INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/235

CAMEROON

July 2018

2018 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE, STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CAMEROON

In the context of the combined Article IV Consultation and the Second Review Under the Extended Credit Facility Arrangement Requests for Waivers of Nonobservance of Performance Criteria 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 July 6, 2018, following discussions that ended on May 14, 2018, with the officials of Cameroon on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 25, 2018.
- An **Informational Annex** prepared by the IMF staff
- A **Debt Sustainability Analysis** Prepared by the IMF staff and the International Development Association (IDA).
- A **Statement by the Executive Director** for Cameroon.

The documents listed below will be separately released.

Selected Issues

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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International Monetary Fund
Washington, D.C.

Press Release No.18/282
FOR IMMEDIATE RELEASE
July 6, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation, Completes Second Review Under Extended Credit Facility Arrangement, and Approves US$77.8 Million Disbursement for Cameroon

- Growth is estimated to have decelerated to 3.2 percent in 2017 mainly due to a steep decline in oil production despite the gradual rebound in international prices.
- The macroeconomic outlook for 2018 remains positive, with growth expected to rebound to 4 percent, driven by the onset of gas production, construction activities for the 2019 African Cup of Nations (CAN).
- The Cameroonian authorities have adopted a comprehensive economic reform program to restore fiscal and external sustainability and buttress private sector-led and inclusive growth, supported by the IMF's ECF arrangement.

On July 6, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] and completed the second review under the Extended Credit Facility (ECF) arrangement for the Republic of Cameroon. Completion of this review enables the disbursement of SDR 55.2 million (about US$77.8 million).

The three-year ECF arrangement with a total access of SDR 483 million (about US$680.7 million or 175 percent of Cameroon's quota) was approved by the IMF Executive Board on June 26, 2017.

Following the Board discussion of the ECF review, Mr. Mitsuhiro Furusawa, Deputy Managing Director, and Acting Chair, made the statement below:

"Cameroon's performance under its ECF-supported program has been mixed against the backdrop of slower economic activity and security concerns. End-year spending overruns offset strong non-oil revenue collection, resulting in a higher-than-envisaged fiscal deficit. Nonetheless, structural reform implementation has been broadly satisfactory and net foreign assets accumulated faster than anticipated owing to a narrowing of the current account deficit.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

"The authorities have reiterated their commitment to the program and have implemented corrective measures to bring the fiscal adjustment back on track in 2018, including preparing a revised 2018 budget and tightening expenditure controls. Strict implementation of the 2018 revised fiscal targets will be essential to support the buildup of fiscal and external buffers for Cameroon and the region. With significant spending pressures associated with the 2018 elections, a worsening security situation, and the 2019 African Soccer Cup, any additional oil revenue should be saved.

"Public debt has risen in 2017 owing to faster-than-envisaged execution of investment projects. Strictly limiting new borrowing and tilting its composition toward concessional borrowing would be key to maintaining public debt sustainability. The stock of contracted but undisbursed debt should also be reduced. Financial sector and structural reforms would reduce vulnerabilities and address remaining competitiveness bottlenecks.

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

Background

Growth is estimated to have decelerated to 3.2 percent in 2017 mainly due to a steep decline in oil production despite the gradual rebound in international prices. Inflation remained low and below 1 percent per annum. Fiscal and external adjustment are supporting the buildup of BEAC reserves. Fiscal consolidation continued, albeit at a slower pace than envisaged under the program owing to a substantial acceleration of spending at the end of the year. However, non-oil revenue mobilization has exceeded program objectives and structural reforms in public financial management are advancing. The current account deficit has narrowed to 2.7 percent of GDP, while capital flows are recovering. The banking sector is stable, however, credit growth to the private sector has remained sluggish at 2.3 percent (y/y).

The macroeconomic outlook for 2018 remains positive. Growth is expected to rebound to 4 percent, driven by the onset of gas production, construction activities for the 2019 African Cup of Nations (CAN), and improved energy supply, while inflation should remain low. Over the medium term, growth ought to gradually reach its potential of 5–5 ½ percent, supported by the coming on stream of key energy and transport infrastructure and increasing private investment.

Risks to the forecast are broadly balanced. Downside risks include unfavorable commodity price movements, a deteriorating security situation, reform fatigue ahead of the Fall presidential elections, and materialization of contingent liabilities that can adversely affect debt dynamics. On the upside, higher oil prices would support a faster buildup of fiscal and external buffers, while a stronger-than-anticipated rebound of non-oil activity in the context of the preparations for the 2019 CAN could further boost growth.

The Cameroonian authorities have adopted a comprehensive economic reform program to restore fiscal and external sustainability and buttress private sector-led and inclusive growth, supported by the IMF's ECF arrangement. To keep the fiscal consolidation on track, the authorities have revised the 2018 budget to account for unanticipated spending due to rising fuel subsidies and higher security outlays, with a deficit target of 2.6 percent of GDP. In addition, the authorities have taken measures to strengthen expenditure controls and ensure transparent and efficient implementation of the budget, as well as better monitoring of disbursement of foreign financed projects. The authorities are also implementing reforms to maintain financial sector stability while expanding access to financial services, and to improve the business climate.

Executive Board Assessment[2]

Executive Directors noted the slower economic activity in Cameroon amid security concerns, as well as weaker-than-envisaged fiscal consolidation in 2017. They underscored that Cameroon's leadership in bringing its fiscal adjustment back in line with program objectives is key to the buildup of the region's fiscal and external buffers. In this context, they welcomed the measures taken by the authorities to reprofile the fiscal adjustment and strengthen expenditure controls, while maintaining non-oil revenue mobilization objectives. In view of the significant risks to the program, Directors urged the authorities to fully adhere to the revised 2018 fiscal targets and save any windfall from higher oil prices. Directors welcomed the authorities' commitment in this regard.

Directors emphasized the need to improve public financial management. They stressed that enhancing budget controls and reporting in line with the revised budget implementation circular will be essential to meeting program targets. They welcomed the audit of domestic arrears but noted that further improvements in liquidity management would be important to reduce occurrence of new arrears. The implementation of laws transposing two key CEMAC public financial management directives in 2019 would anchor further improvements in fiscal governance and transparency.

Directors underlined the importance of raising non-oil revenue while enhancing spending efficiency. The planned expansion in the property tax coverage and the reduction of tax exemptions, starting with the 2019 budget, would be essential to broaden the tax base and generate additional fiscal space for priority spending. Directors also highlighted the need to improve the efficiency of social and capital spending, including through targeted transfers and better selection of public investment projects, to further reduce poverty, inequality, and gender gaps.

Directors expressed concerns about the rapid increase in public debt. They emphasized the importance of staying within the nonconcessional borrowing target and tilting the composition of borrowing toward concessional loans. They also encouraged the authorities to accelerate efforts to reduce the backlog of contracted but undisbursed loans. Directors welcomed the improved

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

reporting on state-owned enterprises' debt but highlighted the importance of further reforms to ensure their financial viability. In particular, they recommended the review of administered prices to ensure cost-recovery for key public utilities while protecting the poor.

Directors welcomed the authorities' efforts to enhance financial stability and competitiveness. They stressed the importance of concrete progress in resolving ailing banks while minimizing fiscal costs, and reducing the large non-performing loans. Further strengthening the AML/CFT framework will also be important. Directors noted that completing ongoing priority infrastructure projects, improving the business environment, finalizing the financial inclusion strategy, and addressing non-tariff barriers including weak governance could boost competitiveness and sustainable growth.

Directors noted that Cameroon's program is supported by the implementation of policies and reforms by the regional institutions, which are critical to the program's success. These comprise the implementation of the three policy assurances provided in the June 2018 Letter of Policy Support and the union-wide background paper. Completion of the third review will continue to be conditional on the implementation of these policy assurances.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2017–23

	2017	2018	2019	2020	2021	2022	2023
	Est.			Proj.			
	(Annual percentage change, unless otherwise indicated)						
National account and prices							
GDP at constant prices	3.2	4.0	4.5	4.8	5.0	5.2	5.4
GDP deflator	0.4	0.5	1.3	1.5	1.5	1.6	1.6
Consumer prices (average)	0.6	1.1	1.3	2.0	2.0	2.0	2.0
External trade							
Export volume	-0.3	4.1	3.8	4.0	4.6	5.4	5.6
Import volume	-4.8	2.2	4.4	4.3	4.0	3.8	3.4
Nominal effective exchange rate (depreciation -)	...	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	...	...	...	...	...	...	...
Terms of trade	-2.6	-10.2	-4.2	-4.1	-4.0	-3.3	-2.8
Money and credit							
Broad money (M2)	5.9	5.5	5.8	6.6	7.1	7.5	8.1
Net foreign assets 1/	6.1	0.9	0.4	-1.0	0.3	1.7	1.8
Net domestic assets 1/	-0.2	4.6	5.4	7.6	6.8	5.8	6.2
Domestic credit to the private sector	2.3	4.6	5.8	6.7	8.6	9.9	11.0
	(Percent of GDP, unless otherwise indicated)						
Gross national savings	23.4	23.8	24.3	24.8	25.3	25.9	26.3
Gross domestic investment	26.2	26.8	27.2	27.7	28.2	28.7	29.2
Public investment	8.8	6.2	6.1	5.9	6.1	6.1	6.3
Private investment	17.3	20.6	21.2	21.7	22.1	22.6	22.9
Central government operations							
Total revenue (including grants)	15.4	15.8	15.8	15.8	15.9	16.1	16.1
Total expenditure	20.4	18.4	17.8	17.3	17.5	17.5	17.5
Overall fiscal balance (including grants, payment order basis)	-5.0	-2.6	-2.0	-1.5	-1.5	-1.5	-1.4
Overall fiscal balance (including grants, cash basis)	-4.6	-4.0	-2.9	-2.5	-1.5	-1.5	-1.4
Non-oil primary balance (payment basis, percent of non-oil GDP)	-6.3	-4.0	-3.1	-2.3	-2.2	-2.1	-2.1
External sector							
Current account balance							
Excluding official grants	-3.1	-3.4	-3.3	-3.2	-3.2	-3.2	-3.2
Including official grants	-2.7	-3.0	-2.9	-2.8	-2.8	-2.9	-2.9
Public debt							
Stock of public debt 2/ 3/	38.2	39.1	38.9	38.2	36.8	35.4	34.1
Of which: external debt	25.6	26.7	26.7	27.7	27.2	26.7	26.3

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

1/ percent of broad money at the beginning of the period.
2/ Includes the cumulative financing gap.
3/ 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).

CAMEROON

June 22, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. Cameroon's macroeconomic performance has been mixed against the backdrop of slower economic activity and rising security concerns, with a weaker-than-envisaged fiscal consolidation in 2017. While external buffers are being rebuilt, the CEMAC's recovery remains fragile. Renewed efforts to implement the fiscal consolidation and reform program will be essential to buttress external and fiscal sustainability and reinvigorate growth.

Outlook and risks. The outlook for 2018 remains positive, with a growth rebound driven by non-oil sector activity and the onset of gas production. Downside risks include unfavorable commodity price movements, a deteriorating security situation, and reform fatigue ahead of the Fall Presidential elections.

Program status. Three end-December 2017 quantitative performance criteria were missed, while one continuous performance criterion remains not met since the1st review. The other quantitative and continuous performance criteria and all but one indicative targets were met. Most structural benchmarks through end-May have been met. The authorities have reiterated their commitment to the program's objectives and have implemented strong corrective measures including a submitting a revised 2018 budget to Parliament to bring the fiscal adjustment back on track. The program is supported by union-level efforts to maintain an appropriate monetary policy stance, build up regional reserves and promote financial stability.

Key policy recommendations. Ensuring fiscal consolidation and maintaining debt sustainability requires enhancing fiscal discipline supported by tighter expenditure controls, reducing the amount of contracted but undisbursed debt, containing fiscal risks from state-owned enterprises, and expanding the non-oil revenue base. Financial sector reforms should be accelerated to reduce vulnerabilities, and structural reforms should focus on addressing remaining competitiveness bottlenecks to boost private sector-led growth.

Staff views. Staff supports completion of the second review and the authorities' request for waivers of non-observance of three performance criteria and for modification of three performance criteria. Upon completion of the review, a disbursement of SDR 55.2 million (20 percent of quota) will be made available, for a cumulative amount of SDR 262.2 million or 95 percent of quota.

Approved By
David Owen and Martin Sommer

Discussions took place in Yaoundé during April 27–May 14, 2018. The staff team comprised Ms. Deléchat (head), Ms. Chen, Messrs. Barry and Kalonji (AFR), Ms. Schauer (SPR), Messrs. Dupont (MCM), Gamba (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. Headquarter support was provided by Mss. Koulefianou and Ibrahim, and by Mr. Francisco.

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APPENDIX

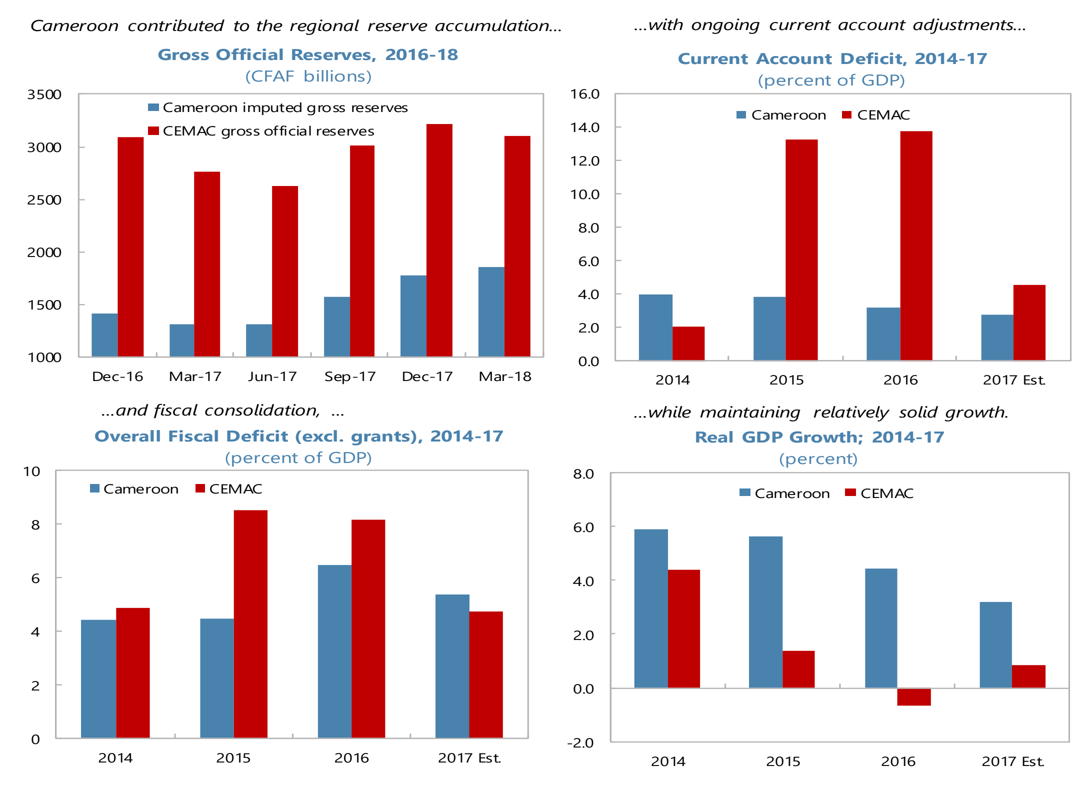
Glossary

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*)
CET	Common External Tariff
CFA	Central African Financial Cooperation (*Coopération Financière en Afrique Centrale*)
CGER	Consultative Group on Exchange Rates
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
EITI	Extractive Industries Transparency Initiative
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
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFI	Micro-Finance Institution
MTBF	Medium Term Budgetary Framework
MTEF	Medium Term Expenditure Framework
NOPD	Non-Oil Primary Deficit
NPL	Nonperforming Loan
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
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

CONTEXT

1. **The CEMAC regional strategy is advancing, with Cameroon continuing to play a prominent role.** More than a year after the December 2016 Yaoundé summit, all CEMAC countries are now implementing reform programs supported by the Fund and key development partners. Fiscal and external adjustment are taking place at varying speeds, but regional fiscal and current account deficits have declined in 2017, and BEAC reserves are gradually stabilizing (Text Figure 1).[1] For their part, the Cameroonian authorities are pushing ahead with implementation of their ECF-supported program, thus contributing to the recovery of BEAC's net foreign assets. Longstanding structural reforms in line with the regional economic reform program (PREF-CEMAC) and previous Article IV consultations are also advancing (Annex I).

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



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

2. **However, the regional recovery is still fragile and it is imperative for Cameroon to stay on course with its fiscal consolidation and reform program.** The 2017 fiscal deficit was higher than envisaged, but the authorities are putting in place strong measures to bring the consolidation back on its initial path. The revised 2018 budget submitted to parliament in June is more realistic and incorporates higher non-oil revenue and provisions for expenses related mostly to energy subsidies

[1] See CEMAC—Staff Report on the Common Policies in Support of Member Countries' Reform Programs, June 2018.

and the elections. However, program implementation in the second half of 2018 faces significant headwinds, including further spending and borrowing pressures from continuing security concerns in the Lake Chad basin and the worsening crisis in the anglophone regions (Box 1), the organization of the presidential elections in the Fall followed by legislative and municipal elections, and preparations related to Cameroon's hosting of the 2019 African Nations soccer cup (CAN).

Box 1. Security Risks and the Anglophone Region Crisis

Cameroon is facing several security-related risks, but the crisis in anglophone regions dominates. In the Far North, the terrorist group Boko Haram continues its attacks against military and civilians but the incidents remain contained. In the East, a large number of refugees contributes to instability. The anglophone crisis in the North West and South West has taken prominence in recent months and has increased concerns about the country's stability, with rising humanitarian and economic costs.

The current anglophone crisis takes its roots in Cameroon's unification in 1961. The 1972 constitution replaced federalism with a unitary state. Throughout the years, the anglophone population, which resides mostly in the north-west and south-west regions and account for 20 percent of Cameroon's total population of 25 million, has demanded more autonomy and rights, while the state has become increasingly centralized. They founded the largest opposition party (Social Democratic Front) in the 1990s.

The crisis has escalated to an armed separation movement with rising humanitarian costs. The crisis started in October 2016 with strikes by lawyers and teachers and was followed by a boycott of schools, protests and ghost towns. It subsequently morphed into an armed movement for independence marked by violence on both sides, which escalated in recent months to killings and detentions, burning and looting of villages, and kidnappings of government officials and civilians. Despite a heavy military presence, the insecurity has spread leading to rising humanitarian costs. The United Nations' Office for the Coordination of Humanitarian Affairs estimated that more than 20,000 people have fled to Nigeria, and 160,000 have become internally displaced persons (IDPs). This adds to the burden from 340,000 refugees from Nigeria and the Central African Republic. The United Nations High Commission for Refugees estimates that the cost of assisting refugees and IDPs in Cameroon has risen to US$87 million, of which only US$15 million are funded.

Anecdotal evidence suggests that the anglophone crisis is taking a toll on the economy. A rigorous quantification is difficult because of lack of adequate data. However, real exports of coffee and cocoa, grown mostly in the anglophone areas, have decreased by about 10 percent in 2017. Coffee export volumes further declined by 72 percent in the first quarter of 2018 (y/y). Tax revenues decreased by 8–9 percent in both regions in 2017 compared with 2016, due to lower economic activity and difficulties to collect taxes. Additional security expenses amounted to 0.4 percent of GDP in 2017 and at least 0.2 percent of GDP in 2018.

RECENT DEVELOPMENTS

3. Growth is estimated to be lower than projected in 2017 mainly due to a sharp contraction in oil production (Table 1, Figure 1)**.** Growth slowed to an estimated 3.2 percent in 2017 (3.7 percent in the 1st review), from 4.5 percent in 2016, mostly owing to a 17 percent decline in oil production. Non-oil sector activity remained buoyant, growing at 4.7 percent, led by construction, food industry and services. Inflation declined from 0.9 percent in 2016 to 0.6 percent in 2017, and stayed low at 0.8 percent (y/y) in March, mainly due to low core inflation (MEFP ¶2).

4. Fiscal consolidation continued, but at a slower pace than envisaged (Tables 2a and 2b, Figure 2). The overall deficit (including grants) declined from 6.2 percent of GDP in 2016 to 5.0 percent of GDP in 2017, falling short of the 3.1 percent of GDP program target:

- *Non-oil revenue overperformed* by 0.7 percent of GDP, buoyed by strong VAT and trade taxes, and one-off gains from enhanced efforts to collect tax arrears from SOEs (0.4 percent of GDP).
- *Spending accelerated at the end of the year*, with a large part executed during the complementary period ending in February 2018.[2] Higher security outlays and exceptional payments to settle arrears of the electricity company—the latter a prior action for a budget support operation, explain most of the higher spending (MEFP ¶7). Foreign-financed investment exceeded the program target by 0.7 percent of GDP.
- *The larger deficit was financed by a lower-than-programmed accumulation of government deposits and an increase in expenditure arrears and float,* which reached 3.6 percent of GDP in 2017, although the authorities cleared arrears for 2016 and earlier in an amount of 1.7 percent of GDP (MEFP ¶3,7). As a result, the adjustment in the cash-based deficit was muted at ½ percent of GDP.

5. Fiscal performance was broadly satisfactory in Q1 2018. Weak domestic spending execution led to an overall surplus of 0.6 percent of GDP. Non-oil revenue was 0.3 percent of GDP below the original target, mainly caused by weaker VAT and customs collection, reflecting softening growth and trade. Current spending and domestically-financed investment execution remained below-projections. However, execution of foreign-financed projects continued at a fast pace, with new disbursements totaling CFAF 137 billion as of end-April, of which CFAF 111 billion was on non-concessional terms. The stock of expenditure arrears and float has been reduced to 2.8 percent of GDP as of end-March.

6. The current account improved and net foreign assets are recovering (Table 3, Figure 3). The current account deficit has narrowed to 2.7 percent of GDP in 2017, from 3.2 percent of GDP in 2016. Real imports declined by 4.8 percent, thanks to the fiscal consolidation, while non-oil real exports rose by 5.3 percent, driven by timber, manufacturing and aluminum. Preliminary trade data for Q1 2018 suggest a widening of the goods deficit as exports declined by 10.3 percent, driven by a fall in cocoa and crude oil exports, and imports increased by 17.2 percent (y/y). Lower private capital

[2] In Cameroon there is legally a two-month period after the end of the fiscal year ending in December where spending that has been committed can still be executed. The period will be shortened to one month in the new law on the state's and public entities' financial regime (transposing the CEMAC Directive) is implemented.

outflows, better-enforced foreign exchange regulations, and higher-than-anticipated disbursements of foreign financed investments supported a faster-than-anticipated buildup in net foreign assets (MEFP ¶4).

7. Broad money growth mirrored the NFA recovery (Table 4, Figure 4). Currency in circulation grew by 8.1 percent, and deposits by 5.3 percent (y/y) at end-2017 and by 11 and 7.5 percent, respectively in March 2018. Low government bond issuances in the context of implementation of non-zero risk weights by the regional supervisor (COBAC), together with lower budget support, contributed to the lower-than-programmed accumulation of government deposits at end-2017 and end-March 2018 (MEFP ¶5).[3,4]

8. Private sector credit growth remains sluggish. Private sector credit growth has been decelerating since 2016, reaching 2 percent in March 2018 (y/y), while credit to the public sector and public enterprises continued to rise. The composition of new lending is increasingly tilted towards short-term loans, reflecting liquidity difficulties of private firms. At the same time, the volume of overdue loans increased from 13 to 15 percent between December 2017 and March 2018. With growing deposits, the average liquidity ratio increased to 182 percent in March 2018 from 134 percent in March 2017 and demand for BEAC refinancing declined sharply (Table 5, Figure 5).

9. Public debt is higher than projected, only partly owing to improved coverage (Text Table 1). The definition of public debt has been broadened to include all third-party debt owed by the public refinery SONARA. This raises the end-2016 debt stock to 33.3 percent of GDP (31.5 percent of GDP in the 1st ECF review). From this higher base, public debt grew to 38.2 percent of GDP in 2017, driven by the larger fiscal deficit, a further increase in the expenditure float, and a rise in SONARA's supplier debt (MEFP ¶6). The total stock of contracted but undisbursed debt remained high at 21.9 percent of GDP.

Text Table 1. Cameroon: Public and Publicly Guaranteed Debt, 2016–17

	2016		2017	
	CFAF billion	percent of GDP	CFAF billion	percent of GDP
A. Public and publicly guaranteed debt (authorities' estimate: 1+2+3)	**5228**	**27.4**	**6255**	**31.6**
1. External debt	3961	20.7	4625	23.4
2. Domestic debt	1201	6.3	1578	8.0
3. (External) Publicly guaranteed debt	66	0.3	52	0.3
4. Expenditure float	596	3.1	710	3.6
5. External claims to SOEs (ex-SONARA)	9	0.0	9	0.0
6. SONARA debt	538	2.8	593	3.0
7. o/w external	293	1.5	383	1.9
B. Public and publicly guaranteed debt (staff estimate: A + 4+5+6)	**6371**	**33.3**	**7566**	**38.2**
Domestic	2042	10.7	2498	12.6
External	4329	22.7	5069	25.6
o/w publicly guaranteed	75	0.4	61	0.3

Sources: Cameroonian authorities, and IMF staff calculations

Sources: Cameroonian authorities; and IMF staff calculations.

[3] The AfDB disbursed CFAF 118 billion in budget support programmed for 2017 at end-January 2018. Non-zero risk weight were applied in 2017 to Cameroonian sovereign bonds with maturity greater than 6 months for non-respect of CEMAC convergence criteria.

[4] In December, the authorities repaid BEAC statutory advances drawn in the second half of the year and, as per the BEAC reform to eliminate these advances, signed the convention consolidating their stock (CFAF 577 billion) into a 14-year loan and depositied the advances drawn in excess to the program ceiling of CFAF 300 billion in a special account at the BEAC.

PROGRAM PERFORMANCE

10. Program performance has been mixed.

- *Three out of four end-December performance criteria (PCs) were missed*: the floor on the non-oil primary balance, and ceilings on disbursements of non-concessional loans and net BEAC financing. The continuous PC on external arrears was met. The continuous PC on contracting new non-concessional loans had been breached in September and November 2017 but no new loans were signed in December 2017. The end-December PC on net domestic financing and all indicative targets (ITs) but one on the SNH direct interventions (which was marginally missed by CFAF 1 billion) were met, notably the floor on non-oil revenue, which was exceeded by 0.7 percent of GDP (MEFP ¶7–8 and Table 1).
- *Structural reforms' implementation has remained broadly satisfactory*. Out of fourteen structural benchmarks (SBs) through May 2018, ten were met and four were delayed. The quarterly budget execution report, delayed due to the complementary period, was published on April 5. The complementary period for budget execution ended in February 2018, but the final fiscal table was not prepared in time (April SB). The circular on projects' maturation (December SB) was timely prepared but is being revised. The computerization of the movable collateral registry (March SB) supported by the World Bank is not yet effective, as the database will be broadened to also cover securities, patents, motor vehicles and leases (MEFP ¶8 and Table 2).

OUTLOOK AND RISKS

11. The economic outlook remains positive.[5] Growth is expected to rebound to 4 percent in 2018, driven by the start of natural gas production, construction for the 2019 CAN and improved energy supply. The completion of the Lom Pangar regulation dam added much-needed capacity in 2017, and the Kribi deep sea port became operational in March 2018. Growth will continue to gradually rise towards its potential of 5–5½ percent, supported by the coming on stream of key energy and transport infrastructure and increasing private investment. The medium-term growth path is consistent with the programmed fiscal consolidation, as staff's empirical analysis indicates low multipliers (Annex II).[6] The fiscal deficit would converge to the CEMAC criterion starting in 2020, while the current account deficit would widen somewhat in 2018 before stabilizing at below 3 percent of GDP in the medium term. The public debt ratio would peak in 2018 (Text Table 2). The larger current account deficit and deceleration of disbursements of foreign-financed investment are expected to slow down NFA accumulation for the rest of 2018.

12. Higher oil prices would support a faster buildup of fiscal and external buffers. The World Economic Outlook's projection for oil prices was revised upwards in June 2018. For Cameroon, this would imply higher oil revenue by 0.1 percent of GDP in 2018 and about 0.3 percent of GDP

[5] The macroeconomic framework is based on the April 2017 WEO projections, including for oil prices, which were relevant during the mission and underlie the revised 2018 budget.

