of new external payment arrears. The ceiling on new non-concessional borrowing (continuous (QPC) was exceeded as the authorities had to advance to November 2017 the entry into force of a loan initially envisaged in the 2018 borrowing plan. Consequently, the authorities propose to reduce by the equivalent amount the ceiling in the 2018 budget, to ensure that the overall new non-concessional external borrowing for both years combined remains unchanged.

Likewise, the implementation of structural measures planned under the program has been satisfactory, with all but two structural benchmarks met at end-November 2017. Reforms already implemented include measures to advance regional integration, improve revenue mobilization, enhance transparency in the oil sector, strengthen public financial management, and promote financial sector stability. Missed structural benchmarks have been modified and rephrased, including those related to unpaid government obligations, the adoption and submission to the regional banking commission (COBAC) of a resolution plan for distressed banks, and the collection of the land tax.

POLICIES AND REFORMS GOING FORWARD

The Cameroonian authorities remain committed to implementing policies and reforms notably with a view to maintaining macroeconomic stability, promoting strong and private sector-led growth, and reducing poverty.

Pursuing Fiscal Consolidation

The authorities concur that sustaining fiscal consolidation will be critical to achieve macroeconomic and external stability objectives going forward. In pursuing fiscal consolidation, the authorities are determined to maintain adequate level of social spending and implement social protection arrangements.

Their efforts will continue to center around mobilizing more non-oil revenue and reprioritizing spending. On the revenue side, the authorities will enhance the collection of tax arrears by end-2017 through joint tax controls and investigation efforts by the tax and customs administrations as well as scaled up monitoring of taxpayers’ reporting obligations. The authorities will also endeavor to enhance domestic revenue mobilization, including through greater coordination of revenue agencies.

On the expenditure side, efforts are being made to curb current spending and some capital outlays. Delays in budget support disbursements, which complicate cash management, will be addressed through adequate Treasury bills issuances—benefitting from improved bank liquidity conditions—and prudent cash flow management. Limited and temporary use of statutory advances before their phasing-out will be reimbursed by the budget support disbursements as soon as available.

Looking further ahead, the 2018 budget law is consistent with program objectives. Revenue mobilization actions will include measures to broaden the tax base and rationalize tax expenditures and increases in various airport duty and excise taxes as well as higher excise duties on gambling activities. In addition, all additional ax policy measures aimed at improving the efficiency of the revenue administrations will be implemented, as laid out in the MEFP. On the expenditure front, the authorities intend to strengthen the control of the wage bill and expenditures on goods and services; and streamline subsidies granted to public entities. Efforts to prioritize investment projects will continue.

Strengthening Public Financial and Debt Management

The authorities greatly appreciate the assessment of Cameroon's public financial management (PFM) system under the PEFA and recognize that there is ample room for strengthening the system. Public financial management reforms will build on progress already made in transposing the 2011 CEMAC PFM guidelines, streamlining the budget preparation process and integrating the Medium-Term Budget Framework with budget laws, producing and publishing mid-term budget execution reports, and strengthening public investment management.

Additional structural measures will include reducing the exceptional procedures by prohibiting new replenishments of some correspondent accounts in subjecting investment projects to normal budget procedures. Efforts will also be made to enhance the monitoring of fiscal risks linked to state-owned enterprises, including those incurred by the enterprises engaged in public-private partnerships.

The authorities have been successful in containing public debt to manageable levels. Going forward, they are determined to pursue prudent debt management with a view to keeping public debt on a sustainable path. Financing of the 2018 budget strikes a good balance between domestic and external lending, while taking into account absorptive capacity. Most projects selected for external financing in 2018 comprise much-needed road and energy infrastructure.

Fostering Financial Sector Stability

The financial sector remains resilient amid the sovereign crisis, owing to the relatively diversified economy and weaker sovereign-bank nexus. The authorities will continue their close collaboration with the regional supervisor, with the aim of resolving distressed banks, and thus limiting their fiscal costs. In this vein, the plan submitted to COBAC will be strengthened, and detailed time-bound action plans will be developed to clear bad loans. In the meantime, judges will be trained on addressing banking disputes and assigned to the country's main business centers.

Promoting Private Sector-Led Growth

The authorities will pursue stronger growth objectives over the medium to long term. In this vein, their 2018–20 strategy framework under the country's GESP is articulated around the following pillars: (i) infrastructure development; (ii) modernization of production capacity; (iii) regional integration and trade diversification; (iv) social progress through policies in the areas of health, education, gender and social safety nets); (v) employment: and (vi) governance and strategic public management.

To promote private sector development and economic diversification, a number of steps are planned, including the implementation of several important projects in the transportation and energy sectors as well as agro-industries. Cameroon has made recent progress in in the World

Bank's Doing Business even though it still lags a number of peers. Going forward, the authorities will continue implementing measures to improve the business climate, notably in the areas of customs tariffs, land registry, credit registry, reimbursement of VAT credits, government processing times, and land reform, with the support of technical and financial partners.

CONCLUSION

The Cameroonian authorities remain steadfast in implementing their policy and reform agenda in the context of the ECF-supported program and in line with the regional strategy designed by the CEMAC authorities. In this endeavor, they look forward to continued Fund engagement and timely delivery of assistance from technical and financial partners which are critical to achieving program objectives.

In light of the above, we would appreciate Directors' support for the Cameroonian authorities' request for the completion of the first review under the ECF arrangement.