[6] Chapter I of the Selected Issues Paper (SIP) estimates fiscal multipliers for Cameroon.

each year in 2020–23, partly offset by the need for higher subsidies for the state oil refinery (SONARA) in the absence of changes in pump prices. Higher oil exports would drive a narrowing of the current account deficit by similar magnitudes and support a faster buildup of NFAs. Given that the current uptick in oil prices might be only temporary and with high risks to the program, staff and the authorities agreed that any additional oil windfall should be saved.

Text Table 2. Cameroon: Medium-Term Outlook, 2016–23

	2016	2017		2018		2019	2020	2021	2022	2023
	Actual	*CR18/9*	Est.	*CR18/9*	Proj.			Proj.		
Real GDP	4.5	*3.7*	3.2	*4.2*	4.0	4.5	4.8	5.0	5.2	5.4
Inflation (period average)	0.9	*0.5*	0.6	*1.0*	1.1	1.3	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	-3.2	*-2.6*	-2.7	*-2.5*	-3.0	-2.9	-2.8	-2.8	-2.9	-2.9
Overall fiscal balance (payment order basis, incl. grants)	-6.2	*-3.1*	-5.0	*-2.3*	-2.6	-2.0	-1.5	-1.5	-1.5	-1.4
CEMAC reference balance (payment order basis, incl. grants)	-5.4	*-2.5*	-4.5	*-2.3*	-2.8	-2.3	-1.6	-1.6	-1.6	-1.6
Non-oil primary balance (payment order basis, percent of non-oil GDP)	-7.9	*-4.1*	-6.3	*-3.5*	-4.0	-3.1	-2.3	-2.2	-2.1	-2.1
Public debt 1/ 2/	33.3	*31.9*	38.2	*32.0*	38.7	38.6	37.9	36.6	35.1	33.6
WEO oil price (US$/barrel)	42.8		52.8		62.3	58.2	55.6	54.1	53.6	53.6

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

13. External and domestic risks can affect the outlook (Table 6). External risks include volatile commodity prices and incomplete CEMAC regional adjustment. Together with tighter global financial conditions, these could put pressure on banks exposed to regional sovereign bonds. On the upside, economic stabilization and improved sentiment in the region, as well as higher oil prices, would boost growth and domestic revenue. Domestic risks comprise continued security threats in the anglophone and northern regions, further fiscal slippages related to the 2018 elections and the 2019 CAN, further delays in the coming on stream of large infrastructure projects and the materialization of SOE contingent liabilities.

14. The authorities indicated that the growth outturn could be somewhat more favorable. They stated that CAN preparations could boost growth further in 2018, while tourism and consumption related to the event as well as completion of large infrastructure and energy projects could bring 2019 growth above the current projection. However, they recognized that larger-than-envisaged fiscal consolidation in 2018 and 2019 could hold back non-oil sector growth.

POLICY DISCUSSIONS

15. Short-term policy discussions centered on how to bring the fiscal consolidation back on track and strengthen fiscal discipline, while addressing fiscal and financial risks. The expenditure overruns took place in the context of still-weak budgetary controls and public financial management, key program priorities. Monitoring of contingent liabilities from SOEs has improved, but more needs to be done to improve their financial performance and avoid the accumulation of cross debts. Financial sector reforms are advancing, albeit with delays.

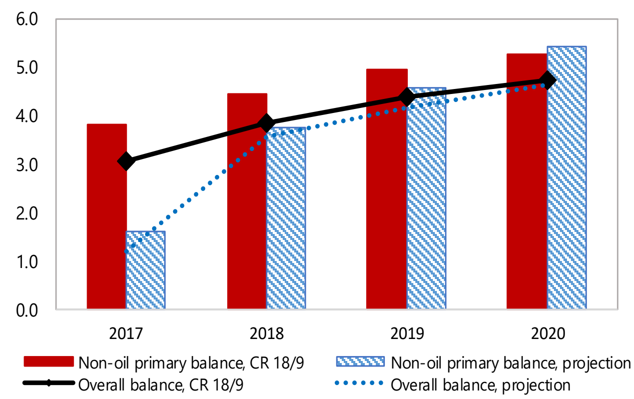
16. The article IV consultations focused on three key areas to fully unlock Cameroon's substantial growth potential and bolster resilience to shocks: (i) making growth more inclusive by enhancing the redistributive potential of fiscal policy and removing remaining barriers to women's participation in the economy; (ii) addressing fiscal and financial risks, including by implementing longstanding measures to resolve ailing banks and reduce high nonperforming loans; and (iii) accelerating reforms to support diversification and promote greater regional integration, notably by improving the business environment and boosting access to finance. Staff's presentations of the analytical work underpinning these themes to a broad audience comprising the authorities, civil society, academics, the press, and donor and private sector representatives generated significant interest.

A. Policy Theme # 1: Achieving a Growth-Friendly Fiscal Consolidation While Protecting the Poorest

Bringing the Fiscal Consolidation Back on Track

17. The authorities have submitted to Parliament a supplementary 2018 budget to bring the fiscal consolidation path back in line with program objectives (prior action, Text Figure 2). The revised 2018 budget, with an overall deficit target slightly larger than envisaged at the time of the 1st ECF review (2.6 percent of GDP versus 2.3 percent of GDP) better reflects fiscal outcomes in 2017, including higher revenue and larger spending. It envisages a slightly smaller consolidation of 2.4 percent of GDP in 2018, with a more realistic expenditure envelope and a 0.4 percent of GDP revenue improvement from 2017 based on new tax policy measures and enhanced revenue administration (Text Table 3, MEFP ¶18–19). The revised 2018 budget accommodates previously unbudgeted higher current spending of 0.7 percent of GDP related mainly to the elections and energy subsidies. The larger cash deficit (4 percent of GDP) includes a net domestic arrears reduction of CFAF 94 billion in 2018 (Text Table 4, Box 2). The stock of domestic arrears was reduced from CFAF 530 billion at end-March to CFAF 268 billion at end-May, on track to meet the June IT (prior action, MEFP ¶21).

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



Sources: Cameroonian authorities; and IMF staff calculations.

Text Table 3. Cameroon: Revenue Measures in the Revised 2018 Budget[1]

New measures	Projected yield: CFAF bn	Projected yield: Percent of GDP
New excises and airport taxes	11	0.06
VAT collection on state budget	20	0.10
Enhanced collection from crossing tax and customs information	8	0.04
Operationalization of 7 new tax centers for medium-sized enterprises.	3	0.02
Improving tax collection	2	0.01
Cross debt operations	12	0.06
Recovery of SONARA tax arrears	15	0.08
Other	27	0.14
Total revenue	**98**	**0.50**

Sources: Cameroonian authorities; and IMF staff calculations.

[1] Additional measures needed to increase non-oil revenue to 13.4 percent of GDP given one-off 2017 VAT arrears collection.

Text Table 4. Cameroon: Changes in the Revised 2018 Budget

(Percent of GDP, unless otherwise indicated)

	2016	2017		2018			Adjustment 2017		Adjustment 2018		Note
	Est.	CR 18/9	Est.	Budget	CR 18/9	Proj.	CR 18/9	Est.	CR 18/9	Proj.	
	(1)	(2)	(3)	(4)	(5)	(6)	(2)-(1)	(3)-(1)	(5)-(2)	(6)-(3)	
Total revenue and grants	15.0	14.6	15.4	15.1	15.1	15.8	-0.4	0.4	0.5	0.4	Revised 2018 projection for non-oil revenue is based on improved 2017 base and new revenue measures totaling 0.4 percent of GDP.
Oil sector revenue	2.2	1.9	1.9	2.1	1.8	2.1	-0.4	-0.3	0.0	0.2	
Non-oil sector revenue	**12.5**	**12.4**	**13.1**	**13.0**	**13.0**	**13.4**	-0.1	0.6	**0.6**	**0.3**	
Total grants	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.0	0.0	0.0	
Total expenditure	21.2	17.7	20.4	17.7	17.5	18.4	-3.4	-0.8	-0.3	-2.0	
Current expenditure	**12.6**	**11.2**	**11.5**	**11.4**	**11.2**	**12.2**	-1.4	-1.1	**0.0**	**0.6**	Revised projection for current expenditure is 0.7 percent of GDP higher to accommodate subsidies for SONARA (0.4 percent of GDP), ENEO (0.1 percent of GDP), and elections (0.1 percent of GDP).
Wages and salaries	5.0	4.9	5.1	4.9	4.9	4.9	0.0	0.1	0.0	-0.1	
Goods and services	4.3	3.4	3.8	3.8	3.7	4.1	-0.9	-0.6	0.2	0.3	
Subsidies and transfers	2.5	1.9	1.8	1.8	1.8	2.3	-0.7	-0.7	0.0	0.5	
Interest	0.8	1.0	0.9	0.8	0.8	0.8	0.3	0.1	-0.2	0.0	
Capital expenditure	**8.4**	**6.5**	**8.8**	**6.2**	**6.2**	**6.2**	-1.9	0.4	**-0.3**	**-2.6**	Capital expenditure remained the same as in original budget.
o/w Domestically financed investment	5.9	3.3	4.9	3.4	3.4	3.4	-2.5	-1.0	0.0	-1.5	
o/w Foreign-financed investment	2.6	3.2	3.9	2.9	2.9	2.9	0.6	1.3	-0.3	-1.0	
Overall balance (payment order basis, incl. grants)	**-6.2**	**-3.1**	**-5.0**	**-2.6**	**-2.3**	**-2.6**	**3.1**	**1.2**	**0.8**	**2.4**	
Adjustment to cash basis	**1.1**	**-0.8**	**0.4**		**-1.2**	**-1.4**					
Unexecuted payment orders (-=reduction)	1.1	-0.5	-0.5		-0.5	-0.5					
Unpaid government obligations		-0.3	0.9		-0.7	-1.0					
Float		0.0	-0.7		0.0	-0.5					
Arrears		-0.3	1.7		-0.7	-0.5					
Overall balance (cash basis, incl. grants)	**-5.1**	**-3.9**	**-4.6**		**-3.5**	**-4.0**	**1.2**	**0.5**	**0.4**	**0.6**	
Memo items											
Unpaid government obligations (CFAF billions)	596	539	711		393	512	-57	115	-146	-198	
Float	101	101	429		101	325	0	328	0	-104	
Arrears 1/	495	438	282		292	188	-57	-213	-146	-94	

Sources: Cameroonian authorities; and IMF staff calculations.

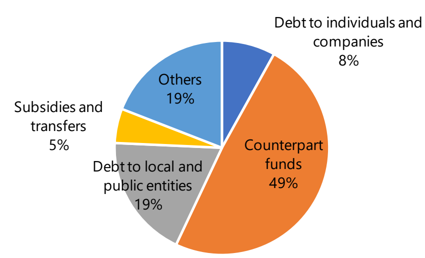
1/ Arrears increased from CFAF 282 billion at end-December 2017 to CFAF 530 billion at end-March 2018. The program target is CFAF 282 billion for end-June 2018 and CFAF 188 billion for end-December 2018.

Box 2. The 2018 Audit of Domestic Arrears

The authorities conducted an audit to evaluate the stock of domestic arrears, and elaborate a strategy to clear the existing arrears in early 2018. The audit assessed a remaining eligible stock of CFAF 182.7 billion of 2000–16 arrears as of end-2017, of which 176.4 billion were validated.

The composition of audited arrears reflects the structurally difficult liquidity situation of the state. The largest share of the arrears pertains to counterpart funds (0.4 percent of GDP, or ½ of the total validated arrears). Arrears to domestic companies and individuals represent only a small share (8 percent) of the total validated arrears, with the bulk of the remainder accounted for by unpaid transfers and subsidies.

Cameroon: Stock of validated arrears, 2016



Source: Cameroonian authorities.

The audit also identified weaknesses in the Treasury's accounting system. In particular, the audit identified domestic arrears based on physical documents but not captured by the accounting system (CFAF 1.6 billion) and, more importantly, payment arrears in the accounting system without related documents amounting to over CFAF 1 trillion (6.4 percent of GDP). The audit report recommended further analysis of the integrity of the Treasury accounting system.

Based on the audit, the authorities have proposed a plan to clear the validated arrears. Debt to companies and individuals, as well as unpaid contributions, would be paid in full, followed by a gradual payment of counterpart funds based on individual projects' needs. A first tranche of CFAF 32 billion (0.2 percent of GDP) has already been made available by the Ministry of Finance.

18. The authorities and staff concurred that the 2017 end-year spending overruns were mostly attributable to weak public financial management (PFM). Budget execution was in line with the program for the first three quarters of 2017, but spending accelerated in December, continuing into the complementary period ending in February. Weak budgetary controls including reporting lags and the lack of systematic data reconciliation between various spending agencies, together with continued resort to exceptional spending procedures (e.g. cash and treasury advances, provisional commitments) explain the magnitude of the spending overruns. Lack of comprehensive reporting hindered timely monitoring of disbursements of foreign-financed projects. Uncategorized spending reached 3.5 percent of GDP or 20 percent of the budget at end-February (MEFP ¶7, 23).

19. Together with the revised budget, the authorities have issued an implementation circular to enhance fiscal discipline (prior action). The circular strictly limits exceptional spending procedures and strengthens reporting mechanisms. In particular, all expenditures have to be regularized on a monthly basis to avoid end-year accumulation of uncategorized spending, and the amount of spending to be regularized has to be reported, with a quantitative limit (new IT) on the share of non-interest domestic expenditures executed under exceptional procedures. Going forward, the resort to exceptional spending procedures will be gradually eliminated (MEFP ¶23). The recurrence of domestic arrears will be limited by reducing payment delays to suppliers (June SB) and expanding the coverage of the treasury single account (TSA), together with ensuring that annual budgets better reflect actual spending needs.

20. The authorities also agreed to accelerate supporting public financial management reforms to strengthen the quality of the fiscal data and to better control budget execution (MEFP ¶23,26).

- On reporting, monthly reconciliations between all agencies in charge of budget implementation will ensure consistency of accounting and statistical fiscal data. A June FAD expert mission identified measures to address the sources of discrepancies and irregularities in registering information in budget and treasury systems (see statistical issues section). Monthly reports on the disbursements and requests of funds from external creditors (new July SB) will improve monitoring of foreign financed projects.
- Treasury management will be aided by further reductions of the balances in correspondent accounts (new August SB) and the coverage of the TSA will continue to be expanded (new July SB).
- The draft laws implementing CEMAC Directives on finance laws and on transparency and governance in PFM have been submitted to Parliament in June for implementation starting in 2019 (prior action). These laws would anchor best PFM practices and ensure the sustainability of current reforms, notably by strengthening controls over budget execution, reducing the complementary period to one month and improving fiscal reporting.

21. The authorities have revised the 2018 financing plan to accommodate the larger deficit. The government will proceed with the issuance of CFAF 150 billion medium-term infrastructure bonds initially planned in the budget. In light of the decline in banks' appetite for long-term maturity bonds, the government will also step up issuance of short-term T-bills while working to attract non-bank investors, develop the secondary market and eliminate the use of direct bank financing. With an average maturity of domestic debt of about 3 years large short-term bond issuance could raise rollover risks and increase borrowing costs. In that regard, staff and the authorities agreed that the statutory advances’ special escrow account should primarily be used for treasury management, with limited intra-quarter drawings and a very gradual net draw-down (MEFP ¶22, 34).

22. The authorities reiterated their strong commitment to program objectives. They agreed with staff that implementation of the revised 2018 budget would be difficult, with significant risks of further spending pressures. They noted however that they were putting in place additional measures to the revised budget that should help reduce recurrent spending by about 0.6 percent of GDP, including from the ongoing physical count of civil servants and from cost-saving measures on goods and services as mandated by a Prime Minister's circular (MEFP ¶20). Staff welcomed these measures noting that the high administrative costs in recurrent spending (see below) could be reduced without impacting performance. Staff also emphasized the importance of saving any additional oil windfall to create some buffers should some of these risks materialize.

Moving Towards Growth-Friendly and Pro-Poor Budgets:

a. Tapping Cameroon's Considerable Tax Potential

23. Non-oil revenue mobilization efforts have already yielded concrete results and the authorities will continue to advance reforms to broaden the tax base. The authorities have committed to implement substantive tax-base broadening measures starting in 2019, including property tax and tax expenditure reforms, to tap Cameroon's significant tax potential (Box 3, MEFP ¶24, 27). The authorities also concurred that there was significant room to enhance collection through (i) enhancing VAT efficiency (increasing the VAT threshold, simplifying the tax regime for small enterprises, creating new tax centers for medium-sized enterprises); (ii) pursuing the cooperation between the tax and customs administrations; and (iii) continuing to simplify and dematerialize procedures.

b. Enhancing Spending Efficiency while Protecting the Poor and Promoting Gender Equality

24. Improving the efficiency of public spending is essential to create fiscal space for priority spending while continuing to lower fiscal deficits. Recent assessments by IMF and World Bank staff confirmed that, although relatively low compared with peers, public spending in Cameroon is less efficient than in peers with high administrative costs for current and capital spending, consistent with staff's empirical finding of low fiscal multipliers. Social spending is low and ill-allocated, and public investment efficiency is estimated at about 50 percent (Annexes II and III).

25. The distributional impact of fiscal policy could be enhanced to alleviate poverty and inequality, and address remaining gender gaps. According to the 2014 National Household Survey, the poverty rate only slightly declined from 40.2 to 37.5 percent during 2001 to 2014, while the inequality index increased from 42.2 to 46.6. Regional income disparities remain high, with a concentration of poverty in rural areas. In turn, low social spending and gender-neutral budgets together with entrenched social norms and unequal laws contribute to persistent gender gaps both in opportunities and outcomes (Box 4, Figure 6). Staff's joint analysis with the Commitment to Equity Institute shows that targeted in-kind and cash transfers are effective in reducing poverty and inequality, and in supporting women. However, indirect transfers such as electricity and fuel subsidies, and tax expenditures are ineffective and regressive as the higher income groups, being the largest consumers, benefit more (Annex III).[7]

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[7] Chapter II of the SIP analyzes the incidence of fiscal policy on poverty and inequality, and Chapter III discusses how to address remaining gender gaps in Cameroon.

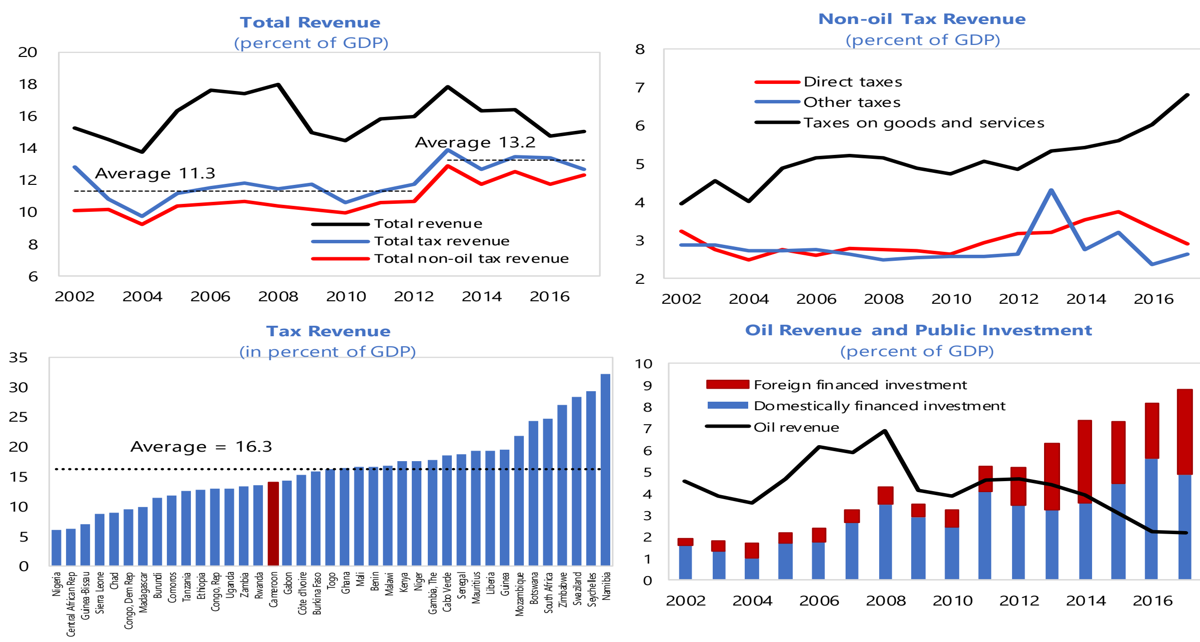
Box 3. Tax Potential

Tax revenue has increased considerably since 2012. The tax-to-GDP ratio has increased from an average of 11.3 percent in 2002–12 to 13.2 percent in 2013–17, and the non-oil tax-to-GDP ratio has followed the same trend. Stronger collection of indirect (VAT, excise and others) and direct taxes are behind this increase, reflecting accelerated tax administration reforms and tax policy changes.

Despite this encouraging trend, tax revenue in Cameroon remains below-potential. Tax revenue is still 2–3 percent of GDP below the average of sub-Saharan countries. A cross country empirical analysis using stochastic frontier models indicates that in countries with similar macroeconomic conditions and institutions, Cameroon's tax-to-GDP ratio can reach 19–21 percent, implying an additional potential of at least 5–7 percent of GDP.

Declining oil revenue and rising spending needs require further efforts to tap the tax potential. Oil revenue accounted to 13 percent of total revenue in 2017 and is expected to shrink further due to depletion of existing fields and lack of new discoveries. On the other hand, pressing needs on social spending and priority investment require extra fiscal space.

Improving collection efficiency and reducing tax exemptions can boost non-oil revenue significantly. A recent FAD technical assistance mission pointed out tax administration gains can reach up to 2.5 percent of GDP. In addition, the authorities assessed the cost of tax expenditures at 2.4 percent of GDP in 2016 and plan to gradually reduce them starting in 2019. Full implementation of ongoing tax administration efforts to enhance the collection efficiency and tax policy changes to broaden the base are key to continue the mobilization of the non-oil revenue.



Sources: Cameroonian authorities; World Economic Outlook; and IMF staff calculations.

26. Reforms to address spending inefficiencies, scale up social spending and improve the targeting of indirect transfers should be prioritized.

- *Measures to reduce high administrative costs in current and capital spending* by streamlining processes and eliminating overlapping missions should be prioritized. Implementation of key recommendations from the PIMA on improving the selection, budgeting, and enhancing monitoring of investment projects should continue.

- *Administered energy prices should be reformed* to minimize market distortions and direct and indirect (through public utilities) costs to the state while increasing direct subsidies or transfers to poor households. Tax expenditures should be gradually eliminated. Both sets of measures would be both revenue-enhancing and progressive.
- *The coverage of cash transfer programs should be expanded.* Health and education spending should be increased while redirecting resources towards primary education and health care facilities in the poorer regions to support women and improve spending efficiency. More gender-responsive budgets should be considered.

Box 4. Addressing Gender Gaps to Boost Inclusive Growth

The government has been proactive in promoting gender equality but gaps remain. A gender-friendly electoral law adopted in 2012 has led to increased women's representation in parliament, and, together with a more gender-balanced criminal law, has improved the gender inequality index (GII) to just above the SSA average. However, signed international treaties on gender equality promotion are yet to be translated into law. In particular, the legal marriage age is 15 for women (18 for men), with about 40 percent of women married before age 18. Other legal barriers deter women's employment and management of physical assets. In addition, public health and education expenditure is low, inefficient and unevenly allocated across regions, compounding gender gaps. Cameroon's budget is gender neutral, and more resources could be allocated to improve women's conditions.

The economic gains to addressing remaining gender gaps are significant. Improving women's health and education outcomes would be particularly important: in Cameroon, better educated women tend to be more financially included than men, and are more likely to be employed in the formal sector. Staff estimates indicate that Cameroon's GDP per capita growth could increase by ¼ percentage point if its GII score were brought to the SSA average and by up to 1 percentage point if brought to the level of the five main emerging Asian countries (Indonesia, Malaysia, Thailand, Philippines and Vietnam) or the five leading Latin American economies (Brazil, Chile, Colombia, Mexico, and Peru).

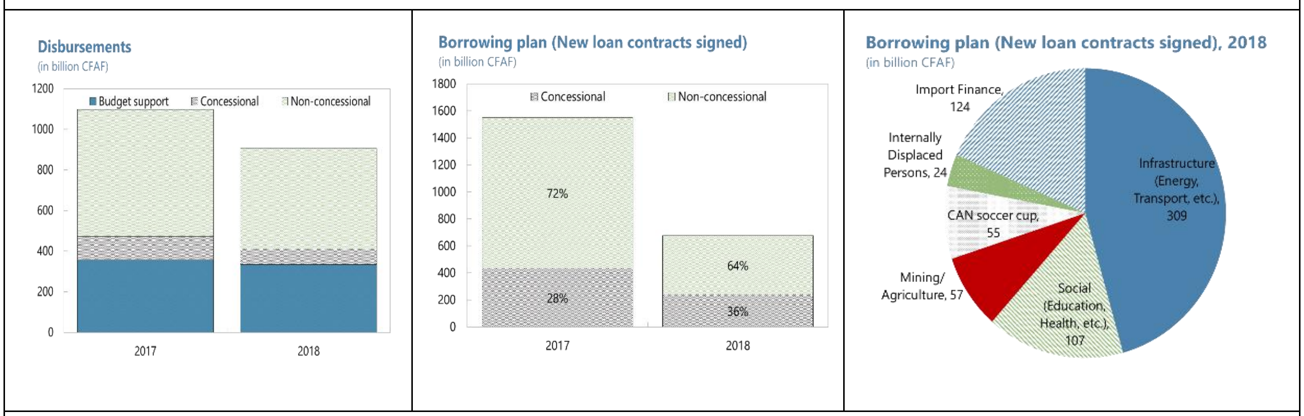
27. The authorities concurred with staff on the need to improve overall spending efficiency and reform social spending. They appreciated the recent technical assistance provided by the Fund and other development partners on expenditure policy. They indicated that they were making progress in implementing key recommendations particularly related to tax expenditures, the wage bill (rationalizing non-wage benefits), and public investment (new procurement code). They highlighted that their interim Growth and Employment Strategy focused on enhancing social policies, notably health (expanding performance-based financing to health centers, increasing availability and reduce price of drugs), education (expanding vocational education and training, reforming the schoolbook policy), gender (incorporating gender in sector policies), and social protection (scaling up the cash transfer program, revising the National Social Protection Strategy), in close cooperation with the World Bank and other development partners (MEFP ¶25). On gender, they also noted that the government was in the process of transposing signed international treaties on gender equality into domestic law.

B. Policy Theme # 2: Maintaining Debt Sustainability and Addressing Fiscal and Financial Risks

Maintaining Debt Sustainability

28. Cameroon remains at high risk of debt distress. Staff noted that the public debt stock had increased by 5 percentage points of GDP since 2016. The updated debt sustainability analysis (DSA) suggests that the export base is still narrow compared to external exposure and projected debt service. Under the program scenario, public debt would peak this year at 38.7 percent of GDP and then gradually decline to about 33.6 percent of GDP by 2023 (see DSA). Stress scenarios point to continued fragility in Cameroon's debt trajectory. Staff noted that the authorities contracted new non-concessional debt amounting to 63 percent of the annual limit in January-May 2018. The authorities restated their commitment to the 2018 non-concessional borrowing limit, noting that they had already selected mature priority projects in key sectors in their 2018 borrowing plan (MEFP ¶28–29; Text Figure 3). Staff and the authorities also agreed to increase the concessional borrowing limit by CFAF 90 billion in 2018, while keeping the cumulative concessional borrowing broadly unchanged, which would allow the authorities to benefit from greater availability of concessional IDA resources.[8]

Text Figure 3. Cameroon: Composition of New Borrowing and Debt Disbursements, 2017–18



Sources: Cameroonian authorities; and IMF staff estimates.

29. The authorities are implementing measures to enhance debt management and monitoring. Staff welcomed the improved timeliness and depth of official debt reports, and commended the ongoing efforts to improve monitoring of public debt through a more systematic monitoring of SOEs and the regular publication of the budget annex on SOEs. This would also help strengthen the monitoring and reporting of contingent liabilities, which may arise mainly from SOEs and PPPs, but would not jeopardize debt sustainability even if fully realized (see DSA). Staff also encouraged the authorities to include all SOEs relying on any form of government support in the definition of public debt (see DSA Box 1).

[8] Concessional borrowing of CFAF 19 billion in 2017 was significantly below its program limit of CFAF 100 billion, while many projects financed with concessional resources were not included in the 2018 borrowing plan.

30. Staff reiterated the urgency of accelerating the clearing of contracted but undisbursed loans. The stock of signed but undisbursed borrowing stood at 21.5 percent of GDP at end-March 2018. Staff urged the authorities to reconcile the projected disbursement plans for each project within the revised budget limits. A study by the Ministry of Economy and the National Commission on Public Debt (CNDP) has found CFAF 3,200 billion or two thirds of the SENDs linked to nonperforming projects. Staff urged the authorities to accelerate the implementation of the study's recommendations by preparing a plan (new July SB) to reduce the SENDs by one-third by end-2018 and, in cooperation with development partners, make meaningful progress in reducing their stock by September (MEFP ¶30).

31. The authorities acknowledged the need to rein in public debt but viewed the debt sustainability outlook more positively. They emphasized that steady improvements in non-oil exports supported by improved infrastructure and investment in the agro-food industry would ensure external sustainability over the projection horizon. They also stressed that a significant portion of the reported increase in public debt is explained by the widening of the debt perimeter recommended by staff. While agreeing to continue to improve data provision on SONARA and other SOEs, the authorities noted that, in their view, commercial debt of SOEs should not be part of public debt (see DSA).

Containing Fiscal Risks from Contingent Liabilities

32. The deteriorating financial situation of public enterprises is a growing source of fiscal risks (Figure 7). SOEs play a significant role in the Cameroonian economy with a large share of total employment, and monopolies in the production of key goods and services, including public utilities. However, declining sales and increasing costs (including wages), partly owing to administered prices in key sectors (including water, electricity, fuel), have led to rising SOEs losses, and SOE debt increased in recent years to reach 12.5 percent of GDP in 2016 (see DSA).

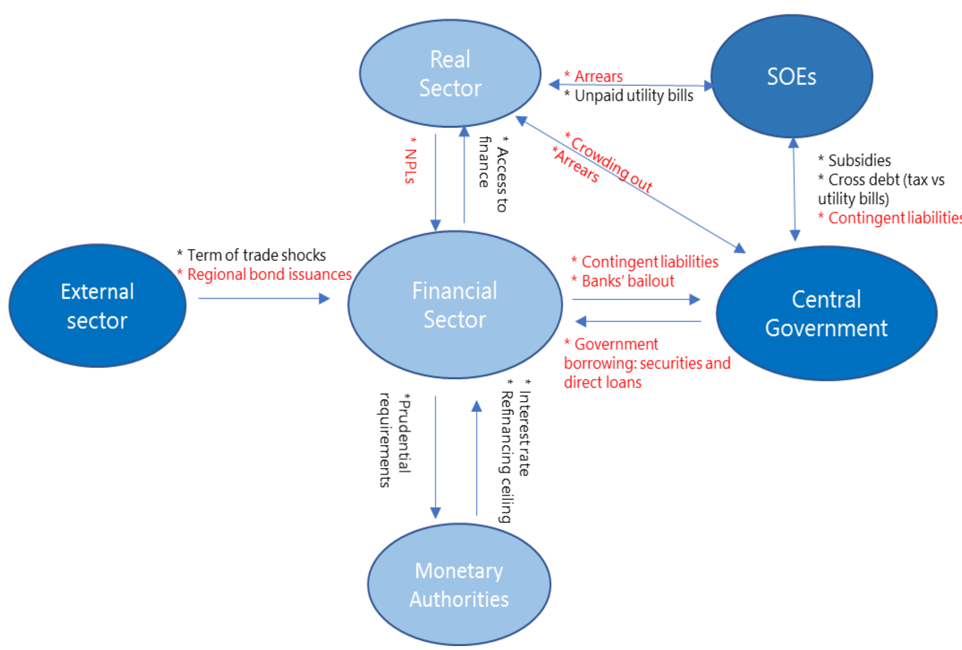
33. SONARA accounts for the largest share of SOE debt. Although it has declined since 2014, SONARA's debt still reached 3½ percent of GDP in 2016 or a quarter of total SOE debt. SONARA has been declared a strategic public enterprise but its refining capacity is too small to ensure financial viability, which is also hampered by fixed and, since late 2017, below-cost domestic retail fuel prices. The strategy prepared to restore SONARA's financial viability (December 2017 SB) is predicated on a higher state subsidy to maintain financial equilibrium in the short-term, with no efficiency improvements nor pump price adjustments. Instead, the authorities proposed to implement short-term measures to improve SONARA's cash flow and limit subsidy costs to the state, but did not envisage an eventual move to a more flexible price structure (MEFP ¶32). Staff regretted the lack of more concrete steps to prepare the sector for further liberalization.

34. Further efforts are needed to improve the financial situation of SOEs and avoid the buildup of cross-debts with the state. The authorities noted that they were preparing regulations and a strategy to implement the two laws on SOEs and other public entities approved in 2017. However, staff indicated that additional short-term efforts are needed to improve SOEs' management and performance, including financial audits and implementation of performance contracts, while ensuring regular payments of utility bills and budgeted subsidies to avoid straining SOEs' cash position (MEFP ¶31). Ensuring that prices of key utilities remained at least at cost-recovery levels while protecting the poorest would also be essential.

Monitoring Macrofinancial Linkages and Maintaining Financial Stability

35. The difficult liquidity situation of the government and SOEs is a growing source of vulnerabilities for the banking sector (Text figure 4). Banks are liquid and the average capital ratio increased from 9 percent at end-2016 to 10.7 percent in March 2018, ranging between 10 and 16 percent excluding ailing banks, compared to the regulatory minimum of 8 percent. However, banks are vulnerable to sovereign risk (exposure to CEMAC sovereign risk has increased from 11 to 17 percent of total assets between 2014 and 2017), and to the direct and indirect impact of state and SOE domestic debt and arrears. A stress test on banks at end-2017 showed that the system-wide capital ratio could decline by 4.4 percentage points following a 25 percent haircut on Cameroonian government debt, 3.5 percentage points due to a 25 percent haircut on the other CEMAC countries' debt, and 2.7 percentage points due to a full SONARA default (Text Figure 5).[9]

Text Figure 4. Cameroon: Macro-Financial Linkages

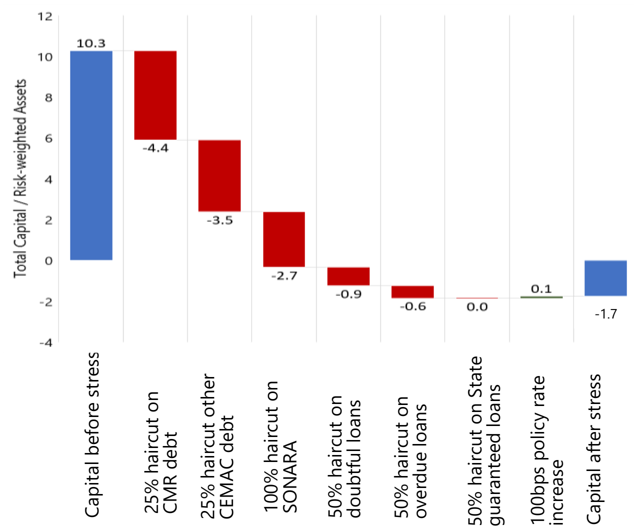


Source: IMF staff illustration.

[9] Chapter IV of the SIP analyzes macro-financial linkages for Cameroon.

36. Reforms implemented by the BEAC and the COBAC are having an impact on the financial sector and the government. The BEAC's tighter monetary stance is supporting the countries' individual adjustment efforts, and the BEAC and COBAC are implementing significant reforms of monetary policy operations, foreign exchange regulations and prudential policies.[10]

Text Figure 5. Cameroon: Stress Test on Banks



Sources: COBAC; and IMF staff calculations.

- *The increase in the BEAC policy rate in March 2017 and enhanced enforcement of existing foreign exchange regulations* have contributed to lower short-term capital outflows and supported NFA buildup in Cameroon. However, banks and private sector representatives noted that further efforts to accelerate the processing of requests for foreign currency would help facilitate trade transactions, and support repatriation of export proceeds.
- *The authorities noted that joint efforts by the BEAC and banks to support the development of an active interbank market would help equalize liquidity conditions across banks and enhance monetary policy effectiveness.* The rising excess liquidity in Cameroon is concentrated in non-CEMAC banks (114 percent excess liquidity before BEAC refinancing on average for 69 percent of system's assets), while CEMAC banks are short of liquidity (-14 percent).
- *The enforcement of non-zero risk weights on government debt could help reduce banks' sovereign risks and provide incentives to governments to respect convergence criteria, needed for the sustainability of the common currency.* However, the immediate result of this reform has been to lower bank's appetite for government securities as banks tend to hold bonds and use them for BEAC refinancing. Staff encouraged banks to play a more active role in developing a secondary market for sovereign bonds.

37. Staff encouraged the authorities to step up ongoing efforts to enhance the financial sector's resilience. With IMF technical assistance, the pricing methodology to purchase impaired assets has been updated, and its implementation should lead to some reduction in the cost to the state. The authorities indicated that they would finalize the evaluation of the resolution options of ailing banks (reprogrammed SB) by August 2018, with the support of the World Bank, and that the performance contract with the management of the state-owned bank would be signed by July 2018 (new SB). The authorities also noted that they are finalizing action plans to reduce non-performing loans, including improvements in the judicial treatment of disputes in the financial sector (MEFP ¶36).

[10] See CEMAC Staff Report, June 2018.

38. The AML/CFT framework needs to be strengthened. In Cameroon, 94 percent of declarations of suspicious transaction reports are submitted by banks, while designated non-financial businesses or professions (notaries, lawyers, real estate agents, etc.) very rarely send such reports to the National Agency for Financial Information. Also, money laundering itself is not sufficiently pursued by the authorities, who are focused on tackling predicate crimes. Staff encouraged the authorities to prepare a diagnostic and identify actions to address the weaknesses of the AML/CFT regime. The authorities indicated that, in the context of the Yaoundé Declaration, an international agreement to fight illicit financial flows and international tax evasion, their immediate priority was to focus on international cooperation to better fight tax evasion.

C. Policy Theme # 3: Boosting Competitiveness

39. Cameroon's external position is broadly in line with fundamentals and desired policy settings, but several factors hamper competitiveness. Private sector and civil society representatives underscored the following aspects as key bottlenecks:

- *Infrastructure gaps.* A number of large infrastructure projects remain to be completed, with resulting gaps in the road and electricity networks. Staff reiterated that, along with measures to enhance investment efficiency, ongoing priority projects should be completed before initiating new investments, also to preserve debt sustainability. Better prioritization of projects would also be important. Staff noted the large resources allocated to improving electricity generation, but warned that additional investments in the transmission and distribution networks are crucial to reap the benefits of greater generation capacity.
- *The difficult business environment.* Burdensome and often unclear regulations; complex tax procedures; and weak governance hamper private investment and competitiveness. Staff welcomed the ongoing dialogue between the government and the business community in the context of the Cameroon Business Forum, but noted that more consultations with civil society and the private sector ahead of key policy decisions including annual budgets would be important.
- *High trade costs* (Annex IV). Border compliance costs are higher than in peers, both in terms of time and money. With 95 percent of total trade going through the Douala port (which is also a regional hub), addressing remaining inefficiencies there (including long dwell times owing to low storage fees, number of manual procedures) would be a priority. The perception of poor governance at customs should be addressed.
- *Low access to financial services* (Figure 8, Box 5)**.** Cameroon is the largest financial center of CEMAC, but only 12 percent of the population in Cameroon has a bank account, less than half the SSA average (29 percent). Access to finance is constrained on both the demand side—cost, lack of revenue, religion, lack of trust, and large recourse to the onerous informal finance)—and the supply side—information asymmetries, lack of available collateral and difficulties in enforcing contracts. Mobile banking and micro-finance are filling some gaps but adequate and effective regulation is needed.[11]

[11] Chapter V of the SIP discusses financial inclusion in Cameroon.

40. The authorities concurred with staff on the importance of boosting competitiveness, and indicated that significant reforms are already being implemented. They noted that the recent unbundling in the energy sector will facilitate investments in transmission and distribution. They emphasized that 98 percent of tax declarations were already being processed online, and that customs procedures account for only 47 percent of the time traders spent at the border, highlighting ongoing customs efforts to enhance governance and reduce time and cost of procedures. In particular, regular reconciliation of declared import values and customs receipts (new September SB) would help limit discretion, and controls of exemptions would be intensified (MEFP ¶27). An electronic payment platform will be operational at the port later in the year.

41. The authorities agreed that enhancing financial inclusion was a key priority. They pointed to ongoing reforms to promote wider access to creditor databases, computerize the movable collateral registry (reprogrammed December SB) and the cadaster, and the training of judges for resolving banking conflicts. They noted that they were in the process of revising their national financial inclusion strategy, based on a recent FINSCOPE survey. Staff encouraged cooperation with the BEAC to ensure consistency of national and regional initiatives to boost financial inclusion and to develop information platforms. The 2017 COBAC regulation on micro-finance institutions ought to be fully implemented. The authorities also highlighted that, with donors' support, they would review the business model of the public SME bank before August 2018 (new SB) to enhance SMEs' access to financial services.

Box 5. Financial Inclusion in Cameroon

Overall access to financial services in Cameroon is low with significant recourse to informal services. Access to formal financial services in Cameroon is among the lowest in SSA, although 38 percent of total bank assets and more than half of the licensed MFIs in the CEMAC region are located there. The 2014 FINDEX survey shows that only 12.2 percent of the population has an account at a financial institution. Low access to formal finance is offset by a large recourse to informal finance (more than half of the adult population). Access to finance is better for men and people at higher education and income levels, and formally-employed. However, the gender gap is reversed at higher education levels, for formal employment and use of mobile banking services.

Initiated in 2012, mobile money has the potential to transform and significantly boost financial inclusion. The number of mobile money accounts has increased from 9 percent of adults in 2012 to about 28 percent in 2016, with only a quarter of registered cellphone users using mobile banking, and it continued to grow in 2017. In addition, mobile money transactions are estimated to have reached CFAF 3.5 trillion (17.5 of GDP) up from CFAF 0.3 trillion in 2016. Only 5 out 12 banks are providing mobile banking services at the moment and microfinance institutions are not yet allowed to do so.

PROGRAM MODALITIES

42. Based on the strength of corrective measures, the authorities are requesting waivers for the non-observance of three end-2017 performance criteria. The authorities proposed strong corrective measures to effectively address the significant over-spending in 2017 and enhance fiscal discipline. In particular, ahead of the Board meeting, the authorities have implemented the following prior actions:

- A supplementary budget in line with the program was submitted to Parliament on June 11.
- A supplementary circular to strengthen budget controls was published on June 21.
- The total stock of arrears was reduced by CFAF 262 billion by end-May as compared to end-March and to a CFAF 212 billion target.
- The draft laws to transpose the two CEMAC directives on (i) transparency and good governance in public finances' management and (ii) on the financial regime of the government and other public entities, were submitted to Parliament on June 20.

43. Modifications to three end-June 2018 performance criteria are requested and new structural benchmarks through end-2018 are proposed. End-December 2018 PCs and end-September 2018 and end-March 2019 ITs (including a new IT on exceptional spending procedures) are proposed. The modification of the end-June 2018 performance criteria on the ceiling on the net borrowing of the central government from the central bank excluding IMF financing and the ceiling on the net domestic financing of the central government excluding IMF financing is requested, in light of the lower deposit accumulation in 2017; as well as the modification of the performance criterion on disbursements of non-concessional project financing (on the latter to modify the definition of the PC to include all disbursements of non-concessional project financing). New SBs are also proposed to (i) strengthen revenue mobilization, budgetary execution and treasury management; (ii) contain debt sustainability risks and contingent risks; (iii) accelerate the bank resolution process and promote access to finance; and (iv) improve governance and the business climate.

44. The BEAC and COBAC have pursued the implementation of their policy commitments and provided new policy assurances in support of CEMAC countries' programs. Implementation of previous commitments included tighter monetary policy, the elimination of statutory advances, and maintaining firm control over the extension of credit to banks. Moreover, regional NFA accumulation up to December 2017 was in line with projections and corrective actions addressing recent fiscal slippages in some CEMAC countries are being implemented to put NFA accumulation back on a desired upward path, following the underperformance in early 2018. The BEAC also provided new policy assurances aimed at enhancing monetary policy transmission and reinforcing centralization of foreign exchange reserves at BEAC, which will be critical for the success of the CEMAC countries' programs. These policy assurances include the completion by end-2018 of the modernization of the monetary policy operations framework and the submission (for adoption) to the UMAC ministerial committee by end-2018 of revised foreign exchange regulations. Moreover, the policy assurance on achieving the projected regional NFA accumulation is based on BEAC's commitment to implement an adequately tight monetary policy together with the commitment by the member states to implement adjustment policies in the context of IMF-supported programs. These policy assurances are critical for the success of Cameroon's program as they will support rebuilding sufficient external reserves cover for the external sustainability of the region, and hence for Cameroon.[12]

[12] CEMAC Staff Report, June 2018.

45. Financing assurances have been obtained for the next 12 months (Text Table 6). Budget support commitments totaling CFAF 135 billion for 2018 from the World Bank, France and the European Union are confirmed, with most disbursements planned in the second half of 2018. The African Development Bank disbursed CFAF 118 billion in January 2018 for its 2017 comittment.

Text Table 6. Cameroon: Financing Gap, 2017–20[1/]

CFAF Billion	2017	2018	2019	2020	Total
1. Financing gap	**364**	**334**	**333**	**40**	**1072**
2. IMF financing	**167**	**81**	**80**	**40**	**368**
Percent of quota	*75*	*40*	*40*	*20*	*175*
3. Budget support from other donors	**197**	**253**	**253**	**0**	**704**
World Bank	113	53	52	0	**218**
European Union	19	16	23	0	**59**
African Development Bank	0	118	112	0	**230**
France	66	66	66	0	**197**
4. Residual financing gap (1-2-3)	**0**	**0**	**0**	**0**	**0**
Share of Fund financing	46	24	24	100	**34.4**

Source: IMF staff calculations.

1/ Actual budgetary support disbursed for 2017.

46. 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 1.5 percent of exports and 1.2 percent of revenue in 2025–26 (Table 10).

47. 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 strengthen its governance through amendments to its charter's provisions and plans to strengthen financial reporting transparency through full transition to IFRS. The BEAC continues to implement the outstanding recommendations from the 2017 assessment.[13]

STATISTICAL ISSUES

48. Data provision is broadly adequate and the authorities have been working with development partners to improve the quality, coverage and timeliness of key macroeconomic data.[14] Of note are the rebasing of national accounts implemented in 2017, and ongoing improvements in the quality of balance-of-payments data. TA in external sector statistics should support capacity development to allow production of international investment positions (IIPs). On the fiscal data, the authorities are only beginning the process of expanding coverage beyond central government, but staff and the authorities agreed that enhancing the quality and timeliness of fiscal data on central government operations was a key short-term priority. Inconsistencies between different data sources and lags in data reconciliation, and the resort to exceptional procedures which accounted for around 20 percent of total expenditure in 2017 delayed the preparation of the final 2017 fiscal report to end-May. A Fund expert mission in June 2018 supported the authorities' efforts to enhance the accounting of fiscal operations.

[13] CEMAC Staff Report June 2018.

[14] See Annex V and Informational Annex.

STAFF APPRAISAL

49. The coordinated efforts to address CEMAC fiscal and external imbalances since December 2016 have stabilized the region, but the recovery remains fragile. Although BEAC reserves are stabilizing, supported by adjustment in Cameroon and other CEMAC countries as well as external financing from development partners, the adjustment has been uneven across the region. In particular, fiscal consolidation has fallen short of program objectives in some countries and regional reserves' accumulation underperformed at the beginning of the year.

50. Cameroon's leadership in bringing its fiscal deficit path back in line with program objectives is essential. The Extended Credit Facility-supported reform program has helped boost investor confidence and begin to rebuild external and fiscal buffers in 2017. However, although revenue collection was better than anticipated, the fiscal consolidation fell short of program objectives. Staff acknowledges the difficult socio-political context, and welcomes the strong measures put in place by the authorities to reprofile the adjustment effort and strengthen expenditure controls, while maintaining non-oil revenue mobilization objectives. With significant challenges ahead and the risk of further spending pressures, staff urges the authorities to save any windfall from higher oil prices.

51. Enhancing controls over budget execution would be key to adhering to the revised 2018 budget deficit target. Staff welcomes the revised budget implementation circular, which entails significant improvements in fiscal discipline and reporting. However, staff notes that the new provisions limiting resort to exceptional spending procedures should be strictly enforced to ensure 2018 budget targets are respected. Further progress towards the Single Treasury Account would support liquidity management and domestic arrears reduction. Staff urges the authorities to implement the laws transposing two key CEMAC PFM directives starting in 2019 to further enhance fiscal governance and transparency.

52. The authorities are encouraged to continue to expand the non-oil revenue base while enhancing spending efficiency. With gradually-declining oil revenue and ongoing fiscal consolidation, this is essential to generate additional fiscal space for priority social and investment spending. Starting with the 2019 budget, the authorities should move forward with the planned expansion in property tax coverage and reduction of tax exemptions. Staff also encouraged the authorities to improve the efficiency of existing social spending programs and gradually increase total social spending to reduce poverty, inequality and gender gaps.

53. Public debt has increased more rapidly than envisaged and the debt trajectory is more vulnerable to shocks. Staff urges the authorities to strive to tilt the composition of new borrowing toward concessional debt, and to accelerate efforts to clear the large stock of contracted but undisbursed debt. Better prioritizing investment projects and addressing remaining high inefficiencies in the investment process would also be essential to ensure a greater growth impact.

54. Staff encourages the authorities to continue to enhance the monitoring of SOE debt and contingent liabilities. In particular, the short-term measures proposed by the authorities do not allow to restore SONARA's financial viability, and increasing international oil prices would further strain its cash position and increase budgetary risks. More generally, staff recommends to reform currently administered prices to ensure cost-recovery for key public utilities while protecting the poor. Staff also encourages the authorities to hold SOEs accountable for performance improvements, while ensuring effective payment of owed subsidies and utility bills to SOEs to avoid a further accumulation of cross debts.

55. Measures to support financial stability ought to be implemented in a timely manner. Most structural benchmarks in the financial sector have been delayed, largely so that the authorities could benefit from external support. Staff agrees that this would likely improve final outcomes but urges the authorities to avoid further delays. Regarding ailing banks, staff encourages the authorities to select options that would minimize fiscal costs. The authorities should also move ahead with initial plans to train only a limited number of judges on banking conflicts to create poles of expertise rather than diluting the competence across all categories of judicial staff. The authorities are also encouraged to mobilize the AML/CFT framework, in particular by ensuring that banks implement measures preventing the laundering of the proceeds of corruption.

56. Reforms to enhance competitiveness and boost financial inclusion are key to achieving sustainable and inclusive growth. Staff urges the authorities to complete ongoing priority infrastructure projects, enhance the predictability of the business environment and address non-tariff barriers including perceptions of weak governance. The authorities should proceed with the revision of their financial inclusion strategy and with the design and implementation of regulations for micro-finance and mobile banking consistent with their continued expansion while maintaining financial stability.

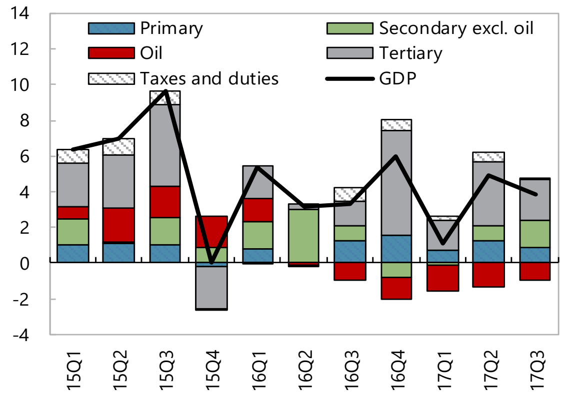
57. Based on Cameroon's performance under the program, and the adequate implementation of the regional policy assurances, staff supports the authorities' request for the completion of the second review under the Extended Credit Facility. Staff also supports the authorities request for (i) waivers of non-observance of the end-December quantitative performance criteria on the floor on the non-oil primary fiscal balance, the ceiling on net borrowing of the central government from the central bank excluding IMF financing and the ceiling on the disbursement of non-concessional external debt contracted as of the date of program approval; and (ii) a modification of the end-June 2018 performance criteria on the ceiling on the net borrowing of the central government from the central bank excluding IMF financing and the ceiling on the net domestic financing of the central government excluding IMF financing; as well as the modification of the performance criterion on disbursements of non-concessional project financing. Staff proposes that completion of the third ECF review be conditional on the implementation of critical policy measures at the union level, as established in the June 2018 union-wide background paper.

58. It is proposed that the next Article IV consultation take place within 24 months in accordance with the Decision on Article IV Consultation Cycles Decision No. 14747–10/96.

Figure 1. Cameroon: Real Sector Developments, 2015–18

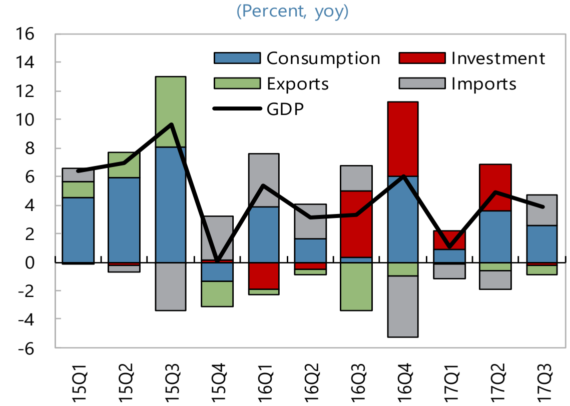
Growth has slowed amid shrinking oil production...

Growth Composition, 2015–17
(Percent, yoy)



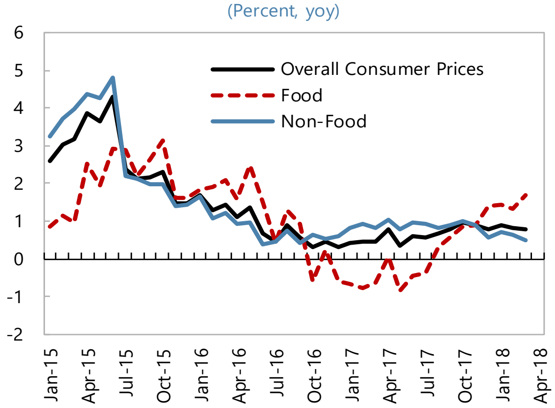
...and declining domestic demand.

Growth Composition, 2015–17
(Percent, yoy)



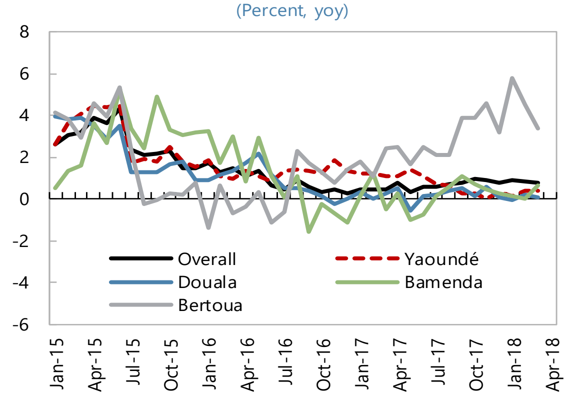
Inflation has remained low...

Consumer Price Indices, 2015–18
(Percent, yoy)



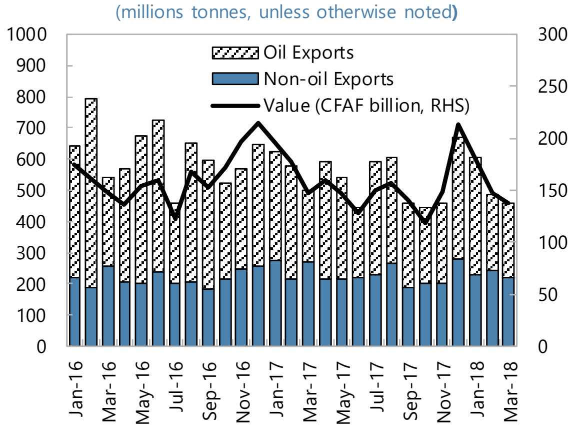
...but with large regional disparities.

Consumer Price Indices, 2015–18
(Percent, yoy)



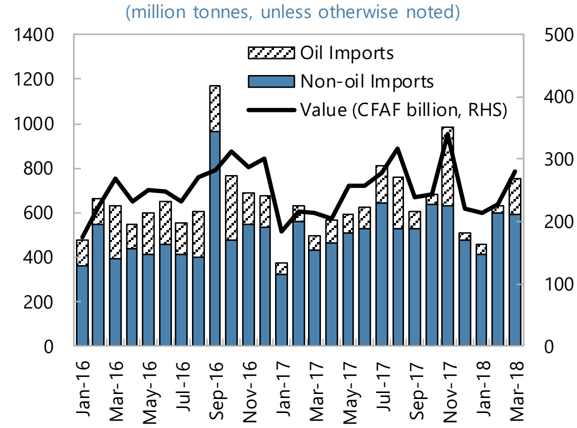
Exports have softened in early 2018...

Export volume, 2016–18
(millions tonnes, unless otherwise noted)



... while imports are catching up.

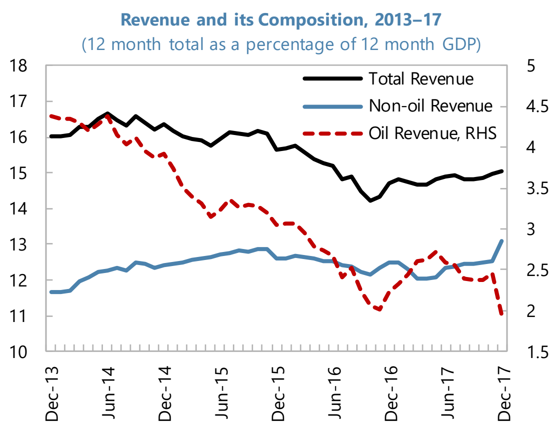
Import volume, 2016–18
(million tonnes, unless otherwise noted)



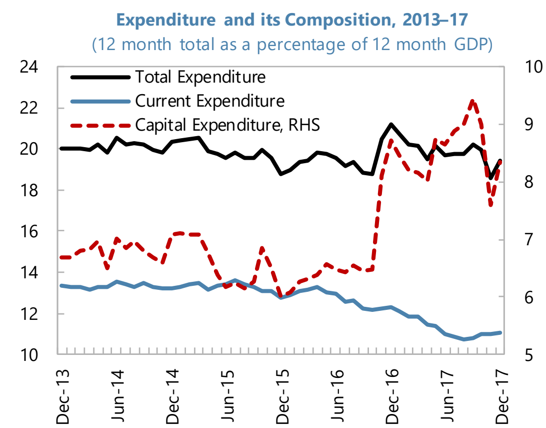
Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

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

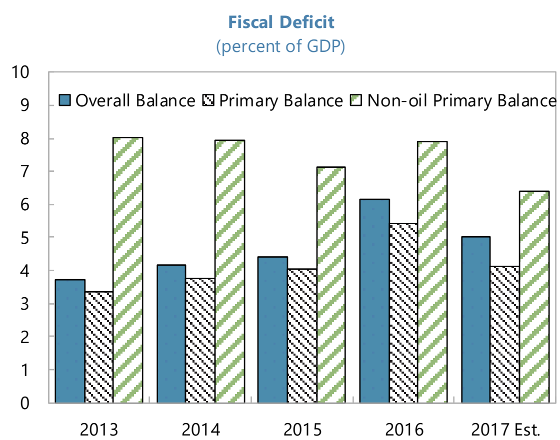
Revenues are improving due to the improvement in non-oil revenue...



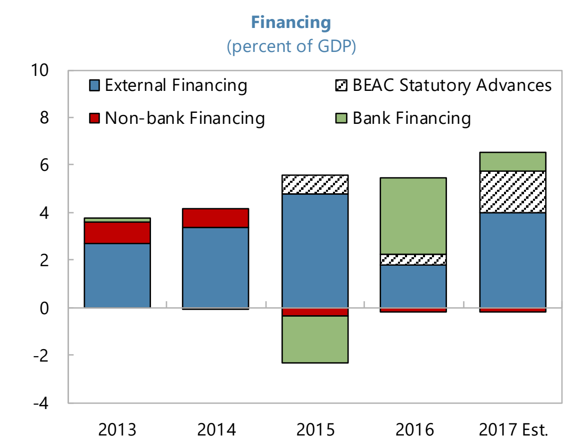
...but expenditure stayed high due to large capital spending.



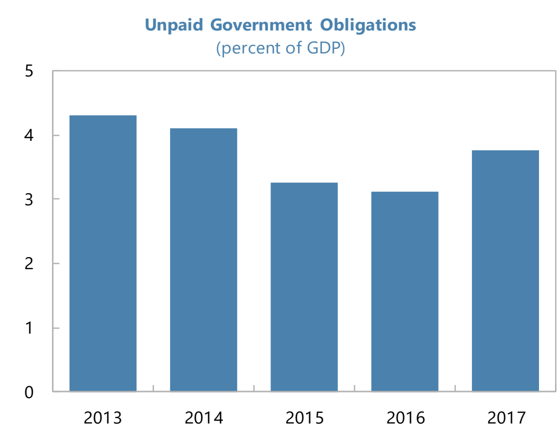
The fiscal deficit has only slightly narrowed...



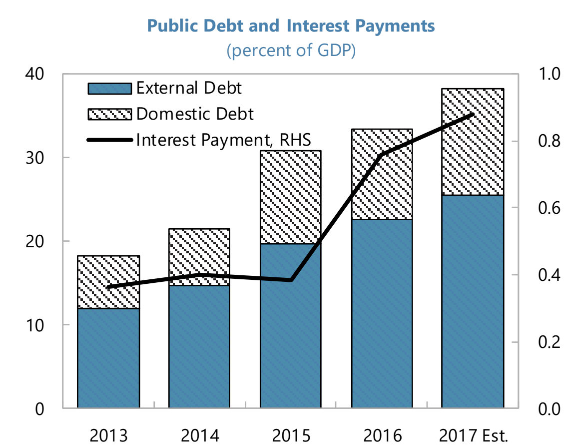
...and so have the financing needs.



Unpaid obligations remain high...



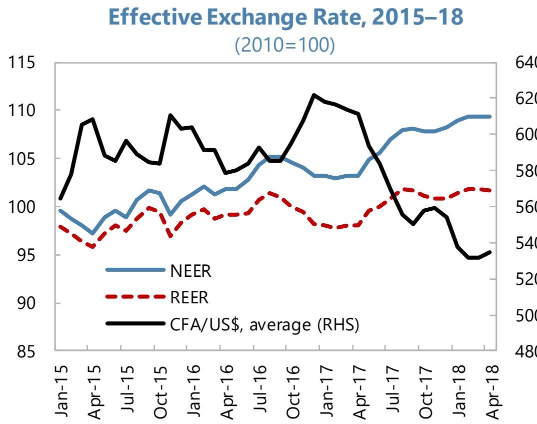
...and public debt and interest expenses are rising.



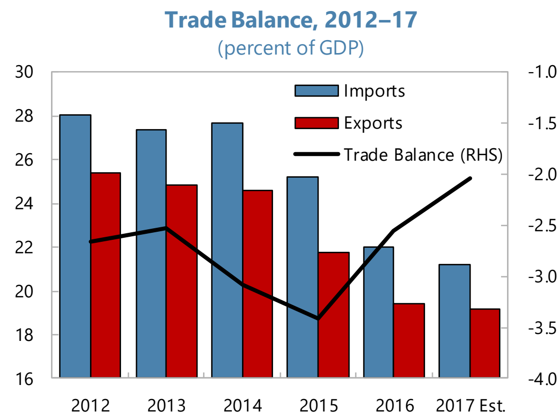
Sources: Cameroonian authorities; IMF staff calculations.

Figure 3. Cameroon: External Sector Developments, 2012–18

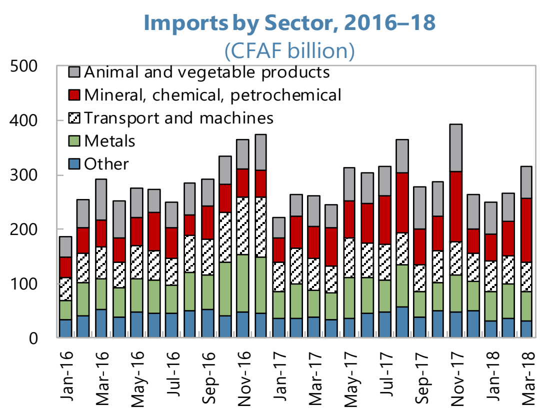
Effective exchange rates are appreciating along with a depreciating U.S. dollar.



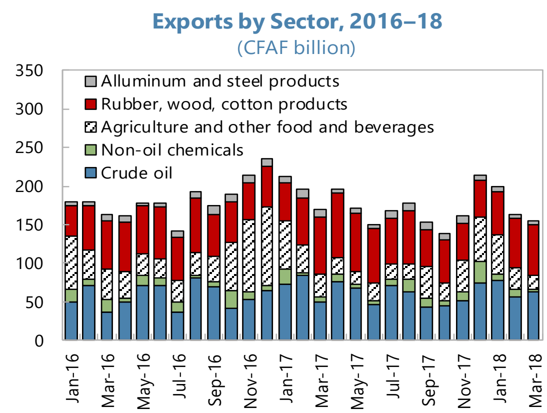
The trade balance is improving.



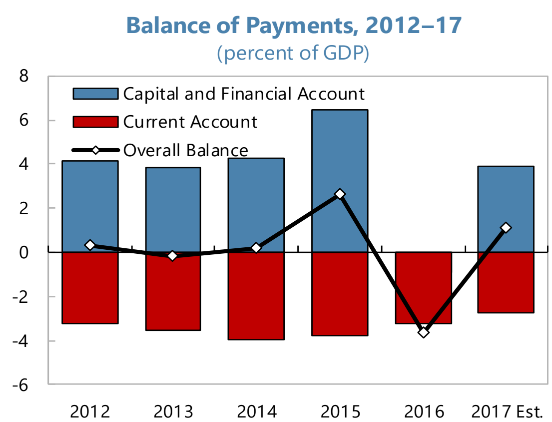
The import decline in 2017 is driven by lower metals, transport and machinery imports…



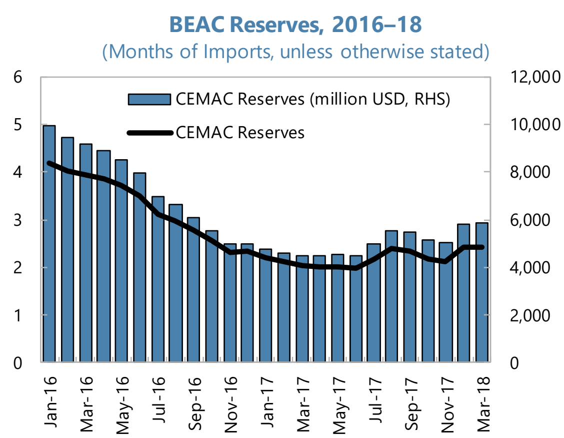
…while the export decline is driven by a reduction in agriculture and agri-food products.



The overall balance of payments is improving…



…and the reserves are stabilizing.

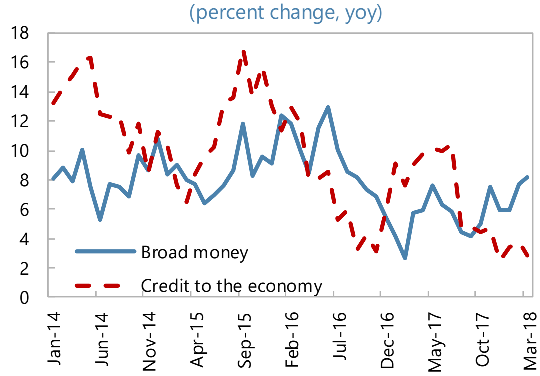


Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

Figure 4. Cameroon: Monetary Developments, 2014–18

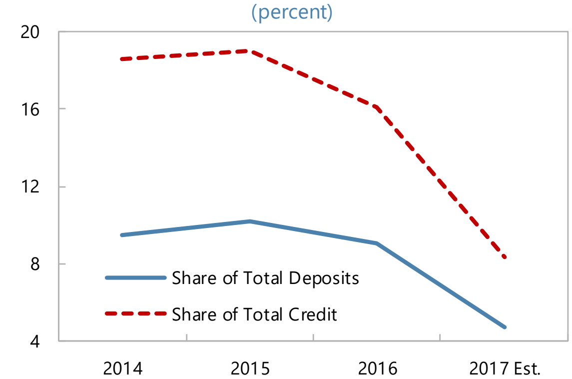
Credit growth is trending down while money growth mirrors the NFA recovery...

Broad Money and Credit, 2014–18
(percent change, yoy)



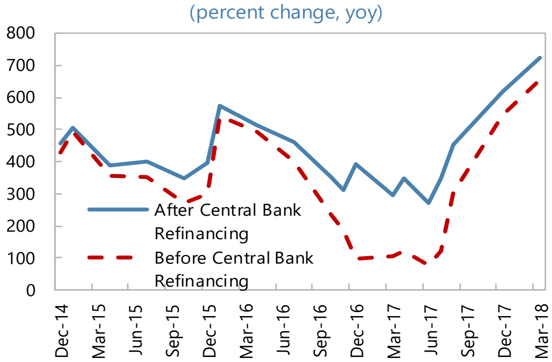
...and credit to SMEs has been falling.

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



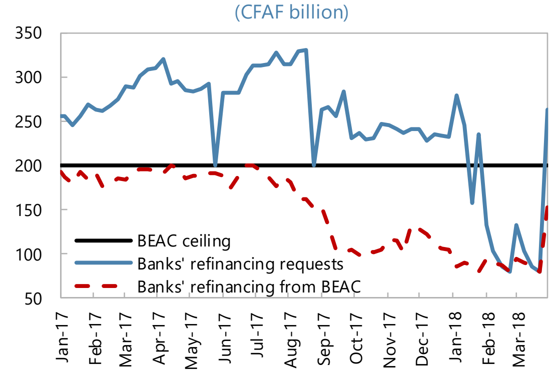
Banks' liquidity improved starting in H2-2017...

Banks' Excess Liquidity at BEAC, 2014–18
(percent change, yoy)



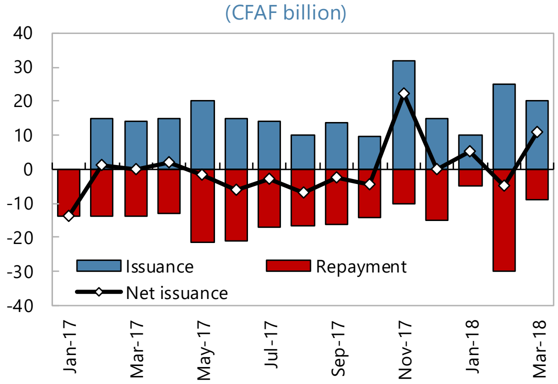
...and banks' refinancing from BEAC has declined with a surge at end-Q1-2018.

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



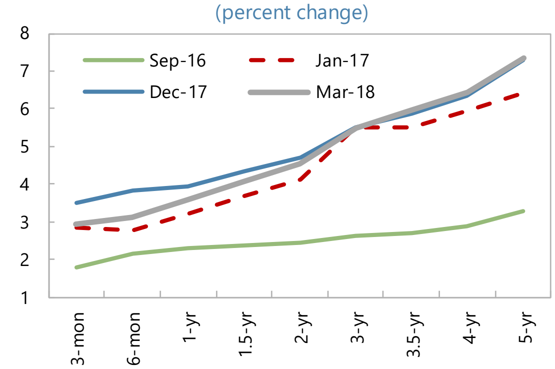
This has helped improve the rollover of T-Bills...

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



...and borrowing costs to decline.

Yield Curve, 2016–18
(percent change)

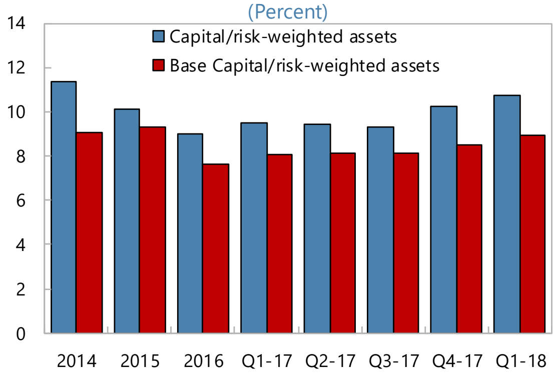


Sources: Cameroonian authorities; BEAC; and IMF staff calculations.

Figure 5. Cameroon: Financial Sector Developments, 2012–18

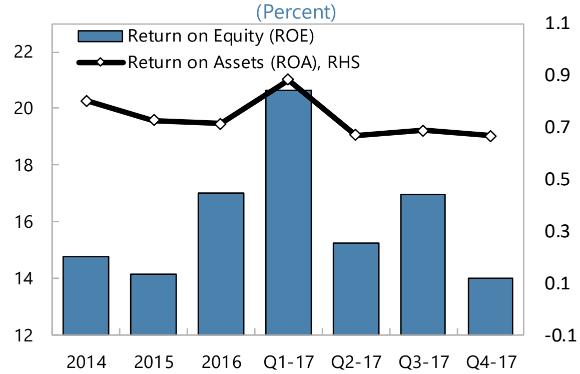
Banks remain adequately capitalized…

Capital Adequacy, 2014–18
(Percent)



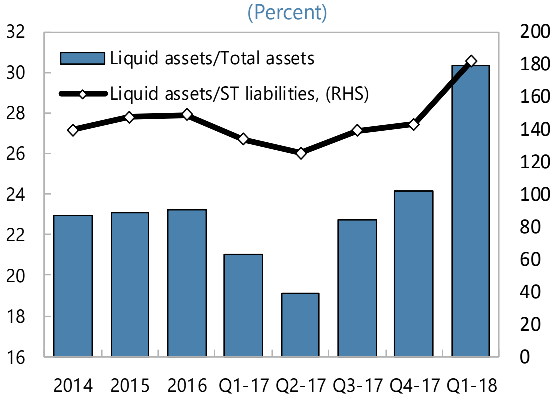
…and profitable.

Profitability, 2014–17
(Percent)



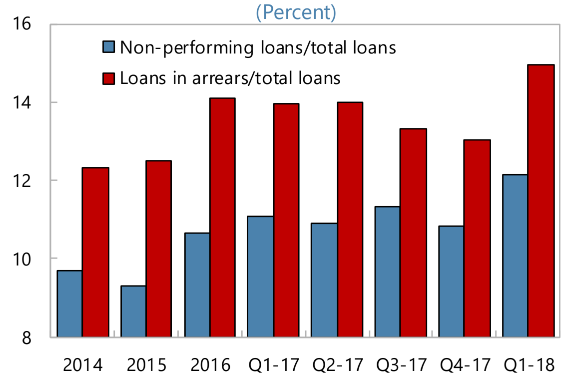
Liquidity has recently improved…

Liquidity, 2014–18
(Percent)



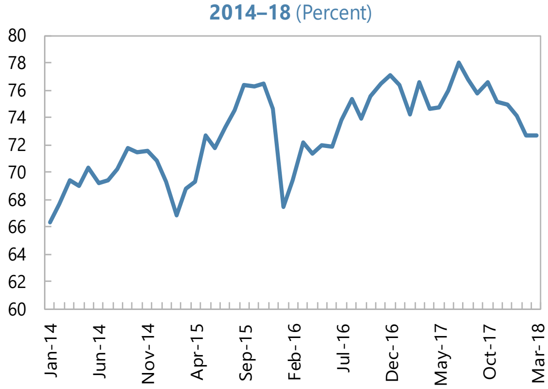
…but asset quality remains poor and worsened in Q1-2018.

Asset Quality, 2014–18
(Percent)



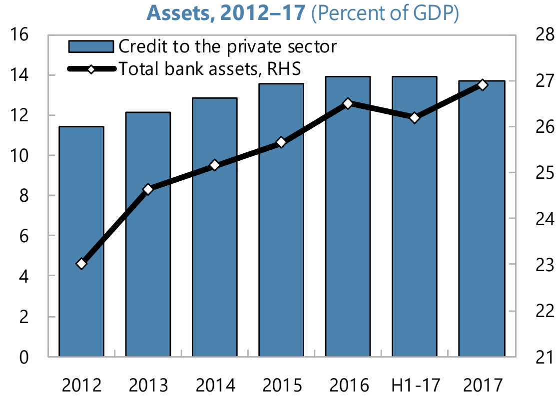
The credit-to-deposit ratio is declining…

Credit to the Private Sector to Deposit Ratio, 2014–18 (Percent)



… and financial deepening is slowing down.

Credit to the Private Sector and Total Bank Assets, 2012–17 (Percent of GDP)



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

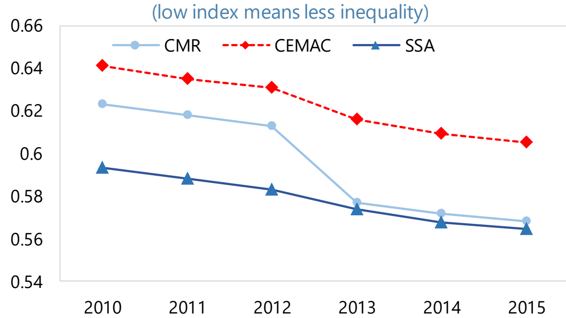
Figure 6. Cameroon: Gender Gaps

Cameroon's Gender Inequality Index score is improving

But reforms to (i) reinforce equal access to resources and assets, and (ii) protect women against violence …

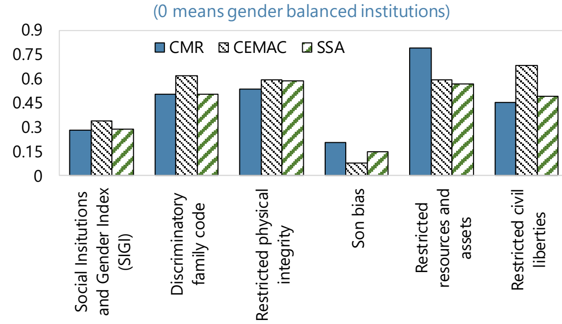
Gender Inequality Index, 2010–15

(low index means less inequality)



Social Indicators and Gender Inequality, 2017

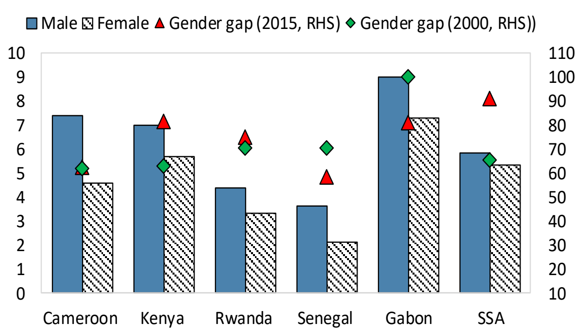
(0 means gender balanced institutions)



… while addressing underlying gender gaps in education and health…

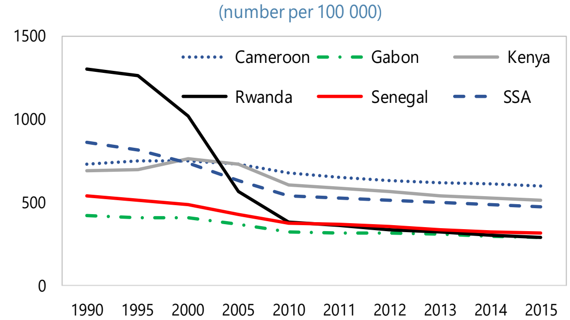
Gender Gap in the Mean Year of Schooling, 2015

(in percent)



Maternal Mortality Rate, 1990–2015

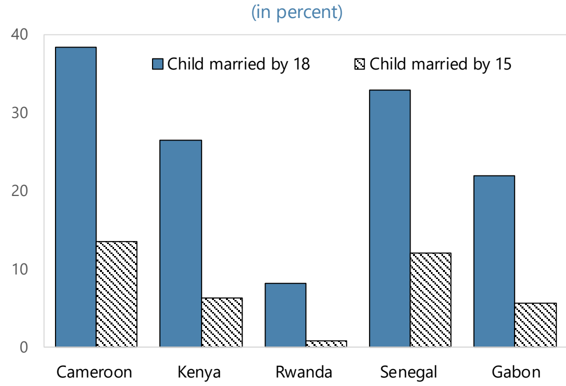
(number per 100 000)



….including by raising women's marriage age, would contribute to higher GDP per capita growth and help reduce inequality.

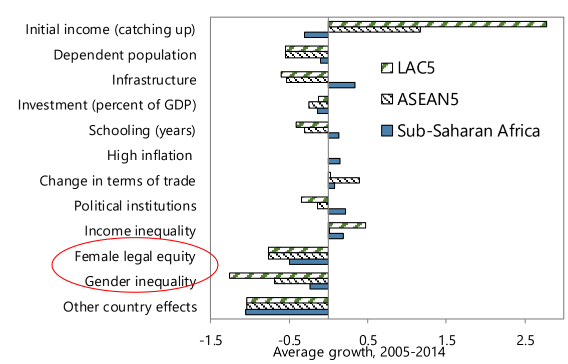
Prevalence of Early Marriage, 2016 or latest

(in percent)



Impact of gender gaps on GDPPC growth

Annual average growth differential: 2.7 percent from the ASEAN5, 1.8 percent for the LAC5, and 1.2 percent from SSA

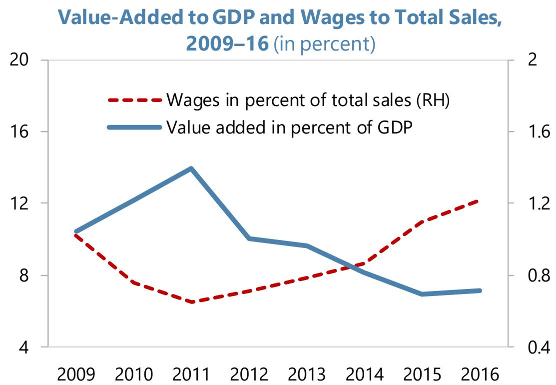


Sources: UNDP; OECD; World Bank; and IMF staff calculations.

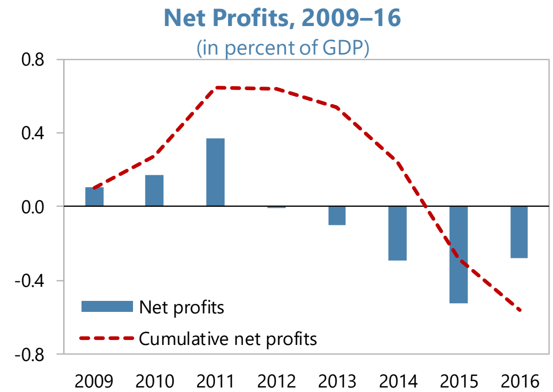
Notes: LAC5 represents Brasil, Chile, Colombia, Mexico, and Peru. ASEAN5 represents: Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

Figure 7. Cameroon: Build-up of Contingent Liabilities from SOEs, 2009–17

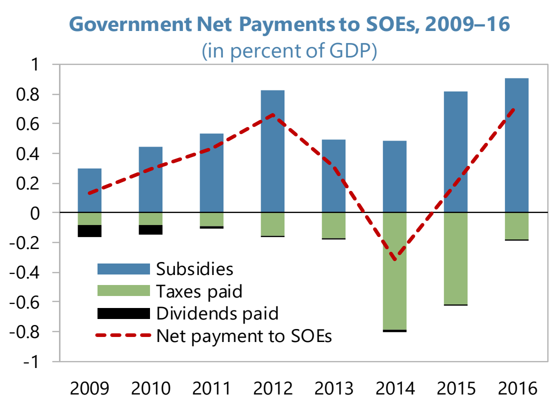
Value-added has been declining while wages have been increasing…



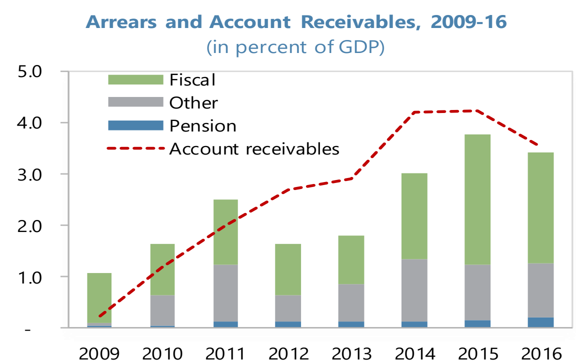
Cumulative net profits have become negative…



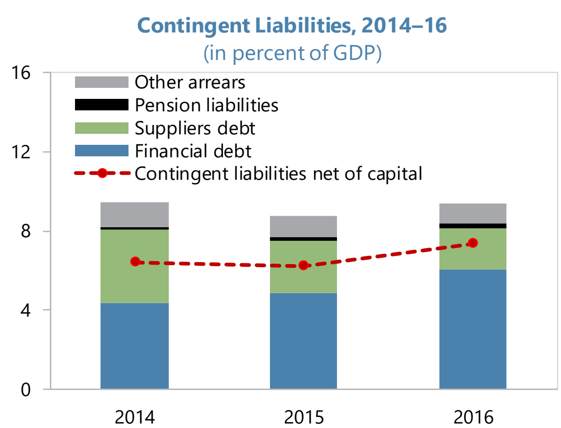
…causing government net payments to increase…



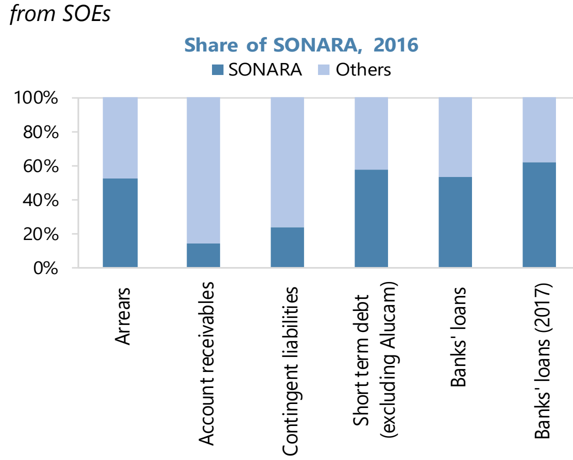
…arrears to build up as well as account receivables.



Contingent liabilities remain high.



SONARA is the major contributor to the risks originating from SOEs

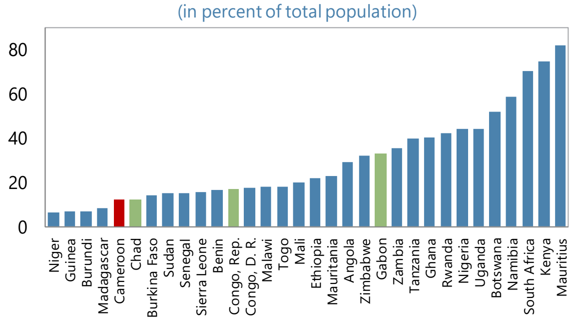


Sources: Cameroonian authorities; and IMF staff calculations.

Figure 8. Cameroon: Financial Inclusion

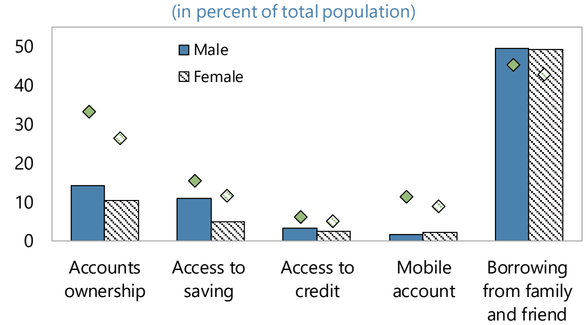
Cameroon's access to financial services is amount the lowest in SSA…

Having an Account
(in percent of total population)



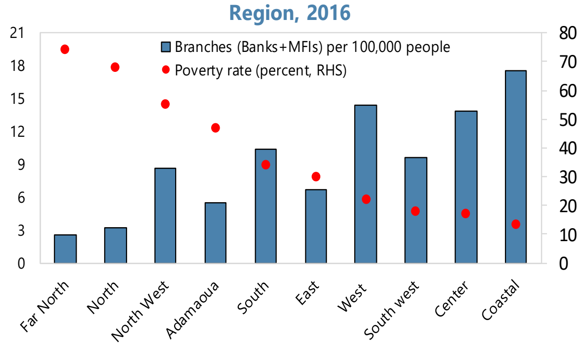
…for both men and women, compensated by large recourse to the costly informal finance,…

Financial Access
(in percent of total population)



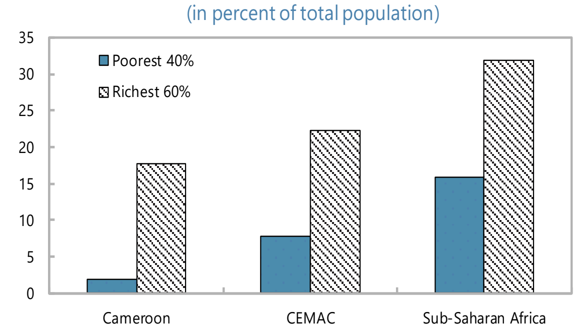
…. with lower access to financial services for poor regions,…

Poverty Rate (2014) and Banks and MFIs Branches by Region, 2016



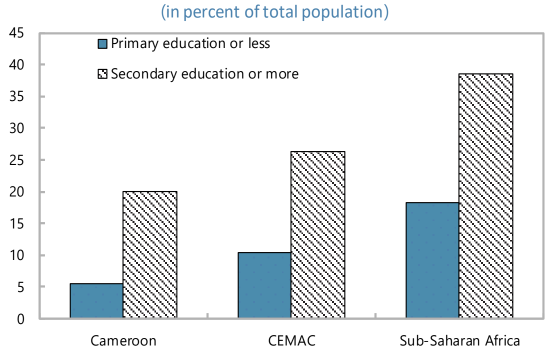
…. the poorest of the population, and …

Account Ownership and Level of Income
(in percent of total population)



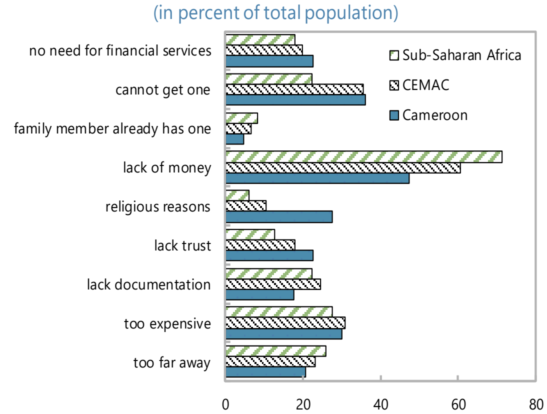
…. the less educated people.

Account Ownership and Level of Education
(in percent of total population)



Barriers to account ownership are dominated by lack of money and trust, cost, inability to get an account, and religious factors.

Barriers to Account Ownership
(in percent of total population)



Sources: 2014 Global FINDEX; and IMF staff calculations.

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

	2016	2017		2018		2019	2020	2021	2022	2023
	Est.	CR 18/9	Proj.	CR 18/9	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
National account and prices										
GDP at constant prices	4.5	3.7	3.2	4.2	4.0	4.5	4.8	5.0	5.2	5.4
Oil GDP at constant prices	-3.7	-4.7	-17.2	0.2	1.0	-2.1	-2.2	-2.2	-2.6	-2.7
Non-Oil GDP at constant prices	5.1	4.3	4.68	4.4	4.2	4.9	5.1	5.4	5.6	5.7
GDP deflator	0.0	0.0	0.4	0.6	0.5	1.3	1.5	1.5	1.6	1.6
Nominal GDP (at market prices, CFAF billions)	19,105	19,810	19,793	20,758	20,694	21,903	23,295	24,836	26,552	28,437
Oil	657	694	663	678	723	661	607	575	551	535
Non-Oil	18,448	19,116	19,130	20,080	19,971	21,242	22,687	24,261	26,001	27,901
Oil output (thousands of barrels per day)	92.8	86.8	76.5	86.3	76.9	76.9	74.7	73.1	71.3	69.3
Consumer prices (average)	0.9	0.5	0.6	1.0	1.1	1.3	2.0	2.0	2.0	2.0
Consumer prices (eop)	0.3	1.0	0.8	1.0	1.1	1.3	2.0	2.0	2.0	2.0
External trade										
Export volume	-6.0	0.8	-0.3	3.2	4.1	3.8	4.0	4.6	5.4	5.6
Oil sector 1/	-3.1	-4.7	-19.8	0.2	1.0	-2.1	-2.2	-2.2	-2.6	-2.7
Non-oil sector	-6.9	2.3	5.3	3.9	4.8	5.1	5.2	5.9	6.7	6.9
Import volume	-5.9	-1.4	-4.8	3.2	2.2	4.4	4.3	4.0	3.8	3.4
Nominal effective exchange rate (depreciation -)	3.6	…	…	…	…	…	…	…	…	…
Real effective exchange rate (depreciation -)	2.0	…	…	…	…	…	…	…	…	…
Terms of trade	2.4	-5.0	-2.6	-3.2	-10.2	-4.2	-4.1	-4.0	-3.3	-2.8
Export price index	-6.0	-0.5	-1.5	-3.7	-6.3	-4.7	-4.2	-3.5	-3.3	-2.7
Non-oil export price index	10.1	-5.5	-9.5	-3.4	-11.4	-2.4	-2.8	-2.3	-2.5	-2.1
Import price index	-8.2	4.7	1.1	-0.5	4.4	-0.5	-0.2	0.6	0.0	0.1
Money and credit										
Broad money (M2)	5.5	5.0	5.9	5.3	5.5	5.8	6.6	7.1	7.5	8.1
Net foreign assets 2/	-14.0	1.9	6.1	-0.4	0.9	0.4	-1.0	0.3	1.7	1.8
Net domestic assets 2/	19.5	3.1	-0.2	5.7	4.6	5.4	7.6	6.8	5.8	6.2
Domestic credit to the private sector	7.2	5.6	2.3	8.1	4.6	5.8	6.7	8.6	9.9	11.0
	(Percent of GDP, unless otherwise indicated)									
Gross national savings	24.3	16.3	23.4	16.6	23.8	24.3	24.8	25.3	25.9	26.3
Gross domestic investment	27.5	18.9	26.2	19.1	26.8	27.2	27.7	28.2	28.7	29.2
Public investment	8.4	6.5	8.8	6.2	6.2	6.1	5.9	6.1	6.1	6.3
Private investment	19.1	12.4	17.3	12.9	20.6	21.2	21.7	22.1	22.6	22.9
Central government operations										
Total revenue (including grants)	15.0	14.6	15.4	15.1	15.8	15.8	15.8	15.9	16.1	16.1
Oil revenue	2.2	1.9	1.9	1.8	2.1	1.9	1.6	1.6	1.5	1.4
Non-oil revenue	12.5	12.4	13.1	13.0	13.4	13.7	13.9	14.2	14.4	14.5
Non-oil revenue (percent of non-oil GDP)	12.9	12.9	13.5	13.4	13.8	14.1	14.3	14.5	14.7	14.8
Total expenditure	21.2	17.7	20.4	17.5	18.4	17.8	17.3	17.5	17.5	17.5
Overall fiscal balance (payment order basis)										
Excluding grants	-6.5	-3.5	-5.3	-2.6	-2.9	-2.2	-1.8	-1.7	-1.7	-1.6
Including grants	-6.2	-3.1	-5.0	-2.3	-2.6	-2.0	-1.5	-1.5	-1.5	-1.4
Overall fiscal balance (cash basis)										
Excluding grants	-5.4	-4.3	-4.9	-3.8	-4.3	-3.1	-2.7	-1.7	-1.7	-1.6
Including grants	-5.1	-3.9	-4.6	-3.5	-4.0	-2.9	-2.5	-1.5	-1.5	-1.4
Non-oil primary balance (payment basis, percent of non-oil GDP)	-7.9	-4.1	-6.3	-3.5	-4.0	-3.1	-2.3	-2.2	-2.1	-2.1
External sector										
Current account balance										
Excluding official grants	-3.6	-3.0	-3.1	-2.9	-3.4	-3.3	-3.2	-3.2	-3.2	-3.2
Including official grants	-3.2	-2.6	-2.7	-2.5	-3.0	-2.9	-2.8	-2.8	-2.9	-2.9
Public debt										
Stock of public debt 3/ 4/	33.3	31.9	38.2	32.0	38.7	38.6	37.9	36.6	35.1	33.6
Of which: external debt	22.6	22.2	25.6	24.4	26.3	27.3	27.0	26.4	25.9	25.2

Sources: Cameroonian authorities; and IMF staff estimates and projections using updated nominal GDP.
1/ Crude oil volumes are augmented as of 2018 with natural gas exports of 60 million standard cubic feet per year.
2/ Percent of broad money at the beginning of the period.
3/ Includes the cumulative financing gap.
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, 2016–23

(CFAF billions, unless otherwise indicated)

	2016	2017		2018			2019	2020	2021	2022	2023
	Est.	CR 18/9	Proj.	Rev. Bud.	CR 18/9	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
			(Annual percentage change, unless otherwise indicated)								
Total revenue and grants	**2,866**	**2,897**	**3,040**	**3,272**	**3,141**	**3,272**	**3,470**	**3,677**	**3,959**	**4,266**	**4,574**
Total revenue	2,812	2,828	2,975	3,207	3,077	3,207	3,419	3,625	3,906	4,213	4,519
Oil sector revenue	425	370	386	444	380	444	426	381	385	401	400
Non-oil sector revenue 1/	2,387	2,458	2,589	2,763	2,697	2,763	2,993	3,244	3,521	3,811	4,119
Direct taxes	636	629	575		660	604	649	677	708	757	803
Special tax on petroleum products	106	128	122		128	144	150	159	172	190	206
Other taxes on goods and services	1,152	1,177	1,346		1,330	1,405	1,569	1,764	1,991	2,211	2,448
Taxes on international trade	348	369	399		411	442	443	445	435	419	407
Non-tax revenue	135	155	148	168	168	168	183	198	215	234	255
Total grants	54	69	65	65	64	65	51	52	52	53	55
Projects	36	36	32		36	36	28	30	32	35	37
Other (debt relief)	18	32	13		28	29	23	22	20	19	18
Total expenditure	**4,045**	**3,514**	**4,031**	**3,809**	**3,625**	**3,808**	**3,909**	**4,034**	**4,339**	**4,658**	**4,984**
Current expenditure	2,407	2,225	2,279	2,517	2,332	2,517	2,581	2,648	2,822	3,028	3,189
Wages and salaries	948	975	1,006	1,024	1,024	1,024	1,069	1,123	1,205	1,293	1,360
Goods and services	829	680	743	842	761	841	811	823	880	943	1,012
Subsidies and transfers	485	368	356	477	380	476	505	482	515	552	591
Interest	145	203	174	175	167	175	196	220	222	241	226
External	131	174	136	126	126	126	149	163	178	195	191
Domestic	14	30	38	49	41	49	47	57	44	45	35
Capital expenditure	1,608	1,289	1,751	1,292	1,292	1,292	1,328	1,386	1,517	1,630	1,795
Domestically financed investment	1,070	634	961	659	658	658	676	682	758	811	911
Foreign-financed investment	489	630	773	596	596	596	613	661	714	771	832
Rehabilitation and participation	49	25	16	37	38	37	39	42	45	48	52
Net lending	30	0	0	0	0	0	0	0	0	0	0
Adjustment to fiscal year spending 2/											
Overall balance (payment order basis) 2/											
Excluding grants	-1,233	-686	-1,055	-602	-546	-601	-491	-409	-433	-446	-465
Including grants	-1,178	-617	-991	-537	-483	-537	-439	-357	-380	-393	-410
CEMAC reference fiscal balance	**-1,025**	**-459**	-891		**-468**	**-583**	**-496**	**-363**	**-386**	**-431**	**-454**
Adjustment to cash basis 2/ 3/	**201**	**-156**	**76**	**-209**	**-249**	**-294**	**-197**	**-214**	**0**	**0**	**0**
Unexecuted payment orders (-=reduction) 3/	203	-99	-106		-103	-96	0	0	0	0	0
Floats and arrears (- = reduction)	-2	-57	182	-209	-146	-198	-197	-214	0	0	0
o/w Arrears (- = reduction)	-2	-57	-146		-146	-94	-94	-94	0	0	0
o/w Floats (- = reduction)			328			-104	-104	-120	0	0	0
Overall balance (cash basis)											
Excluding grants	-1,032	-842	-980	-810	-796	-896	-688	-743	-433	-446	-465
Including grants	-977	-774	-915	-746	-732	-831	-636	-571	-380	-393	-410
Financing	**978**	**287**	**915**	**412**	**396**	**497**	**303**	**531**	**380**	**393**	**410**
External financing, net	340	464	785	324	347	343	289	325	365	429	400
Amortization	-113	-170	-135	-247	-213	-217	-295	-306	-317	-307	-395
Drawings	453	634	920	571	560	560	585	631	682	736	795
Domestic financing, net	578	-177	129	88	49	155	14	206	15	-37	10
Banking system	610	-262	166	136	-110	132	88	120	-2	-54	-8
o/w statutory advances from BEAC	93	346	346		0	0	0	0	0	-58	-58
Amortization of domestic debt	-237	-85	-36	-308	-100	-102	-62	-29	-27	-26	-26
Other domestic financing	205	170	-1	260	259	125	-13	116	44	43	44
Errors and omissions	59	0	0		0	0	0	0	0	0	0
Financing gap	**0**	**487**	**0**	**334**	**336**	**334**	**333**	**40**	**0**	**0**	**0**
Of which: IMF		167	0	86	86	81	80	40	0	0	0
Of which: budget support (excl. IMF)		320	0	249	251	253	253	0	0	0	0
AFDB		118	0		113	118	112	0	0	0	0
WB		116	0		56	53	52	0	0	0	0
France		66	0		66	66	66	0	0	0	0
EU		20	0		16	16	23	0	0	0	0
Other			0		0	0	0	0	0	0	0
Memorandum items:											
Floor of social spending		624	636		668	668	711				
Primary balance (payment order basis, incl. grants)	-1,034	-414	-817	-362	-315	-362	-243	-137	-158	-152	-184
Primary balance (cash basis, incl. grants)	-833	-571	-741	-571	-564	-656	-440	-351	-158	-152	-184
Non-oil primary balance (payment order basis, incl. grants)	-1,459	-784	-1,203	-806	-695	-806	-668	-518	-543	-554	-584
Non-oil primary balance (cash basis, incl. grants)	-1,258	-941	-1,127	-1,015	-945	-1,100	-866	-732	-543	-554	-584
Unpaid government obligations	596	539	710		393	512	315	101	101	101	101
Float	101	101	429		101	324	221	101	101	101	101
Arrears 4/	495	438	282		292	188	94	0	0	0	0

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

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

2/ 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

4/ The end-2017 audit of the stock of demestic arrears incurred prior to 2016 resulted in the cancelation of CFAF 68 billion of arrears.

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

(in percent of GDP)

	2016	2017		2018			2019	2020	2021	2022	2023
	Est.	CR 18/9	Proj.	Rev. Bud.	CR 18/9	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
Total revenue and grants	**15.0**	**14.6**	**15.4**	**15.8**	**15.1**	**15.8**	**15.8**	**15.8**	**15.9**	**16.1**	**16.1**
Total revenue	14.7	14.3	15.0	15.5	14.8	15.5	15.6	15.6	15.7	15.9	15.9
Oil sector revenue	2.2	1.9	1.9	2.1	1.8	2.1	1.9	1.6	1.6	1.5	1.4
Non-oil sector revenue 1/	12.5	12.4	13.1	13.4	13.0	13.4	13.7	13.9	14.2	14.4	14.5
Direct taxes	3.3	3.2	2.9		3.2	2.9	3.0	2.9	2.9	2.9	2.8
Special tax on petroleum products	0.6	0.6	0.6		0.6	0.7	0.7	0.7	0.7	0.7	0.7
Other taxes on goods and services	6.0	5.9	6.8		6.4	6.8	7.2	7.6	8.0	8.3	8.6
Taxes on international trade	1.8	1.9	2.0		2.0	2.1	2.0	1.9	1.8	1.6	1.4
Non-tax revenue	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Total grants	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Projects	0.2	0.2	0.2		0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other (debt relief)	0.1	0.2	0.1		0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	**21.2**	**17.7**	**20.4**	**18.4**	**17.5**	**18.4**	**17.8**	**17.3**	**17.5**	**17.5**	**17.5**
Current expenditure	12.6	11.2	11.5	12.2	11.2	12.2	11.8	11.4	11.4	11.4	11.2
Wages and salaries	5.0	4.9	5.1	4.9	4.9	4.9	4.9	4.8	4.9	4.9	4.8
Goods and services	4.3	3.4	3.8	4.1	3.7	4.1	3.7	3.5	3.5	3.6	3.6
Subsidies and transfers	2.5	1.9	1.8	2.3	1.8	2.3	2.3	2.1	2.1	2.1	2.1
Interest	0.8	1.0	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.8
External	0.7	0.9	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Domestic	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Capital expenditure	8.4	6.5	8.8	6.2	6.2	6.2	6.1	5.9	6.1	6.1	6.3
Domestically financed investment	5.6	3.2	4.9	3.2	3.2	3.2	3.1	2.9	3.1	3.1	3.2
Foreign-financed investment	2.6	3.2	3.9	2.9	2.9	2.9	2.8	2.8	2.9	2.9	2.9
Rehabilitation and participation	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	0.2	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment to fiscal year spending 2/											
Overall balance (payment order basis) 2/											
Excluding grants	-6.5	-3.5	-5.3	-2.9	-2.6	-2.9	-2.2	-1.8	-1.7	-1.7	-1.6
Including grants	-6.2	-3.1	-5.0	-2.6	-2.3	-2.6	-2.0	-1.5	-1.5	-1.5	-1.4
CEMAC reference fiscal balance	**-5.4**	**-2.5**	**-4.5**		**-2.3**	**-2.8**	**-2.3**	**-1.6**	**-1.6**	**-1.6**	**-1.6**
Adjustment to cash basis 2/ 3/	**1.1**	**-0.8**	**0.4**	**-1.0**	**-1.2**	**-1.4**	**-0.9**	**-0.9**	**0.0**	**0.0**	**0.0**
Unexecuted payment orders (-=reduction) 3/	1.1	-0.5	-0.5		-0.5	-0.5	0.0	0.0	0.0	0.0	0.0
Floats and arrears (- = reduction)		-0.3	0.9	-1.0	-0.7	-1.0	-0.9	-0.9	0.0	0.0	0.0
o/w Arrears (- = reduction)			-0.7		-0.7	-0.5	-0.4	-0.4	0.0	0.0	0.0
o/w Floats (- = reduction)			1.7			-0.5	-0.5	-0.5	0.0	0.0	0.0
Overall balance (cash basis)											
Excluding grants	-5.4	-4.3	-5.0	-3.9	-3.8	-4.3	-3.1	-3.2	-1.7	-1.7	-1.6
Including grants	-5.1	-3.9	-4.6	-3.6	-3.5	-4.0	-2.9	-2.5	-1.5	-1.5	-1.4
Financing	**5.1**	**1.5**	**4.6**	**2.0**	**1.9**	**2.4**	**1.4**	**2.3**	**1.5**	**1.5**	**1.4**
External financing, net	1.8	2.3	4.0	1.6	1.7	1.7	1.3	1.4	1.5	1.6	1.4
Amortization	-0.6	-0.9	-0.7	-1.2	-1.0	-1.1	-1.3	-1.3	-1.3	-1.2	-1.4
Drawings	2.4	3.2	4.6	2.8	2.7	2.7	2.7	2.7	2.7	2.8	2.8
Domestic financing, net	3.0	-0.9	0.7	0.4	0.2	0.7	0.1	0.9	0.1	-0.1	0.0
Banking system	3.2	-1.3	0.8	0.7	-0.5	0.6	0.4	0.5	0.0	-0.2	0.0
o/w statutory advances from BEAC	0.5		1.7			0.0	0.0	0.0	0.0	-0.2	-0.2
Amortization of domestic debt	-1.2	-0.4	-0.2	-1.5	-0.5	-0.5	-0.3	-0.1	-0.1	-0.1	-0.1
Other domestic financing	1.1	0.9	0.0	1.3	1.2	0.6	-0.1	0.5	0.2	0.2	0.2
Errors and omissions											
Financing gap	**0.0**	**2.5**	**0.0**	**1.6**	**1.6**	**1.6**	**1.5**	**0.2**	**0.0**	**0.0**	**0.0**
Of which: IMF	0.0	0.8	0.0	0.4	0.4	0.4	0.4	0.2	0.0	0.0	0.0
Of which: budget support (excl. IMF)	0.0	1.6	0.0	1.2	1.2	1.2	1.2	0.0	0.0	0.0	0.0
AFDB	0.0	0.6	0.0	0.0	0.5	0.6	0.5	0.0	0.0	0.0	0.0
WB	0.0	0.6	0.0	0.0	0.3	0.3	0.2	0.0	0.0	0.0	0.0
France	0.0	0.3	0.0	0.0	0.3	0.3	0.3	0.0	0.0	0.0	0.0
EU	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Floor of social spending	...	3.1	3.2		3.2	3.2	3.2				
Primary balance (payment order basis, incl. grants)	-5.4	-2.1	-4.1	-1.7	-1.5	-1.7	-1.1	-0.6	-0.6	-0.6	-0.6
Primary balance (cash basis, incl. grants)	-4.4	-2.9	-3.7	-2.8	-2.7	-3.2	-2.0	-1.5	-0.6	-0.6	-0.6
Non-oil primary balance (payment order basis, incl. grants)	-7.6	-4.0	-6.1	-3.9	-3.4	-3.9	-3.1	-2.2	-2.2	-2.1	-2.1
Non-oil primary balance (cash basis, incl. grants)	-6.6	-4.8	-5.7	-4.9	-4.6	-5.3	-4.0	-3.1	-2.2	-2.1	-2.1
Unpaid government obligations	3.1	2.7	3.6		1.9	2.5	1.4	0.4	0.4	0.4	0.4
Float	0.5	0.5	2.2		0.5	1.6	1.0	0.4	0.4	0.4	0.4
Arrears 4/	2.6	2.2	1.4		1.4	0.9	0.4	0.0	0.0	0.0	0.0

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

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

2/ 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

4/ The end-2017 audit of the stock of demestic arrears incurred prior to 2016 resulted in the cancelation of CFAF 68 billion of arrears.

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

	2016	2017		2018		2019	2020	2021	2022	2023
	Est.	CR 18/9	Proj.	CR 18/9	Proj.	Projections				
	(CFA billions)									
Current account balance	**-613**	**-518**	**-541**	**-520**	**-615**	**-637**	**-660**	**-704**	**-761**	**-817**
Trade balance	-137	-143	-117	-162	-219	-300	-409	-522	-589	-630
Exports, goods	2,725	2,733	2,675	2,715	2,610	2,583	2,572	2,597	2,647	2,720
Oil and oil products	767	841	809	815	877	806	755	718	691	672
Non-oil sector	1,958	1,893	1,866	1,900	1,733	1,777	1,818	1,879	1,957	2,048
Imports, goods	-2,862	-2,877	-2,792	-2,877	-2,829	-2,883	-2,982	-3,120	-3,237	-3,350
Services (net)	-351	-302	-286	-304	-350	-324	-300	-275	-289	-272
Exports, services	986	1,044	1,120	1,052	1,117	1,135	1,175	1,235	1,284	1,347
Imports, services	-1,336	-1,346	-1,405	-1,356	-1,467	-1,459	-1,475	-1,510	-1,573	-1,619
Income (net)	-331	-304	-385	-293	-316	-289	-244	-216	-210	-257
Of which: interest due on public debt	-105	-98	-136	-120	-114	-131	-122	-119	-127	-179
Transfers (net)	205	232	246	239	269	278	293	309	327	342
Inflows	377	418	408	433	456	469	486	502	524	548
Outflows	-171	-186	-161	-194	-187	-191	-192	-193	-197	-206
Capital and financial account balance	**-181**	**265**	**775**	**237**	**364**	**403**	**609**	**721**	**858**	**903**
Capital account	36	36	66	36	36	28	30	32	35	37
Capital transfers	36	36	66	36	36	28	30	32	35	37
Of which: private transfers	0	0	0	0	0	0	0	0	0	0
Financial account	**-218**	**228**	**709**	**201**	**328**	**375**	**579**	**688**	**824**	**866**
Official capital	345	464	785	370	343	289	325	365	429	400
Long-term borrowing	458	639	920	566	560	585	631	682	736	795
Of which: SDR allocation	0	0	0	0	0	0	0	0	0	0
Principal not yet due rescheduled	0	0	0	0	0	0	0	0	0	0
Amortization	-113	-175	-135	-195	-217	-295	-306	-317	-307	-395
Principal not yet due (relief)	0	0	0	0	0	0	0	0	0	0
Non-official capital (net)	232	-236	473	-169	475	485	504	524	544	566
of which: Foreign direct investment	565	310	1,244	331	803	760	813	873	957	949
Oil sector (net)	82	91	91	87	87	86	85	84	84	83
Non-oil sector	150	-327	382	-256	388	400	419	440	461	483
Short-term private capital, net 1/	-795		-549		-490	-400	-250	-200	-150	-100
Errors and omissions	**97**	**0**	**-20**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-697**	**-253**	**214**	**-283**	**-252**	**-234**	**-51**	**16**	**97**	**86**
Financing	**697**	**253**	**-214**	**283**	**252**	**234**	**51**	**-16**	**-97**	**-86**
Bank of Central African States 2/	697	-233	-363	-53	-68	-86	12	-16	-97	-86
Use of IMF credit (net)	-18	-17	150	70	-15	-14	0	0	0	-29
Financing gap	0	487	1	336	334	320	40	0	0	0
Of which:										
Possible IMF financing		167	0	86	81	80	40	0	0	0
Remaining financing gap		319	1	251	253	239	0	0	0	0
AFDB		118	0	113	118	112	0	0	0	0
WB		116	0	56	53	52	0	0	0	0
France		66	0	66	66	66	0	0	0	0
EU		20	0	16	16	23	0	0	0	0
	(Percent of GDP)									
Trade balance	**-0.7**	**-0.7**	**-0.6**	**-0.8**	**-1.1**	**-1.4**	**-1.8**	**-2.1**	**-2.2**	**-2.2**
Oil exports	4.0	4.2	4.1	3.9	4.2	3.7	3.2	2.9	2.6	2.4
Non-oil exports	10.2	9.6	9.4	9.2	8.4	8.1	7.8	7.6	7.4	7.2
Imports	15.0	14.5	14.1	13.9	13.7	13.2	12.8	12.6	12.2	11.8
Current account balance										
Including grants	-3.2	-2.6	-2.7	-2.5	-3.0	-2.9	-2.8	-2.8	-2.9	-2.9
Excluding grants	-3.6	-3.0	-3.1	-2.9	-3.4	-3.3	-3.2	-3.2	-3.2	-3.2
Overall balance	**-3.7**	**-1.3**	**1.1**	**-1.4**	**-1.2**	**-1.1**	**-0.2**	**0.1**	**0.4**	**0.3**
Foreign direct investment	**3.0**	**1.6**	**6.3**	**1.6**	**3.9**	**3.5**	**3.5**	**3.5**	**3.6**	**3.3**
	(Percentage change, unless otherwise indicated)									
Export volume	-6.0	0.8	-0.3	3.2	4.1	3.8	4.0	4.6	5.4	5.6
Crude oil	-3.1	-4.7	-19.8	0.2	1.0	-2.1	-2.2	-2.2	-2.6	-2.7
Nonoil	-6.9	2.3	5.3	3.9	4.8	5.1	5.2	5.9	6.7	6.9
Import volume	-5.9	-1.4	-4.8	3.2	2.2	4.4	4.3	4.0	3.8	3.4
Terms of trade	2.4	-5.0	-2.6	-3.2	-10.2	-4.2	-4.1	-4.0	-3.3	-2.8
Non-oil export price index	10.1	-5.5	-9.5	-3.4	-11.4	-2.4	-2.8	-2.3	-2.5	-2.1
Export price index	-6.0	-0.5	-1.5	-3.7	-6.3	-4.7	-4.2	-3.5	-3.3	-2.7
Import price index	-8.2	4.7	1.1	-0.5	3.6	-0.6	-0.2	0.8	0.2	0.1
Memorandum items										
Gross imputed reserves 3/										
US$ billions	2.3	2.9	3.2	3.0	3.5	3.7	3.7	3.8	4.0	4.2
CFAF billions	1,406	1,639	1,770	1,692	1,837	1,923	1,912	1,928	2,025	2,111

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

1/ This line was subsumed in the non-oil line above in previous SR; for 2017, this line may include errors and omissions and financial account

2/ Excluding prospective IMF financing

3/ 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 4. Cameroon: Monetary Survey, 2016–23

(CFAF billions, unless otherwise indicated)

	2016	2017		2018						2019			2020	2021	2022	2023
	Actual	CR 18/9	Q4 Est.	Q1 Proj.	CR 18/9	Q2 Proj.	Q3 Proj.	CR 18/9	Proj.	Q1 Proj.	Q2 Proj.	Projections				
Net foreign assets	**1,706**	**1,789**	**1,970**	**2,035**	**1,800**	**1,988**	**1,883**	**1,772**	**2,011**	**2003**	**1912**	**2,031**	**1,979**	**1,996**	**2,092**	**2,208**
Bank of Central African States (BEAC)	1,106	1,188	1,322	1,414	1,199	1,367	1,262	1,171	1,323	1315	1224	1,342	1,291	1,307	1,404	1,520
Of which : BEAC foreign Assets	1,406	1,639	1,770	1,853	1,693	1,806	1,735	1,692	1,837	1823	1776	1,923	1,912	1,928	2,025	2,111
Of which: IMF credit	-50	-200	-191	-182	-243	-182	-216	-270	-258	-251	-294	-325	-364	-364	-364	-335
Commercial banks	601	601	648	621	601	621	621	601	688	688	688	688	688	688	688	688
Net domestic assets	**2,639**	**2,772**	**2,632**	**2,607**	**2,920**	**2,679**	**2,846**	**3,030**	**2,845**	**2896**	**3060**	**3,110**	**3,498**	**3,870**	**4,213**	**4,607**
Domestic credit	2,993	3,126	3,100	3,107	3,274	3,180	3,347	3,384	3,346	3397	3561	3,610	3,999	4,371	4,714	5,107
Net claims on the public sector	301	286	319	345	320	369	486	316	436	455	587	534	723	820	818	790
Net credit to the central government	419	315	585	580	322	646	806	291	798	841	997	967	1,126	1,124	1,070	1,062
Central Bank	-11	-103	129	105	-114	136	170	-162	243	251	342	374	448	386	299	250
Claims	281	777	768	759	820	759	793	847	835	828	871	901	941	941	883	797
Credit under statutory ceiling	231	577	577	577	577	577	577	577	577	577	577	577	577	577	519	462
Counterpart of IMF credit	50	200	191	182	243	182	216	270	258	251	294	325	364	364	364	335
Deposits	-292	-880	-640	-655	-934	-624	-623	-1,009	-592	-577	-529	-528	-493	-555	-584	-546
Commercial Banks	430	418	456	475	436	510	636	453	556	591	656	593	679	738	771	812
Claims on the Treasury	460	428	491	506	445	542	668	463	589	623	688	624	708	765	798	839
Deposits	-30	-10	-35	-31	-10	-32	-32	-10	-33	-33	-32	-31	-29	-27	-27	-27
Deposits of other public entities	-302	-190	-448	-453	-179	-484	-515	-168	-546	-570	-595	-616	-591	-501	-451	-471
Credit to autonomous agencies	22	32	37	35	35	36	38	38	39	40	40	39	40	42	44	44
Credit to the economy 1/	2,853	2,969	2,925	2,945	3,096	2,982	3,018	3,223	3,054	3086	3119	3,220	3,423	3,705	4,050	4,471
Credit to public enterprises	161	129	144	183	142	170	157	155	144	144	144	144	147	154	154	154
Credit to financial institutions	39	39	67	68	39	69	69	39	70	71	71	72	72	72	72	72
Credit to the private sector	2,653	2,802	2,714	2,694	2,916	2,743	2,791	3,029	2,840	2872	2903	3,004	3,204	3,479	3,824	4,245
Other items (net)	-354	-354	-468	-501	-354	-501	-501	-354	-501	-501	-501	-501	-501	-501	-501	-501
Broad money	**4,345**	**4,561**	**4,602**	**4,642**	**4,719**	**4,667**	**4,729**	**4,802**	**4,857**	**4900**	**4973**	**5,140**	**5,477**	**5,866**	**6,305**	**6,815**
Currency outside banks	905	850	978	937	942	950	967	898	1,029	1012	1005	1,086	1,153	1,231	1,319	1,421
Deposits	3,440	3,711	3,624	3,704	3,777	3,718	3,762	3,903	3,827	3888	3968	4,055	4,324	4,635	4,987	5,394
Memorandum items:																
Contribution to the growth of broad money (percentage points)																
Net foreign assets	-14.0	1.9	6.1	...	-4.7	...	...	-0.4	0.9	...	...	0.4	-1.0	0.3	1.7	1.8
Net domestic assets	19.5	3.1	-0.2	...	19.2	...	...	5.7	4.6	...	...	5.4	7.6	6.8	5.8	6.2
Of which : net credit to the central government	16.1	-2.4	3.8	...	3.3	...	...	-0.5	4.6	...	...	3.5	3.1	0.0	-0.9	-0.1
Credit to the economy (annual percentage change)	5.8	4.1	2.5	2.8	16.8	2.3	4.7	8.5	4.4	4.8	4.6	5.4	6.3	8.3	9.3	10.4
Credit to the private sector																
Annual percentage change	7.2	5.6	2.3	2.0	19.0	1.7	4.6	8.1	4.6	6.6	5.9	5.8	6.7	8.6	9.9	11.0
In percent of GDP	13.9	14.1	13.7	13.0	14.0	13.3	13.5	14.6	13.7	13.1	13.3	13.7	13.8	14.0	14.4	14.9
Broad money (annual percentage change)	5.5	5.0	5.9	8.2	14.5	6.5	8.0	5.3	5.5	5.6	6.5	5.8	6.6	7.1	7.5	8.1
Currency outside banks	12.8	-6.1	8.1	11.0	32.4	14.6	12.9	5.7	5.2	7.9	5.8	5.5	6.2	6.7	7.1	7.7
Deposits	3.7	7.9	5.3	7.5	10.7	4.6	6.9	5.2	5.6	5.0	6.7	5.9	6.6	7.2	7.6	8.2
Velocity (GDP/average M2)	4.4	4.3	4.3	4.5	4.4	4.4	4.4	4.3	4.3	4.5	4.4	4.3	4.3	4.2	4.2	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 5. Cameroon: Financial Sector Indicators, 2014–18

	Cameroon								CEMAC		
	2014	2015	2016	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	2014	2017	Q1-18
Capital adequacy											
Capital/risk-weighted assets	11.4	10.1	9.0	9.5	9.5	9.3	10.3	10.7	13.8	15.5	17.5
Base Capital/ risk-weighted assets 1/	9.1	9.3	7.6	8.1	8.2	8.1	8.2	...	12.6	14.5	...
Non-performing loans less 1/	10.3	8.9	12.1	14.2	12.0	14.4	9.8	...	15.8	33.6	...
Capital/Assets 1/	8.4	8.3	7.5	7.7	7.3	7.9	7.9	...	9.1	14.8	...
Asset quality											
Loans in arrears/total loans	12.3	12.5	14.1	13.9	14.0	13.3	13.0	15.0	11.7	17.5	19.7
Non-performing loans/total loans 1/	9.7	9.3	10.7	11.1	10.9	11.3	11.0	...	9.1	14.8	...
Large exposures (> 25 % of equity)/equity	125.3	162.1	157.1	151.1	177.5	206.6	157.8	168.7	116.4	160.5	155.0
Results and profitability											
Return on Assets (ROA)	0.8	0.7	0.7	0.9	0.7	0.7	0.7	...	1.0	0.6	...
Return on Equity (ROE)	14.8	14.1	17.0	20.7	15.3	17.0	14.0	...	14.9	8.5	...
Liquidity											
Reserves/total deposits	27.7	24.3	18.0	17.4	16.4	21.7	21.1	23.5	40.0	16.0	...
Liquid assets/Total assets 1/	23.0	23.1	23.2	21.0	19.1	22.8	22.9	...	29.5	23.4	...
Liquid assets/ST liabilities	139.5	147.5	148.7	133.9	125.2	139.1	142.9	181.7	156.3	154.3	184.5
Total deposits /Total loans	141	128.9	128.2	130.4	130.9	132.9	134.8	136.2	149.8	124.6	125.0

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

1/Data from the IMF Financial Soundness Indicators database, and the data in Q1–2018 is not yet available.

Table 6. Cameroon: Risk Assessment Matrix 1/

Source of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Global risks			
Retreat from cross-border integration	Medium	**Medium** Fraying consensus about the benefits of globalization leads to protectionism and economic isolationism, resulting in reduced global and regional policy and regulatory collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	Support CEMAC regional integration on free flow of goods and people; encourage further cooperation to remove obstacles for intra-regional trade; promote export diversification.
Policy and geopolitical uncertainties	Medium High	**Medium** Two-sided risks to U.S. growth with uncertainties about the positive short-term impact of the tax bill on growth and the extent of potential medium-term adjustment to offset its fiscal costs; uncertainty associated with negotiating post-Brexit arrangements and NAFTA and associated market fragmentation risks; and evolving political processes, including elections in several large economies, weigh on the whole on global growth. Intensification of the risks of fragmentation/security dislocation in parts 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; support inclusive growth to enhance social cohesion.
Financial conditions	High Medium	**Medium** Against the backdrop of continued monetary policy normalization and increasingly stretched valuations across asset classes, an abrupt change in global risk appetite (e.g., due to higher-than-expected inflation in the U.S) could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases. Further pressure on traditional bank business models: Legacy problems, and potential competition from non-banks curtail banks' profitability globally. Loss of confidence if such profitability challenges are not addressed could increase the risk of distress at one or more major banks with possible knock-on effects on the broader financial sector and for sovereign yields in vulnerable economies. Migration of activities outside of the traditional banking sector, including provision of financial services by fintech intermediaries, raises competitive pressures on traditional banks, making risk monitoring and mitigation more difficult.	Continue necessary fiscal consolidation and structural reforms to reduce external imbalances and boost investor confidence; enhance bank supervision and regulation to reduce risk exposure; encourage development of fintech platforms to expand access to finance.
Weaker than projected global growth	High	**High** Structurally weak growth in key trading parterns in advanced economies (European Union, US), slowdown and potential sharp adjustment in large emerging economies (China) could reduce external demand, increase capital flow fluctuations and complicate Cameroon's adjusment efforts.	Improve regional integration and facilitate intra-regional trade; implement structural reforms to improve business climate and competitiveness.
Lower energy prices	Low	**High** Lower energy prices, driven by weakening OPEC/Russia cartel cohesion and/or recovery of oil production in the African continent, can 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.
Cyber attacks	Medium	**Medium** Cyber-attacks on interconnected financial systems and broader private and public institutions that trigger systemic financial instability or widely disrupt socio-economic activities.	Enhance investment in IT system and increase awareness of cyber security
Regional and domestic risks			
Spillovers from 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.

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

Table 7. Cameroon: External Financing Requirements, 2015–23
(CFAF billions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Projection						
1. Total financing requirement	**1280.9**	**28.4**	**1055.7**	**915.3**	**1031.4**	**954.8**	**1037.5**	**1165.2**	**1298.0**
Current account deficit	694.1	613.0	541.3	615.3	636.5	660.2	704.3	761.3	816.7
Debt amortization	169.5	112.9	134.5	217.4	295.3	306.4	316.9	306.9	395.1
Commercial banks									
Corporate sector									
Repayment to the Fund	18.4	17.7	16.7	14.6	13.7	0.0	0.0	0.0	29.2
Change in gross reserves (increase=+)	398.9	-715.2	363.2	67.9	85.9	-11.8	16.2	96.9	57.0
2. Total financing sources	**1280.9**	**36.6**	**690.4**	**581.2**	**698.0**	**915.1**	**1037.5**	**1165.2**	**1298.0**
Capital transfers	11.1	36.3	67.9	36.0	28.2	30.1	32.2	34.5	37.0
Foreign direct investment (net)	352.3	324.7	459.1	460.7	470.3	488.4	507.8	528.2	549.2
Portfolio investment (net)	12.0	12.3	14.0	14.4	14.9	15.3	15.8	16.2	16.7
Debt financing	905.6	-336.8	169.2	70.0	184.6	381.3	481.8	586.3	695.1
Public sector	990.3	458.0	718.2	560.0	584.6	631.3	681.8	736.3	795.1
Short-term debt	-84.7	-794.8	-549.0	-490.0	-400.0	-250.0	-200.0	-150.0	-100.0
Errors and omissions	0.0	0.0	-19.8	0.0	0.0	0.0	0.0	0.0	0.0
3. Total financing needs	**0.0**	**-8.1**	**365.3**	**334.1**	**333.4**	**39.7**	**0.0**	**0.0**	**0.0**
Expected financing			**201.5**	**252.9**	**253.1**				
AFDB				118.0	112.2				
WB			116.3	52.9	52.3				
France			65.5	16.4	23.0				
EU			19.7	65.6	65.6				
Residual financing gap			**167.1**	**81.2**	**80.3**	**39.7**			
IMF ECF financing 1/			167.1	81.2	80.3	39.7			

Sources: IMF staff estimates and projections.

1/ IMF ECF loan disbursed CFAF 167.1 billion in 2017.

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

(CFAF billions)

	2016	2017	2018	2019	2020	2021	2022	2023
				Projections				
A. Overall fiscal deficit (cash basis, including grants)	977	915	831	636	571	380	393	410
B. Other financing needs	394	764	288	257	302	406	420	469
Amortization (including arrears)	367	187	334	371	336	344	333	450
External	131	151	232	309	306	317	307	424
o/w Amortization (excl. IMF)	113	135	217	295	306	317	307	395
o/w Repayment of IMF credit	18	17	15	14	0	0	0	29
Domestic	237	36	102	62	29	27	26	26
Banking System	27	577	-46	-114	-34	62	87	19
C=A+B Total financing needs	1372	1679	1119	893	873	786	812	879
D. Identified sources of financing	1313	1679	785	560	833	786	812	879
External	453	920	560	585	631	682	736	795
Drawing	453	920	560	585	631	682	736	795
o/w Project financing (ext.)	453	742	560	585	631	682	736	795
Domestic	860	759	225	-25	202	104	76	84
Banking System	655	760	100	-12	86	60	33	41
BEAC Statutory advances	93	346	0	0	0	0	0	0
Government deposits	475	352	2	2	2	2	0	0
Bank loans	83	31	0	0	0	0	0	0
Other bank financing	4	31	98	-14	83	58	33	41
Other non-bank financing	205	-1	125	-13	116	44	43	44
o/w Bond issuance	82	0	0	0	0	0	0	0
Privatization receipts	0	0	0	0	0	0	0	0
E=C-D Financing gap	59	0	334	333	40	0	0	0
Errors and omissions	59	0	0	0	0	0	0	0
F. Exceptional external financing		0	253	253	0	0	0	0
Multilateral 1/		0	187	188	0	0	0	0
Bilateral		0	66	66	0	0	0	
E-F Residual financing needs								
IMF -ECF		0	81	80	40	0	0	0

Sources: IMF staff estimates and projections.

1/ AfDB disbursed CFAF 118 billion in January 2018.

Table 9. 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	12/15/2017	82.8	30	Observance of continuous and end-June 2017 performance criteria, and completion of the first review.
3	6/30/2018	55.2	20	Observance of continuous and end-December 2017 performance criteria, and completion of the second review.
4	12/15/2018	55.2	20	Observance of continuous and end-June 2018 performance criteria, and completion of the third review.
5	6/15/2019	55.2	20	Observance of continuous and end-December 2018 performance criteria, and completion of the fourth review.
6	12/15/2019	55.2	20	Observance of continuous and end-June 2019 performance criteria, and completion of the fifth review.
7	5/31/2020	55.2	20	Observance of continuous and end-December 2019 performance criteria, and completion of the sixth review.
	Total	483.0	175	

Source: IMF staff calculations.

1/ Cameroon's current quota is SDR 276.0 million, of which 235.654 million was outstanding as of May 31, 2018.

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
		Projection															
Fund obligations based on existing credit (SDR millions)																	
Principal	21.5	20.7	9.8	18.8	-	-	-	41.4	41.4	41.4	41.4	41.4	-	-	-	-	-
Charges and interest	-	0.6	0.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Fund obligations based on existing and prospective credit (In millions of SDRs) 1/																	
Principal	21.5	20.7	9.8	18.8	-	-	-	41.4	69.0	91.1	96.6	96.6	55.2	27.6	5.5	-	-
Charges and interest	-	0.6	0.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total obligations based on existing and prospective credit																	
SDR millions	21.5	21.3	10.6	20.4	1.5	1.5	1.5	42.9	70.5	92.6	98.1	98.1	56.7	29.1	7.1	1.5	1.5
CFA F billions	17.7	17.2	7.8	14.8	1.1	1.1	1.1	30.3	49.8	65.4	69.3	69.3	40.0	20.6	5.0	1.1	1.1
Charges and interest	-	0.5	0.6	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Principal	17.7	16.7	7.2	13.7	-	-	-	29.2	48.7	64.3	68.2	68.2	39.0	19.5	3.9	-	-
Percent of government revenue	0.6	0.6	0.2	0.4	0.0	0.0	0.0	0.7	1.0	1.2	1.2	1.1	0.6	0.3	0.1	0.0	0.0
Percent of exports of goods and services	0.5	0.5	0.2	0.4	0.0	0.0	0.0	0.7	1.2	1.5	1.5	1.4	0.7	0.4	0.1	0.0	0.0
Percent of debt service[2]	9.7	7.4	3.0	4.8	0.4	0.3	0.3	5.8	9.1	10.9	13.7	13.1	7.7	3.8	0.9	0.2	0.2
Percent of GDP	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Percent of quota	7.8	7.7	3.8	7.4	0.6	0.6	0.6	15.6	25.6	33.6	35.6	35.6	20.6	10.6	2.6	0.6	0.6
Percent of gross reserves	1.3	1.0	0.4	0.8	0.1	0.1	0.1	1.4	2.1	2.4	2.0	1.6	0.7	0.3	0.1	0.0	0.0
Outstanding Fund credit																	
SDR millions	59.4	245.7	336.2	427.8	483.0	483.0	483.0	441.6	372.6	281.5	184.9	88.3	33.1	5.5	0.0	0.0	0.0
CFA F billions	49.0	198.4	247.3	311.0	347.2	344.8	342.4	311.7	263.0	198.7	130.5	62.3	23.4	3.9	0.0	0.0	0.0
Percent of government revenue	1.7	6.5	7.6	9.0	9.4	8.7	8.0	6.8	5.4	3.8	2.3	1.0	0.4	0.1	0.0	0.0	0.0
Percent of exports of goods and services	1.3	5.2	6.6	8.4	9.3	9.0	8.7	7.7	6.3	4.5	2.8	1.2	0.4	0.1	0.0	0.0	0.0
Percent of debt service 2/	26.7	84.9	94.3	101.6	110.6	106.0	97.5	59.5	48.0	33.3	25.8	11.8	4.5	0.7	0.0	0.0	0.0
Percent of GDP	0.3	1.0	1.2	1.4	1.5	1.4	1.3	1.1	0.9	0.6	0.4	0.2	0.1	0.0	0.0	0.0	0.0
Percent of quota	21.5	89.0	121.8	155.0	175.0	175.0	175.0	160.0	135.0	102.0	67.0	32.0	12.0	2.0	0.0	0.0	0.0
Net use of Fund credit (SDR millions)	-21.5	186.3	90.5	91.6	55.2	0.0	0.0	-41.4	-69.0	-91.1	-96.6	-96.6	-55.2	-27.6	-5.5	0.0	0.0
Disbursements	-	207.0	110.4	110.4	55.2	-	-	-	-	-	-	-	-	-	-	-	-
Repayments and repurchases	21.5	20.7	19.9	18.8	-	-	-	41.4	69.0	91.1	96.6	96.6	55.2	27.6	5.5	-	-
Memorandum items: (CFA F billions)																	
Nominal GDP	19,105	19,793	20,694	21,903	23,295	24,836	26,552	28,437	30,471	32,655	34,992	37,507	40,215	43,131	46,269	49,647	53,285
Exports of goods and services	3,710	3,794	3,727	3,718	3,747	3,832	3,931	4,068	4,204	4,370	4,673	5,012	5,392	5,817	6,292	6,824	7,418
Government revenue	2,866	3,040	3,272	3,470	3,677	3,959	4,266	4,574	4,888	5,253	5,696	6,097	6,571	7,096	7,683	8,360	9,000
Debt service[2]	183.1	233.6	262.2	306.1	313.8	325.3	351.1	523.8	548.3	597.2	506.6	528.0	522.4	544.9	560.8	585.4	629.1
CFA francs/SDR (period average)	823.9	807.4	735.4	727.0	718.8	713.8	708.9	705.9	705.9	705.9	705.9	705.9	705.9	705.9	705.9	705.9	705.9

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. Implementation of Past Fund Advice

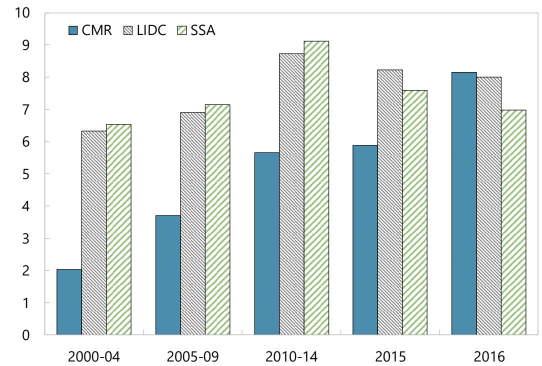
Traction of longstanding Fund policy advice has notably improved since the start of the ECF-supported program, with progress in fiscal consolidation and key structural reforms to boost non-oil revenue, enhance public financial management and improve the business environment. Given the complex socio-political environment, progress is yet to be made in some key areas (e.g. reduction of tax expenditures, expansion of the property tax, elimination of fuel subsidies with more flexible pump prices).

Fund Advice	Status	Comment
Fiscal Policy and Public Financial Management		
Tighten the fiscal stance with a goal to bring non-oil primary deficit (NOPD) below 4 percent of non-oil GDP.	Ongoing	The fiscal stance was tightened by 1.2 percent of GDP in 2017, and the authorities aim to reduce the NOPD to 4 percent of non-oil GDP in 2018.
Expand the tax base by (i) phasing out tax and customs exemptions; (ii) restoring normal taxation of fuel products; and (iii) narrowing eligibility under the investment incentives law.	Ongoing. Key measures due in 2019.	The authorities met the non-oil revenue target in 2017. They reviewed the 2016 tax expenditures and the 2013 investment incentives law, and will start gradually phasing out exemptions and expanding the property tax in 2019.
Strengthen tax collection by creating more decentralized tax offices and completing single taxpayer identification by linking databases in the tax and customs administrations.	Ongoing. Key measures have yielded results.	The authorities have established more decentralized tax offices and are linking tax payer databases. The linking of the taxpayer registry with the tax application is expected to be completed in mid-2018.
Reform the fuel subsidy and pricing policies by eliminating the fuel-subsidy scheme and restoring normal taxation of fuel products.	Ongoing, not implemented.	The authorities have started publishing monthly the fuel price structure but have no immediate plans for more flexible pump prices.
Enhance budget controls by (i) accounting for all revenue and expenditure on a gross basis; (ii) limiting the complementary period to one month and using "carry forwards" for unspent budget allocations; (iii) compiling the backlog of pending payments (including toward SONARA) and clearing this backlog; (iv) discontinuing SNH direct interventions as an off-budget, advance expenditure mechanism and bringing all security spending to the budget; (v) rationalizing and integrating all investments into the budget; and (vi) gradually reducing contracted but not implemented projects.	Ongoing, limited progress in 2017 despite strong ex-ante commitments.	The authorities have (i) reduced the complementary period to two months for 2017; (ii)) verified the stock of arrears as of end-2016 and prepared an arrears clearance plan; (iii) reported the SNH direct interventions monthly and committed to gradually reduce them; (iv) issued a circular to limit the use of below-the-line treasury accounts for investment projects; (v) aligned annual budgets with the medium term budget framework; and (vi) identified underperforming projects in the existing stock of signed but undisbursed loans.
Improve the implementation of the medium-term debt strategy by vesting sole authority for contracting debt in the Minister of Finance.	Partially implemented	The National Public Debt Committee is chaired by the Finance Minister and examines all new proposed borrowing, but the President can still grant any Minister the authority to contract new loans.
Issue regional bonds in local currency in amounts and at a pace consistent with market absorptive capacity.	Not fully implemented	The authorities reduced issuance of regional bonds in 2017 and relied mostly on deposits for financing due to difficult market conditions.
Strengthen the monitoring of contingent liabilities by (i) monitoring the performance of SOEs, especially SONARA; (ii) preparing an annual report on the financial health of all SOEs and state-owned banks; (iii) clearing SONARA's arrears, including its overdue supplier credits.	Ongoing, short-term contigent liabilities still to be addressed.	The authorities have (i) established a platform to monitor SOEs and prepared a financial report in the 2017 budget; (ii) passed two framework laws for monitoring SOEs; (iii) prepared a restructuring plan for SONARA; and (iv) cleared CFAF 15 billion of arrears to oil importers in 2017.
Fiancial Sector Policies		
Strengthen the banking sector by (i) addressing the three problematic banks and rising non-performing loans (NPLs); (ii)enhancing cooperation with the regional supervisor COBAC; (iii) revising the business model of the public SME bank.	Ongoing, with some delay.	The authorities have (i) submitted to COBAC a preliminary resolution plan for two troubled banks and started revising the plan; (ii) reviewed valuation of impaired assets by the asset management company (SRC); (iii) prepared a NPL strategy and started developing a detailed timebound action plan; (iv) started training judges specialized for banking disputes; and (v) started reviewing the business model of the SME bank.
Enhance financial intermediation by (i) updating the mobile banking legal framework; (ii) strengthening supervision of the microfinanicial institutions (MFIs); and (iii) implementing the central informtion database on banks and large MFIs.	Ongoing	The authorities have expanded the creditor database to MFIs and made progress in computerizing the movable collateral registry.
Structural Policies		
Improve the business environment by (i) reducing bureaucratic impediments particularly in paying tax and intra-CEMAC trading; (ii) increasing anti-corruption efforts; (iii) strengthening the implementation of the anti-money laundering framework; and (iv) strengthening payment disciplines to the private sector.	Ongoing, with good progress in simplification of tax procedures.	The authorities have: (i) established escrow accounts to accelerate VAT refunds; (ii) enabled mobile tax declaration and payment for small and micro enterprises; (iii) published annual anti-corruption reports; (iv) digitalized land registry maps and finalized land reforms to protect property rights; and (v) reduced processing time for government invoices.
Accelerate regional integration by (i) ensuring human and financial resources for CEMAC Commission; (ii) setting a common external tariff for the CEMAC customs union; (iii) harmonizing economic and technical standards; and (iv) addressing non tariff barriers.	Ongoing	The authorities have joined the regional efforts to liberalize flow of goods and people and unify the two stock exchanges to Douala, and revised the legislative framework on custom tariffs in line with the regional requirements.

Annex II. Impact of Fiscal Policy on Growth

1. **Recent analyses concur in highlighting that, while total government spending in Cameroon remain low compared to peers; there is significant room to improve its efficiency.**[1] In 2015, administrative costs represented 16 and 29 percent of total current and capital spending, respectively, reflecting the high number of ministries and committees as well as immature investment projects and inefficient procurement processes.

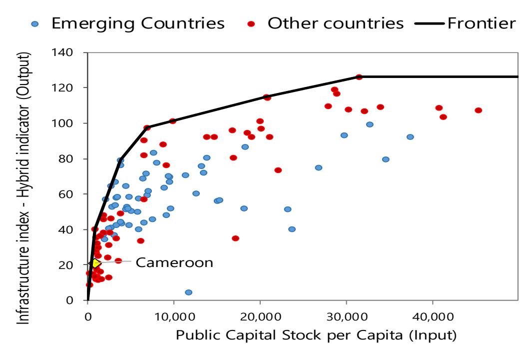
Public Investment, 2000–16
(in percent of GDP)



Sources: Cameroonian authorities; IMF staff calculations.

2. **Public investment has risen rapidly in recent years and reached 8.7 percent of GDP at end-2016.** Between 2008–15, public investment averaged 5.5 percent of GDP, twice its level during 2000–07, and caught up with peers by 2016. However, real economic growth averaged 4.3 percent per annum compared to 4.2 percent in the previous period, potentially indicative of a limited pass through to the real economy.

Infrastructure Index (Hybrid Indicator) and Public Capital Stock per Capita



Source: IMF staff calculations.

3. **Inefficiencies in the investment process may limit its impact on growth.** A detailed analysis of the composition of public investment over 2015-16 has shown that a significant share (about ⅓ of total investment or around 3 percent of GDP over 2015–16) cannot be considered as resulting in fixed capital formation. The efficiency of public investment is also impeded by weaknesses in the investment process, as highlighted by the 2016 PIMA. The efficiency gap, estimated at 51 percent is relatively high and almost double the average efficiency gap of 27 percent of other low income and emerging market countries.

Fiscal Multipliers

	Impact	After 2 years	Peak	*REO* ‡
Current spending	0.8	1.6	0.8	*0.5*
Investment	0.1	0.8	0.1	*0.7*
Revenue	0.0	0.2	0.0	-

Source: Staff calculations.

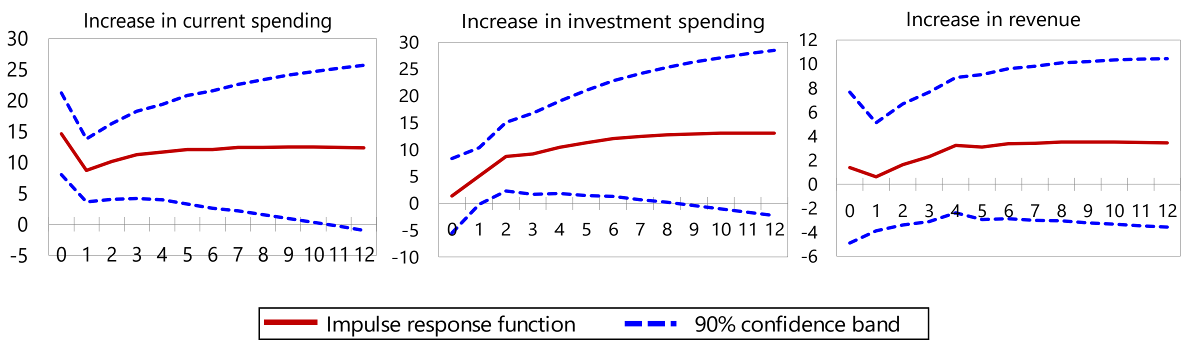
‡The Regional Economic Outlook for Sub-Saharan Africa (October 2017) uses the local projection method (Jordà 2005) to estimate the effect of fiscal policy on growth. The multipliers reported are the response of GDP 3-years into the fiscal shock. The revenue multiplier is statistically insignificant.

4. **An empirical analysis of fiscal multipliers for Cameroon finds overall a limited impact of spending on growth, in line with estimates for low-income countries in the literature.** A structural vector autoregressive

[1] IMF's technical assistance report on "Assessing the efficiency and Equity of Public Expenditures: Key Issues and Reform Considerations" (April 2018), and 2018 World Bank's Public Expenditure Review.

model (SVAR) is estimated separately for recurrent spending, investment and revenue. The trade balance, the real effective exchange rate and the interest rate are introduced as exogenous variables in the SVAR. Staff estimates indicate that GDP rises significantly, following an increase in current spending. This effect lessens 2 quarters after the shock, before rebounding slightly; and stabilizing after 7 quarters below the level observed at impact. An increase in investment spending also boosts GDP, but with a delayed effect. A shock in revenue, though statistically insignificant, induces a smaller change in the GDP. Estimated multipliers are overall small, with the multiplier on recurrent spending being the largest. The insignificant revenue multiplier likely stems from the narrow tax base and inefficiencies in revenue collection.

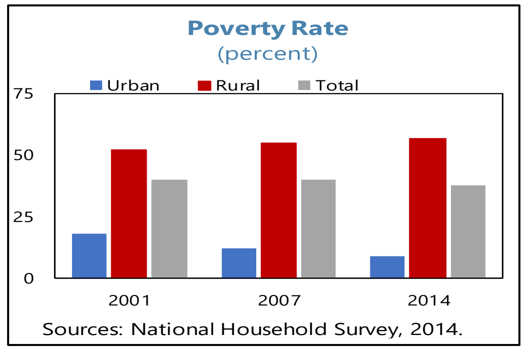
Responses of GDP to Fiscal Shocks

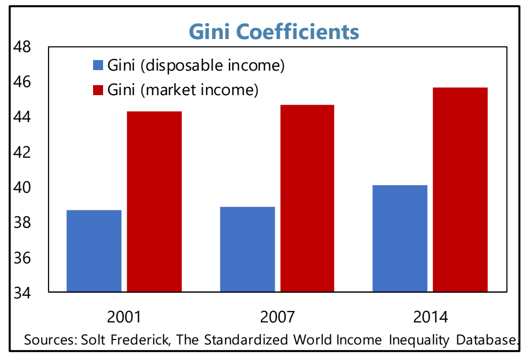


5. These estimates suggest that growth-friendly fiscal consolidation is possible. Cuts in spending, particularly investment or revenue increases, will have a limited impact on economic growth. These low multipliers are consistent with findings in the literature which estimates fiscal multipliers in LICs to be below one, with investment and consumption expenditure multipliers tending to be larger than those attached to revenue. However, these results also highlight the importance to improve the quality of spending, particularly public investment, and to aggressively pursue efforts to broaden the tax base to bring revenue closer to potential.

Annex III. Distributional Impact of Fiscal Policy

1. Despite impressive growth in recent years, poverty and inequality remain high in Cameroon. Annual real GDP growth reached 5.3 percent for 2013–16, exceeding the average of sub-Saharan African (SSA) peers and emerging and developing countries. However, unlike most African countries which achieved poverty and inequality reduction along with economic expansion, poverty has declined only slightly from 40.2 to 37.5 percent between 2001 and 2014, while the inequality index increased from 42.2 to 46.6. At the same time, the disparity of poverty outcomes in urban and rural areas and among different geographic regions has been rising, with the three northern regions and the north-west region accounting for 74 percent of the total poor. The deteriorating security situation since 2014 could have exacerbated the poverty situation in the Far North area, with a rising influx of refugees and internal displaced persons.



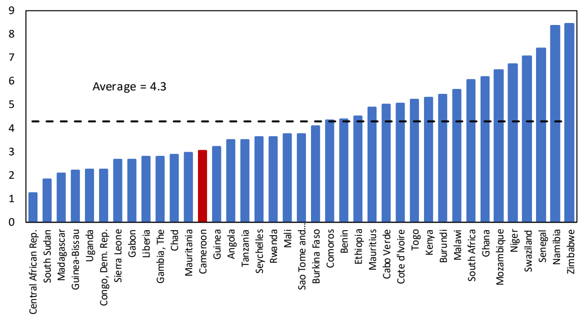


2. Fiscal policy has been the main tool to reduce poverty and inequality but has not yet reached its full redistributive potential. The main revenue policy tools include a progressive personal income tax system, VAT, excise and customs with certain exemptions, and other taxes such as the special tax on fuel prices. Direct taxes account for 25 percent of the total non-oil revenue, while VAT represents around 40 percent. The main expenditure tools include subsidies and transfers such as cash and near cash transfer programs, pension and fuel subsidies, and in-kind transfers such as free or subsidized government services in education and health. Among these, spending on social assistance is among the lowest in the Sub-Saharan region at less than 0.1 percent of GDP, while pensions, social assistance (90 percent health-related) and subsidies represent the bulk of social protection, with small labor market programs. The main policy instruments are in-kind transfers (70 percent) and fee waivers (20 percent).

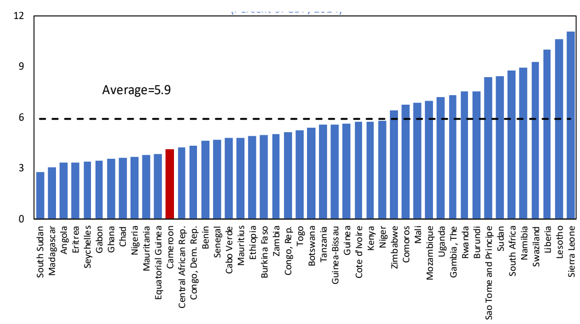
3. Social spending is relatively low as compared to other SSA countries. Although more than 80 percent of the social spending was on education, with health and social protection accounting for the rest, total spending on education and health in percent of GDP is below the average of SSA countries, putting extra burden on the households and contributing to the uneven education and health outcomes. About 70 percent of the health budget is allocated to the central level, with a significant contribution of external funds and high out of pocket costs. Education spending is relatively higher, but concentrated on the secondary level (half the education budget).

4. The redistributive impact of cash and indirect transfers is relatively weak, while in-kind transfers have a larger impact on poverty and inequality reduction. Using the 2014 National Household Survey, together with 2014 fiscal revenue and expenditure data, a fiscal incidence analysis based on the Commitment to Equity Institute methodology shows that cash and near cash transfer programs had almost no impact on poverty and inequality, mainly due to their small size. The impact of indirect transfers (tax expenditures and energy subsidies) is also small. However, targeted in-kind transfers in education and health have a visible impact on poverty and inequality reduction.

Education Spending
(percent of GDP, various years)



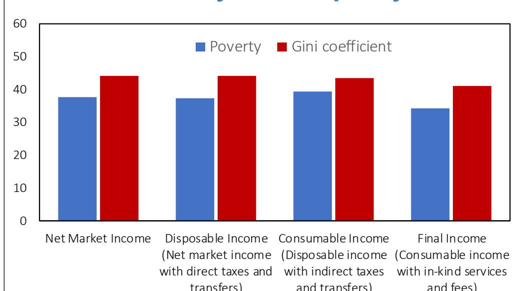
Health Spending
(percent of GDP, 2014)



Sources: World Development Indicators; IMF staff calculations.

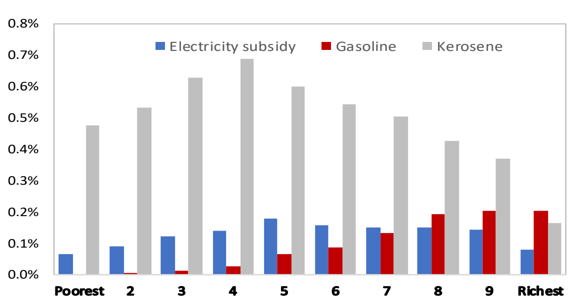
5. **Richer households benefit the most from indirect transfers.** An analysis of the impact of major indirect transfer programs such as energy subsidies on different income groups shows that for, although the benefits received by the poorer households account for a bigger share of their total disposable income, the bulk of such subsidies went to the richer households with a larger energy consumption. For example, in 2014 the top 3 income groups received more than 50 percent of electricity subsidies and more than 80 percent of gasoline subsidies. Simulation analysis shows that elimination of energy subsidies with higher transfers to the poorer households can reducing poverty and inequality. Similar results are found for tax expenditures, notably certain VAT and excise exemptions, whose removal would be revenue enhancing and with transfers to poor households can also reduce inequality.

Poverty and Inequality

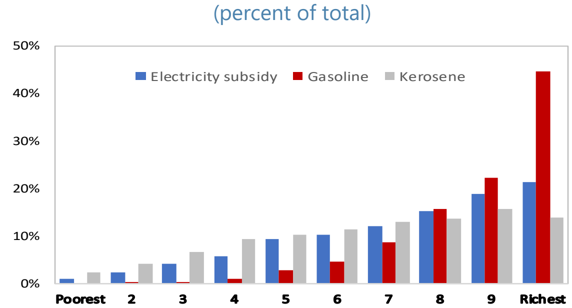


Sources: Cameroonian authorities; CEQ and IMF staff calculations.

Energy Subsidies, Impact on Income
(percent of total disposable income)



Energy Subsidies, Share of Total Spending
(percent of total)



Sources: Cameroonian authorities, IMF staff calculations.

Annex IV. External Stability Assessment

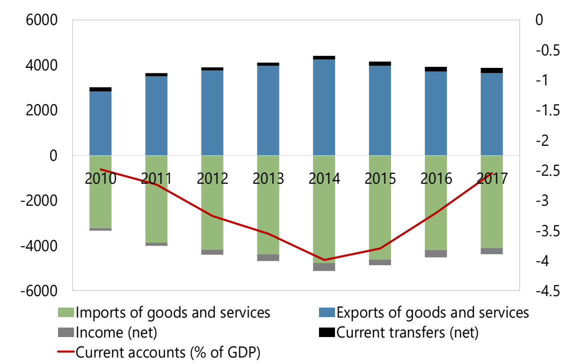
Cameroon's external position in 2017 was broadly in line with fundamentals. The current account improved markedly, driven by import compression and improved services and income balances. However, the external position remains vulnerable to fiscal pressures from security threats and public investment scaling-up. Continued fiscal consolidation, steadfast implementation of structural reforms, and improvements in governance would help maintain the current account at sustainable levels even as imports recover in the wake of the projected recovery.

Background

1. The current account improved markedly in 2017, despite the worsening terms of trade. The deficit narrowed to 2.7 percent of GPD from 3.2 percent of GDP in 2016 and against an average of 3.6 percent of GDP in the previous 5 years. Imports declined across the board, except for agriculture and minerals, and chemical and petrochemical products. The latter were boosted by over 40 percent by the need to import more refined fuel products following the closure of the domestic refinery for maintenance. Exports also declined slightly, dragged by agricultural products (which may have felt the impact of the crisis in the anglophone regions), and a sharp decline in oil export volumes more than offset the increase in international oil prices. The energy balance was also hit by the shift in imports towards refined fuels. This contributed to a moderate worsening in the terms of trade in 2017. Preliminary data suggest that both the balance of trade in services and the income account improved marginally. Looking ahead, the current account is projected to remain broadly stable as imports recover in tandem with the economy and non-oil exports accelerate.

Cameroon: Current Account Balance, 2010–17

(percent change; unless otherwise indicated)

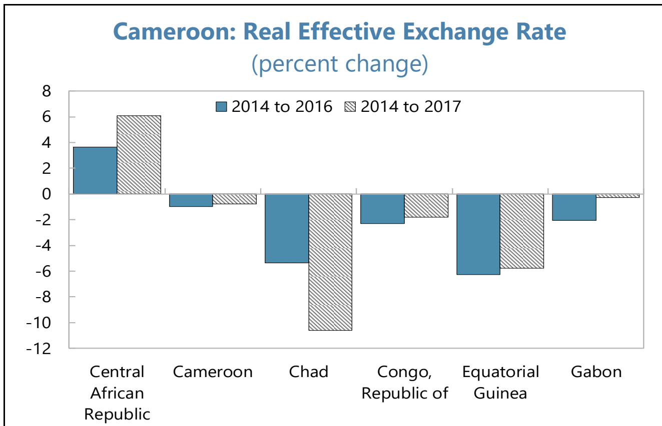


Sources: Cameroonian authorities; and IMF staff calculations.

2. The financial account improved in 2017. Inflows related to budget support (which were partly catalyzed by the program) and to foreign-financed public investment projects reached 3.6 percent of GDP, up from 2.4 percent in 2016. Private flows also improved, in particular through aa significant decline of the short-term outflows that contributed to the worsening of the external position in 2016.

3. As a result, reserve coverage improved significantly. The stock of imputed reserves reached US$3.2 billion, equivalent to 9 percent of GDP and 4.9 months of imports, at end-2017, up from 2.3 billion (or 7.4 percent of GDP; 3.9 months of imports) at end-2016.

4. Cameroon's effective exchange rates remained stable in 2017. The nominal effective exchange rate depreciated by about 2.5 percent, while the real effective exchange rate was in line with the previous year, reflecting significant fiscal consolidation and the peg to the euro (Europe is also Cameroon's main trading partner). Over a 5-year horizon, the nominal effective rate has depreciated by about 7 percent, and the real effective exchange rate by about 5 percent.



Source: IMF staff calculations.

5. Cameroon's Net International Investment Position (IIP) declined to -28.6 percent of GDP at end-2016[1]. The decline follows a trend observed since 2010, as the accumulation of FDI and debt liabilities dwarf reserves accumulation on the asset side. Gross liabilities stood at 48.5 percent of GDP, of which almost 30 percent of GDP is in form of public debt. The debt profile benefits from relatively long maturities and a significant proportion of concessional financing, but debt-related vulnerabilities remain high (see DSA).

Assessment

6. All three EBA-lite methodologies indicate that the real effective exchange rate (REER) is broadly in line with fundamentals. Estimates vary between an undervaluation of 2 percent (Index REER approach) to an overvaluation of 2.8 percent (CA approach).

Cameroon: External Stability Assessment

Current Account (CA)		Index Real Effective Exchange Rate (IREER)		External stability, target NIIP (ES)	
Current account norm (percent of GDP)	-1.6	Log REER - norm (percent)	4.63	Current account norm (percent of GDP)	-1.5
Underlying current account (percent of GDP)	-3.0	Log REER - actual (percent)	4.61	Target net IIP	-23.2
Cyclically-adjusted Current account norm (percent of GDP)	-1.8				
Current account gap	-1.2				
Current account elasticity	-0.34			Target number of years	20
Estimated REER gap	3.2	Estimated REER gap	-2.0	Estimated REER gap	0.6

Source: IMF staff calculations.

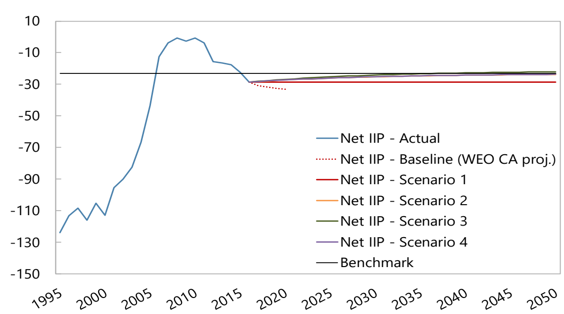
[1] Data on balance sheets, and the related External Stability EBA-lite methodology employed below, are based on end-2016 values for lack of more recent data.

7. Both the current account and the IREER approach suggest that Cameroon's external position is in line with fundamentals. The EBA-lite methodologies adopted here extend the EBA methodology to low income and emerging market countries. The panel regression-based approaches, including the current account approach (CA) and the indexed real effective exchange rate approach (IREER), show a policy gap of -0.7 percent, driven by loose fiscal policy (-0.5 percent) and still relatively low reserve accumulation (-0.5 percent), mitigated by low depth of credit compared to peers (+0.3 percent). The CA approach estimates the REER to be overvalued by 2.8 percent, and the REER approach estimated it to be undervalued by 2.0 percent. In both approaches, the desired levels of other key policy variables are set to their projected level at the end of the program (2020) and a trade elasticity of -0.34 is assumed, consistent with estimates for Cameroon from Tokarick (2010). The assessment is robust to alternative scenarios; a combined increase compared to the programmed 2020 levels in both reserves accumulation (by 2 percent of GDP) and in the fiscal effort (by one percent of GDP) would point to an REER overvaluation of 7.3 percent (CA approach) and 0 percent (IREER approach).

8. The external sustainability approach (ES) does not indicate a deviation of the REER from fundamentals. The baseline scenario assumes that the net IIP stabilizes at 2016 levels going forward and estimates a 0.9 undervaluation. An alternative, more restrictive scenario assumes that the net IIP improves to -23.2 percent of GDP in 20 years, and finds that the REER is overvalued by 0.6 percent. Another simulation projecting what net IIP level would be consistent with a current account norm of -1.8 percent of GDP (a value derived by the CA approach described below) shows an overvaluation of 0.2 percent.

Net IIP: Actual & Projected

(percent of GDP, based on IIP data from EWN database)



Sources: Lane and Milesi-Ferretti's External Wealth of Nations Dataset; IMF WEO.

Addressing High Trade Costs and Weak Governance to Boost Competitiveness

9. Although the above assessment of Cameroon's competitiveness is fairly benign, trade costs and trade-related time requirements are higher than in peer countries. Despite declining somewhat since 2000, estimated trade costs in Cameroon remain elevated at over 200 percent ad-valorem equivalent.[2] The World Bank's Doing Business survey on monetary costs and time of border compliance suggests that performance is below the average for SSA and CEMAC. Trade facilitation indicators also suggest complex procedures and a lack of transparency (UN, OECD, Annex Figure 1). Reducing non-tariff barriers would thus significantly enhance Cameroon's competitiveness and boost regional integration. Long dwell times at the national and regional hub of Douala are a large part of the problem, with 95 percent of Cameroon's total trade going through the port.

[2] Trade costs are from the ESCAP-World Bank database and are calculated using the "inverse gravity framework" developed by Novy (2009). The resulting trade cost measure captures all direct and indirect costs faced by two countries when trading with each other, including transport and logistics costs, tariffs, cumbersome import or export procedures, etc.

10. Despite significant reforms in the past two decades, further improvements in transparency as well as simplification and automation of trade formalities are warranted. Reforms have already included the elimination of some discriminatory regulation, fast-tracking of import declarations, scanning of containers, automated cross-checking of data, the introduction of performance contracts in the two largest customs offices and an increase in storage costs at the port in 2017 to reduce incentives for importers to use the port as storage facility. But the dwell times at the Douala port remain elevated on account of a number of factors, including slow progress in enhancing automation of procedures, still relatively low storage costs, but also overly complex customs procedures and regulations, and inefficient bureaucracy and port management.

11. Deficient governance and corruption in trade can also have a significant negative impact on trade, growth and diversification.[3] The World Bank's Enterprise Survey for Cameroon found that in 2016, 24 percent of surveyed firms reported that they were expected to provide an informal gift or payment for an import license, down from 26 percent in 2009 but still above the SSA average (17 percent). Similarly, the WEF Executive Opinion Survey finds that respondents gave Cameroon an average score of 2.8 with regards to the question: "In your country, how common is it for companies to make undocumented extra payments or bribes in connection with imports and exports?", with a scale ranging from 1 (being very common) to 7 (never occurring) Cameroon's 2016 Anti-Corruption Status Report also recorded individual cases of illicit enrichment in customs. The customs general directorate has already introduced a code of conduct, a hotline to report corruption cases, and an independent Ethics and Governance Committee to reduce corruption. A new penal code was also implemented in 2016 that includes various measures on corruption. However, perceptions of corruption remain significant according to discussions with the private sector and civil society.

[3] The literature has found that governance and impartiality of border administration significantly impacts time in custom (Hillberry and Zhang, 2015) and trade costs (Moïsé and Sorescu, 2013). In turn, longer trading time and higher trading costs have been found to reduce trade (Martincus et al., 2015 and references therein) and lower export diversification (Dennis and Shepherd, 2011) thereby hampering growth and weighing on stability (IMF, 2014).

Annex Figure 1. Trade Costs and Governance – Selected Indicators

Sources: Cameroonian authorities; OECD; UN; World bank; and IMF staff calculations.

Annex V. Capacity Development Strategy 2018–20

This note updates the Capacity Development Strategy prepared at the time of the ECF program request in June 2017 (IMF Country Report No. 17/185) to reflect recent priorities including those presented in the Country Strategy Note of January 2018. The 2017 note presented the understandings reached between Fund staff and the Cameroon authorities on the capacity development strategy, expected objectives and technical assistance that could support the country's macroeconomic policy priorities.

Recent Technical Assistances and Perspectives

The Capacity development (CD) activities through technical assistance (TA) from both Fund headquarters and the Central Africa Regional Technical Assistance Center (AFRITAC Center) in Cameroon continue to be frequent. In 2017–18 missions focused mainly on enhancing the efficiency and equity of public expenditure, enhancing reliability of budget data and accounting information systems, improving external sector statistics, and strengthening capacity on the valuation of the non-performing loans for the resolution of ailing banks (see list of TA in the Informational Annex). Going forward, the priorities (summarized in Table 1) will focus on mobilizing non-oil revenue, strengthening public financial management (budget control and treasury management in particular), improving debt management, establishing frameworks for bank resolution and NPL resolution, and enhancing data reporting and compilation.

An important area of focus will be to continue to enhance the quality and consistency of fiscal data across different sources of information. While the authorities are implementing short-term measures that should significantly improve the current situation, more long-term CD support from HQ and AFRITAC will be provided in the context of the move to the GFSM 2014 presentation of fiscal accounts, and implementation of the CEMAC PFM Directives on budget nomenclature and on fiscal operations tables.

Authorities' Views

The authorities highly value the dialogue with the IMF including through regular TA missions in various areas, and appreciate the Fund's responsiveness and availability to deliver high quality TA upon request. They believe such dialogue has helped raising awareness in relevant areas where reforms are being carried. They expressed interested in being more involved in preparing mission's terms and reference to ensure that their priorities are better integrated. In addition, they appreciated the level of donor coordination but recommended its enhancement in the spirit of the 2005 Paris Declaration on aid effectiveness.

Table 1. Cameroon: Technical Assistance Priorities

Priorities		Objectives
1.	Tax Policy	1. Broaden the non-oil tax base 2. Rationalize exemptions and eliminate inefficient tax incentive schemes 3. Further strengthen mining taxation and scoping
2.	Public Financial Management	1. Ensure consistency between multi-year budget frameworks and the annual budget 2.Strengthen fiscal reporting 3. Strengthen treasury management 4. Strengthen expenditure control 5. Enhance monitoring of fiscal risks 6. Strengthen management of the payroll
3.	Revenue administration	1. Enhance tax and customs administration 2. Review and have a hold on parafiscal levies
4.	Expenditure Policy	1.Strengthen expenditure rationalization 2. Improve expenditure efficiency particularly of investment spending
5.	Debt Policy	1. Strengthen debt sustainability assessments by enhancing the quality of the macroeconomic projections and sensitivity/scenario analysis 2. Improve external debt reporting and management 3. Prepare robust medium-term debt strategies
6.	Financial supervision & regulation	1. Complete the judiciary elements for the NPL resolution strategy; 2. Implement a collateral registry.
7.	Compilation and dissemination of statistics	1. Use the NSDP as the main dissemination portal for macroeconomic statistics 2. Enhance government financial statistics. 3. Complete the transition to *Balance of Payments Manual 6 (BPM6)* 4. Enhance external debt statistics. 5. Increase the frequency of data collection to quarterly for balance of payments, and annually for the international investment position (IIP).

Appendix I. Letter of Intent

June 21, 2018

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

Madam Managing Director:

The Government of Cameroon is continuing to implement the measures laid out in its economic and financial program supported by a three-year arrangement under the International Monetary Fund's Extended Credit Facility (ECF) for the period 2017–2020 under difficult security conditions that remain a significant burden for the economy. Fiscal consolidation has continued. However, owing to the acceleration of expenditures at the end of the year, it has fallen short of the program targets despite the solid performance of non-oil revenues. The main overruns involved urgent security expenditures and more rapid execution of priority infrastructure projects than anticipated. It was also difficult to control the overall budget deficit owing to still insufficient discipline regarding the resort to exceptional spending procedures and the lack of regular reconciliations between the units responsible for executing the budget. As a result, the overall deficit stood at 5 percent of GDP, as compared to a program target of 3.1 percent of GDP, and three quantitative performance criteria at end-December 2017 were not met. However, all of the indicative benchmarks but one and the ceiling on net domestic financing of the government (performance criterion) were met, and 10 structural benchmarks out of 14 were met within the established time frames.

The government is committed to successfully implementing the program for the rest of this year. To this end, strong measures are being implemented to correct the deviations observed in 2017, in terms of both the quantitative program targets and the structural reforms aimed at enhancing fiscal discipline. Given the budget execution results in 2017, a supplementary budget that revises the targets in the 2018 budget in order to better take account of the government's current priorities has been prepared and submitted to Parliament for ratification. A circular accompanying the supplementary budget outlines and strictly limits recourse to exceptional procedures while improving the recording and reconciliation of information from the expenditure cycle. To respect the current program commitments and the CAEMC convergence criteria, domestic arrears accumulated in 2017 will be cleared by end-June 2018, including an amount of CFAF 262 billion already cleared between March and May 2018. The government also undertakes to accelerate the transposition of the CAEMC directives into national law and their implementation so as to entrench best fiscal management practices. To that end, the draft law on the Code of Transparency and Good Governance in Public Finance Management in Cameroon and the draft law on the Financial Regime of the Government and Other Public Entities have been submitted to Parliament in June 2018 for implementation starting in 2019.

The memorandum of economic and financial policies (MEFP) attached to this letter of intent describes the economic and financial situation in 2017, sets out the economic and financial policies that the government plans to implement in the current year, and establishes the quantitative criteria, benchmarks and reforms through to end-December 2018, as well as indicative targets through to end-June 2019.

Based on the corrective measures planned and detailed in the MEFP, the government requests waivers of non-observance of the end-December quantitative performance criteria on the floor on the non-oil primary fiscal balance, the ceiling on net borrowing of the central government from the central bank excluding IMF financing and the ceiling on the disbursement of non-concessional external debt contracted as of the date of program approval. The government also requests the modification of the end-June 2018 performance criteria on the ceiling on the net borrowing of the central government from the central bank excluding IMF financing and the ceiling on the net domestic financing of the central government excluding IMF financing, as well as the modification of the performance criterion on disbursements of non-concessional project financing. The government proposes to establish a new indicative target for expenditures involving exceptional procedures.

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

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

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

Sincerely yours,

/s/

Philemon Yang
Prime Minister, Head of Government

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

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

June 2018

I. INTRODUCTION

1. The Government of Cameroon is continuing to implement its economic and financial program supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) over the period 2017–19 in difficult socioeconomic circumstances. At end-December 2017, all indicative benchmarks but one and the ceiling on net domestic financing of the government (performance criterion) were met, and 10 structural benchmarks out of 14 as of end-May 2018 were implemented within the established time frames. However, three quantitative performance criteria were not respected. The difficult security situation in Cameroon remains a significant burden for the economy. However, the government is firmly committed to the successful implementation of the program during the remainder of the year and will take the necessary measures to ensure that its commitments are honored.

II. RECENT ECONOMIC DEVELOPMENTS

2. Economic growth has been less sustained than anticipated, primarily owing to the sharp decrease in oil production. Performance of the primary and secondary sectors has also been mixed owing to persistent security risks in some regions. Growth is thus expected to stand at around 3.2 percent in 2017, one half point below program projections. However, non-oil activity has remained buoyant owing to the abundant supply of electricity and the expansion of construction activities. This favorable trend should continue as first-generation projects in the road and energy sectors are completed and come into operations. Inflation remains low, averaging 0.6 percent in 2017 and 0.8 percent at end-March 2018.

3. Fiscal consolidation continues, albeit at a slower rate than initially projected. The fiscal deficit including grants has been revised upward for 2017 and should reach 5 percent of GDP, for an overrun of the program target of 1.9 percent of GDP. Non-oil revenues exceeded projections by 0.7 percent of GDP owing to solid VAT revenues and foreign trade earnings.

4. The current account deficit was reduced to 2.7 percent of GDP in 2017, compared with 3.2 percent the previous year, owing to a sizable reduction in imports. The rebuilding of foreign exchange reserves is ongoing.

5. Tighter monetary conditions and the economic slowdown have caused private sector credit growth. The money supply had increased by 5.9 percent at end-2017 and deposits by 5.3 percent. The growth of credit to the private sector slowed significantly to 2.3 percent in 2017 and 2 percent at end-March 2018, compared with 7.2 percent in 2016 (year-on-year). Banks also granted more short-term loans and fewer medium-term loans, reflecting the cash flow difficulties faced by businesses and the slowing of investment projects. At the same time, the volume of non-performing loans increased from 13 percent to 15 percent between December 2017 and March 2018 due in part to the difficulties of some large companies.

6. Public debt remains sustainable. The stock of public debt was estimated at around 32 percent of GDP at end-December 2017, compared with 28.4 percent at end-2016, or an increase of around 4 percent of GDP, primarily owing to the acceleration of disbursements on externally financed projects and the conversion of BEAC statutory advances into long-term debt. This estimate includes the SONARA debt to marketers, which stands at 0.3 percent of GDP.[1]

III. IMPLEMENTATION OF THE ECONOMIC AND FINANCIAL PROGRAM

7. Three of the four quantitative performance criteria for end-December 2017 were not met.

- *The non-oil primary balance* totaled CFAF -1,203 billion as against a floor of CFAF -974 billion (or more than 1 percentage point of GDP) as a result of the acceleration of capital expenditures at the end of the year, despite solid non-oil revenues s. The main expenditure overruns resulted from security interventions (CFAF 72 billion), the acceleration of the preparations for the African Cup of Nations (CAN) (CFAF 20 billion), and the clearance of arrears of the electricity company (ENEO) (CFAF 36 billion).

- *Disbursements of non-concessional loans signed before the date the program's approval* totaled about CFAF 625 billion against a ceiling of CFAF 540 billion. This overrun resulted from actual disbursements on major development projects. Owing to communications problems with a few financial partners, actual drawings from some donors are received with delay by the government. Measures have been taken to anticipate the recording of these disbursements through better planning and monitoring of disbursements.

- *The ceiling on government borrowing from the central bank*, set at CFAF -253 billion (adjusted to CFAF -133 billion owing to lower than expected budgetary support) was exceeded by CFAF 70 billion. This was the result of reduced government deposits with the central bank, mainly owing to lower than expected bond issuances and the non-disbursement of a portion of budgetary support. In December, the government repaid the excess drawings on statutory advances made during the last quarter and signed the agreement on the conversion of the stock of statutory advances of CFAF 577 billion into a 14-year debt, with drawings above the program limit (CFAF 300 billion) deposited in a special account at the BEAC.

[1] In its macroeconomic framework and debt sustainability analysis, the IMF includes the Treasury float and the other SONARA debt in these amounts, which brings total public and publicly guaranteed debt to 38.2 percent of GDP at end-2017.

- *The ceiling on net domestic financing of the government and the continuous criterion on the accumulation of external payment arrears were met.* No new non-concessional loans were signed between the conclusion of the first review of the ECF and end-2017.

8. **All the indicative benchmarks were met with the exception of the ceiling on direct SNH interventions, which was slightly exceeded.** Specifically, the floor for non-oil revenues was above the program floor by about 0.7 percent of GDP. Thus, voluntary compliance in the payment of domestic taxes increased by 3.2 percent compared with 2016, despite the social crisis in the northwestern and southwestern regions of the country, the insecurity in the far north, the sharp depreciation of the naira and, in general, the slowdown in economic activity, which had an impact on the brewery, mobile telephone and banking sectors. In addition, as a result of stronger administrative measures, the General Directorate of Taxes improved the collection of tax arrears from public and private companies in 2017, particularly VAT, with a 120 percent rate of achievement of the target. The results of tax audits improved owing to stronger teamwork with the General Directorate of Customs. Similarly, better monitoring of the taxation of government budget operations and public entities helped to improve domestic tax revenue. Overall, these actions enabled the DGI to collect CFAF 1,790 billion for an initial target of CFAF 1,719 billion for non-oil taxes in 2017, an achievement rate of 104.2 percent. The successful collection of customs arrears, the positive impact of new measures in the 2017 budget, the auditing of service operations, the strengthening of controls in the context of customs policing (HALCOMI) and joint DGD-DGI interventions (FUSION) are factors explaining the performance of the General Directorate of Customs. The floors for social spending and the non-accumulation of domestic arrears were also respected.

9. **Good progress was made on the structural benchmarks at end-March 2018, with 10 out of 14 benchmarks being met:**

- *Indicate the total amount of oil revenues from the National Oil Company—Société Nationale des Hydrocarbures (SNH)—and direct interventions in the government fiscal reporting table (TOFE).* The direct interventions of the SNH allow for a rapid, flexible response to mainly security-related emergencies. In 2017, these interventions amounted to 53 percent of total petroleum royalties, in line with the government's commitments (the total amount exceeded the ceiling by around CFAF 1 billion). The government intends to maintain the SNH direct interventions at a level compatible with the security challenges faced by the country. However, to avoid a downstream shift of expenditure planned in the annual budgets, the level of these interventions will be limited to 45 percent of the amount of the SNH royalty for 2018 (Table 1). The government also undertakes to gradually reduce these direct interventions in the future. All oil revenues, as well as the amount of direct interventions, will from now on be indicated as memorandum items in the TOFE, in addition to the amount of the royalty.

- *Publish the petroleum product price structure monthly.* Since June 2017, the regular monthly publication of the petroleum product price structure has informed the public of the cost of the subsidy.

- *Enhance information-sharing between the DGI and the DGD, which will from now on jointly prepare quarterly reports indicating, among other things, the results in terms of fraud identified and* *additional revenue collected.* The information sharing and cooperation between the General Directorate of Customs (DGD) and the General Directorate of Taxes (DGI) have been enhanced. Joint DGI-DGD quarterly reports are now regularly produced, making it possible to crosscheck the information on fraud identified and additional revenue collected that is produced by such information-sharing with the help of the FUSION system.

- *Prepare a strategy aimed at ensuring the sustainability of the petroleum products price structure and the financial viability of the National Oil Refinery (Société Nationale de Raffinage—SONARA)*. The strategy was prepared by the deadline, but it has been revised to take into account the comments of IMF staff.
- *Prepare a report (i) evaluating the effectiveness of the new funding mechanism for the VAT escrow account and (ii) proposing, in cooperation with the Directorate General of the Treasury, a plan to clear the stock of credits identified at December 31, 2016.* To help improve the business environment, the authorities reformed the system governing the operation of the special VAT account in January 2017. This reform guarantees an irrevocable monthly deposit of CFAF 6 billion into the VAT escrow account through an automatic withdrawal mechanism from the Treasury single account. Moreover, additional funding was provided in August 2017 to reduce the stock of credits. This new mechanism allowed in 2017, the clearance of part of the stock of outstanding credits, while continuing to refund the VAT owed under new recorded requests. The report was transmitted to IMF staff.
- *Prepare a national social protection strategy (or policy) to be implemented starting with the 2018 budget.* We have submitted a report on our strategy, which has benefited from comments from the IMF and the World Bank
- *Prohibit any new replenishment of the 450 correspondent accounts from budget allocations and of the 420 accounts that do not have a senior accountant, by making all investment projects subject to the normal budget procedures.* The Minister of Finance has issued a circular setting out this prohibition.
- *Expand access to creditor databases to all credit and microfinance institutions.* All credit institutions have now been connected to the CIP-FIBANE-CASEMF platform, along with 2nd and 3rd category microfinance institutions and those of the 1st category with information systems that are compatible with the platform. Moreover, the expansion is continuing with 1st category microfinance institutions as their information systems are upgraded, given that these are small institutions with a total balance sheet generally below CFAF 50 million.

10. In addition, the two structural benchmarks for September 2017 that had been re-scheduled for March 2018 were met:

- *Verify the stock of domestic arrears at end-2016 by conducting an external audit.* As indicated to Fund staff, in order to give the work more legitimacy, the government chose to hire an independent external firm rather than conducting the audit (identification and validation) of outstanding balances and amounts due by the central government for previous fiscal years itself. This resulted in a delay vis-à-vis the initial deadline. However, the new deadline has been met and the auditor has produced a report that has been sent to IMF staff.

- *Adopt a plan for the gradual clearance of domestic arrears relating to prior fiscal years.* A plan has been prepared and proposed to the Minister of Finance for validation. Moreover, we will prepare quarterly reports tracking the outstanding balances and other amounts due starting in July 2018.

11. Four structural benchmarks were delayed. The budget execution report for end-2017 was delayed by operations to close the accounts for the fiscal year during the complementary period; the complementary period was maintained at two months as programmed but the final fiscal table was only produced in May 2018. The circular implementing the projects' maturation guide was prepared but has not yet been signed. The computerization of the register of personal property collateral was delayed but should be effective in December with support from the World Bank and covering a broader range of movable assets.

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

A. Program Objectives

12. Notwithstanding the difficulties encountered in 2017, the government reiterates its firm commitment to achieving the program objectives. This involves pressing on with the structural fiscal reforms to expand the non-oil revenue base, improve the effectiveness of public investment and the quality of the budgetary arrangements, and mitigate the fiscal risks associated with contingent liabilities. As well, to continue the fiscal consolidation effort, with a view to increasing the fiscal and external buffers while protecting social spending and social protection programs, we have introduced strong corrective measures and redouble our efforts to correct the deviations observed in 2017, in terms of both the quantitative program targets and the structural reforms aimed at improving fiscal discipline.

B. Macroeconomic Framework

13. The economic growth outlook remains positive. In 2018, growth should improve, rising to at least 4 percent. The growth projections have been adjusted downward slightly owing to the delay in the startup of natural gas production (scheduled for the end of the first quarter of 2018 rather than the beginning of the year). However, the construction work related to the 2019 African Cup of Nations (CAN) and the significant improvement in the electricity supply owing to the entry into operation of some hydroelectric dams, should benefit the manufacturing and agricultural industries. In the medium term, growth will continue to rise gradually to stabilize at around 5–5.5 percent, driven by the completion of large infrastructure projects (such as the Kribi deep-water port, road projects, and energy production projects).

14. It is essential that the revised budgetary objectives for 2018 are met in order to restore the major macroeconomic balances in Cameroon and the sub region. Fiscal consolidation and the more restrictive regional monetary policy will continue to underpin the improvement in the current account deficit and the rebuilding of the foreign exchange reserves. The current account deficit should stabilize at around 2 ½ percent of GDP in the medium term and the reserves at around five months of imports. These efforts are also essential to control the public debt, which increased more rapidly than anticipated in 2017 owing to the acceleration of the disbursements of external financing. Any slippage could cause the public debt to soar rather than stabilizing and gradually declining after 2019, as envisaged in the program. This is the result of a rapid accumulation of the stock of non-concessional debt and an insufficiently strong and diversified export base.

15. The risks associated with the baseline scenario remain more or less unchanged from the first review. The progress made with economic stabilization in the CAEMC and the increase in oil prices could accelerate economic growth and the mobilization of revenues. However, the persistence of the security problems in the northwestern and southwestern regions of the country affects some sectors of the economy, poses fiscal risks and could have an impact on investments and growth.

C. Fiscal Policy

Fiscal Policy Objectives for the Remainder of 2018

16. Based on the budget execution results for fiscal year 2017, the objectives of the 2018 budget have been revised to better take into account government's current priorities. The 2018 budget is broadly in line with the program objectives, calling for a deficit of 2.6 percent of GDP, but is no longer consistent with the 2017 achievements and the fiscal risks identified above. For this reason, the government proposes to reprofile the fiscal consolidation to take into account the already foreseen potential real increase in non-oil revenues and to take into consideration unexpected expenditures resulting from the security threats, which could total CFAF 24 billion, and the subsidy to retail hydrocarbon prices, estimated at least CFAF 72 billion.

17. Bearing this in mind, we have prepared a supplementary budget that has been submitted to Parliament for ratification in June 2018 (prior action). The supplementary budget aims to (i) increase the non-oil revenue targets by at least 0.5 percent of GDP from the target in the original 2018 budget; (ii) maintain the existing current expenditure allocation while taking into account the 0.7 percent of GDP in non-budgeted expenditures for security and subsidies; and (iii) limit investment spending on the basis of commitments already taken in the context of the 2018 budget to 6.2 percent of GDP in total to achieve a revised overall deficit objective (payment order basis, including grants) of 2.6 percent of GDP. The overall deficit (cash basis, including grants) should increase to 4.0 percent of GDP to allow for a reduction in the stock of outstanding floats accumulated in 2017 (amounting to 1.6 percent of GDP), continued implementation of the plan to clear domestic arrears, and a reduction in the balance of the correspondent accounts.

18. For the General Directorate of Taxes, the further increase in revenues will be based on: the opening since February 2018 of seven new medium-sized taxpayer centers (CIMEs) that will help to further improve the management of the VAT; enhanced monitoring of taxation on execution of the government budget and cross debt operations; the implementation of the recommendations of IMF technical assistance missions on the use of some customs data and specific audits of large and medium-sized businesses; improved collection of tax arrears from private businesses owing to the implementation of payment solidarity measures and garnishment orders (*avis à tiers détenteur*); and continued to safeguard revenues by expanding the dematerialization of the means of payment.

19. For the General Directorate of Customs, administrative measures to optimize revenues such expanding the geographic coverage of the CIVIC Program, interfacing with the Ministry of Transport to combat the fraudulent registration of vehicles, allowing large operators under performance contracts that are major sources of revenue and that already benefit from a "blue channel" rate of 80 percent to use the "green channel," and conducting joint DGD-DGI (FUSION) audits.

20. The streamlining of expenditure could generate additional savings while protecting social spending. This streamlining is also necessary to confront the many downside risks for the execution of the 2018 budget. The following measures are planned:

- The purging of the payroll database will continue in 2018 and will help to combat the problem of phantom civil servants in order to achieve budget savings of around 0.1 percent of GDP on the wage bill.
- We will continue our unwavering efforts to reduce government's goods and service expenditures based on the Prime Minister's circular. The reduction of mission expenses and commissions and the strict application of administered prices will lead to additional savings of around 0.5 percent of GDP. In managing expenditures, efforts will be made to maintain the precautionary freeze introduced at the beginning of the year for a floor of CFAF 30 billion to consolidate our primary deficit reduction profile.
- The prioritization of domestically financed capital expenditure and increased monitoring of budget execution should help reduce capital expenditures by around 1.7 percent of GDP.
- For externally financed investments, we will vigilantly reinforce the programming and monitoring of disbursements, particularly on projects involving non-concessional financing, in order to control the overall deficit and limit the growth of the debt stock. We will prepare quarterly disbursement plans for all investment projects in cooperation with the financial partners, and these will serve as the basis for requests for funds. We will also monitor requests for funds and actual disbursements on a monthly basis starting at end-July 2018 (new structural benchmark). The government undertakes to make the necessary trade-offs to keep executed expenditure within the total amount of the budget appropriations.

21. The overruns of the 2017 expenditure targets led to a significant increase in payment arrears, which reached CFAF 529.8 billion at end-March 2018. The government undertakes to reduce this amount in 2018 in order to avoid an increase in domestic arrears. To achieve the quantitative program target at end-June 2018 on the net non-accumulation of domestic arrears, the government has cleared CFAF 262 billion (1.3 percent of GDP) by May 2018.

22. The corresponding financing requirement will be covered by a combination of borrowing on the domestic and regional market and foreign loans. The financing plan for the issuance of treasury bills and bonds will be revised based on the new objectives, the availability of budgetary support, and projected external project financing. Given the decline in the banks' appetite for long-term bonds, the government should give preference to the issuance of fungible Treasury bills (BTAs) to meet its cash flow needs while working to expand the subscription of bonds beyond banks and to eliminate recourse to direct financing.

23. Urgent measures to enhance control of budget execution are needed to ensure that the revised objectives for 2018 are met:

- Recourse to exceptional expenditure procedures involving acceptance for payment by the Treasury prior to commitment and including, in particular, provisional commitments, treasury advances and cash advances, has contributed to hamper the continuous and efficient monitoring of the budget execution. This has resulted in an accumulation of expenditures to be regularized at the end of the complementary period and discrepancies between budget appropriation commitments, acceptances for payment by the Treasury, and payments. To enhance expenditure control, a circular, supplementing Circular No. 001/C/MINFI of January 6, 2018 on execution of the government budget, on the implementation of the June 2018 supplementary budget allows to better control these exceptional procedures. This circular also defines the new budgetary and accounting conditions for: (i) the monthly regularization of expenditures to avoid the accumulation of significant expenditure balances to be regularized at the end of the year; (ii) starting in June 2018, preparation of monthly accounting and budgetary statement extracts annexed to the TABORD indicating the amount of treasury advances, provisional commitments and cash advances; (iii) limit on the total volume of expenditure involving exceptional procedures to 10 percent of the total amount of domestically financed expenditures (excluding debt service) in 2018 and 5 percent in 2019 (new indicative target); (iv) compliance of the cash advances procedure with the general public accounting regulations starting with the 2019 fiscal year; and (v) prohibition on new provisional commitments and treasury advances as of the date of publication of the circular for the remainder of the 2018 fiscal year
- The draft law on the Code of Transparency and Good Governance in the Management of Public Finances in Cameroon and the draft law on the Financial Regime of the Government and Other Public Entities have been submitted to Parliament in June 2018, so that their implementation can begin with the 2019 fiscal year (prior action).
- It will also be important to continue to reduce recourse to correspondent accounts or counterpart funds to safeguard budget appropriations. All accounts of non-revenue-generating public entities will be closed, transfers of new budget appropriations to these accounts will remain prohibited (new structural benchmark, August 2018), and the existing balances will continue to be drawn down. At end-March 2018, one third of the 2017 stock had already been eliminated.
- Monitoring of budget execution will be enhanced through the monthly reconciliation and validation of the TABORD data by the entities involved (DGI, DGD, DGTCFM, DGB, CAA and DN BEAC), and the preparation of monthly reports on the validation of the TABORD and account balances though crosschecking by the various government departments involved to ensure the integrity of the source data. As such, a report signed by all of those involved in the production of the TABORD and budget execution will be prepared.

Medium-Term Fiscal Policy Objectives

24. The government plans to take bold measures to increase the mobilization of non-oil revenues. The following measures are planned for 2019:

- Starting with the 2019 budget law, the collection of property taxes will be made through the electricity bill. All electricity bills must now include pre-filled property tax forms.
- The action plan to gradually reduce tax expenditures in 2019 and 2020, particularly discretionary exemptions, will be implemented in the 2019 budget and will aim to generate at least 0.4 percent of GDP in additional revenues.
- Starting in 2018, we will take measures to conclude external financing agreements for investment projects with all taxes included.

25. We will continue to streamline expenditures while protecting priority social spending. For 2018–20, in the context of our interim growth and employment strategy, the government will take decisive measures to further reduce poverty and inequality. In particular, the implementation of the national social protection strategy includes a scaling up of the social safety net program starting in 2019 with resources dedicated to this significant project in the amount of at least CFAF 4.5 billion budgeted and made available to the project managers. We will also continue to increase expenditure on health and education and to improve the quality of such spending, particularly by ensuring the release of sufficient resources for the performance-based health expenditure management program, i.e., at least 15 percent of the 2018 budget of the Ministry of Health. The floor for social spending for 2019-20 will be gradually increased to 3.5 percent of GDP in 2019.

D. Structural Public Financial Management Reforms

26. The government intends to continue the medium-term public financial management reforms aimed at improving the quality of expenditure, as defined in our public finance reform program. The main focuses of these reforms are:

a. Acceleration of the transposition of CAEMC directives into national law and their implementation, as previously indicated. Draft decrees for the transposition of the four other directives into national law will be finalized by end-December-2018`.

b. The cash flow management reforms will continue and be expanded. In particular, we will continue to expand the scope of the Treasury single account by closing all dormant bank accounts and repatriating their balances, while avoiding the opening of new accounts. Moreover, by July 2018 we will establish a timetable for closing and repatriating the balances of the bank accounts of administrative public establishment and some accounts of the Autonomous Amortization Fund (*Caisse Autonome d'Amortissement—CAA*), including "idle resources," in strict compliance with the prevailing laws and regulations, particularly the law on the Financial Regime of the Government (new SB). The government also plans to look at the possibility, together with the technical and financial partners, of centralizing all counterpart funds for new joint projects in a single account opened at the BEAC. Management of the accounts already opened for older projects will continue until the finalization of the related studies (management of counterpart funds) while taking into account the requirements of the various donors.

c. Strengthening of the government financial reporting system to make the budgetary and accounting information complete, accurate, reliable and timely: specifically, starting in September 2018, the TOFE will be produced based on automatic links with the account balances and will be available a maximum of 20 days after the end of each month.

d. To improve the effectiveness and quality of capital spending, a decree of the Prime Minister will make mandatory the necessary preparations for the proper execution of projects, ranging from the preparation to aspects to promote the success of a project during its operational and maintenance phases, in accordance with the updated Project Maturation Methodological Guide. In addition, the minister responsible for public investments will, in accordance with the recommendations of PEFA study, conduct an independent assessment of the maturity aspects of large-scale projects that involve a degree of complexity or strategic challenges. Moreover, the exercise conducted in 2017 on operating expenditures underlying domestically financed capital expenditures will be expanded to externally financed capital expenditures so as to include in the Public Investment Budget only projects that genuinely lead to gross fixed capital formation. At the same time, a mechanism for monitoring projects that could potentially generate idle resources deposited with commercial banks will be established.

e. Continued improvement of the monitoring of contingent liabilities and consolidation of the financial position of the main loss-making public enterprises, in order to limit fiscal risks: In particular, we will continue to accelerate the adoption and implementation of the strategy for the reform of public enterprises and establishments under the 2017 laws on public enterprises and establishments. The government also plans to amend the law on PPPs to improve the transparency of financed projects and to avoid projects that do not meet its priorities. The National Public Debt Committee (CNDP) will systematically review all PPP project proposals.

27. The DGI and DGD will continue the efforts initiated to improve revenue collection, combat fraud and evasion, and ensure the integrity of the taxpayer database and IT systems. The joint DGI/DGD work on the data of the "FUSION" software will continue and is expected to improve data collection and information sharing between the two administrations. More specifically, the Minister of Finance will publish a communiqué making the customs clearance of goods conditional on the existence of business taxpayers in the DGI active database (July 2018 structural benchmark). Other actions will focus on: (i) cleaning-up of the taxpayer database using the results of crosschecking between the customs and tax databases; (ii) harmonization and simplification of procedures; (iii) limitation of derogatory regimes, particularly the April 2013 law on tax incentives, and evaluation of fiscal expenditures, particularly by trimming the lists of goods and equipment to be imported and the use of experts for the validation of types and quantities of equipment and other goods on the lists to be approved, and the acceleration of verifications of enterprises having benefited from exemptions within the framework of the joint DGI-DGD audits; (iv) enhanced information sharing between the DGD and the DGI, particularly the transfer of the statistical and tax returns of enterprises falling under the Large-Taxpayer Directorate and the CIMEs to the FUSION platform, and the provision of complete information on purchases of tax stickers to allow for effective crosschecking during audits; and (v) the organization of more effective joint audits and investigations leading to significant additional revenues.

- **For the DGI, we will emphasize:**
  a. The strengthening of tax audits by stepping up cooperation with the DGD and having recourse to Tax Inspectors without Borders;
  b. Improvement of the VAT yield through the entry into operation of the new CIMEs and the collection of VAT arrears owed by public enterprises;
  c. Completion of the work to start up the interface between the cleaned active taxpayer database (FISCALIS) and the "MESURE" software (structural benchmark for July 2018). The interface between the data in the active database and MESURE has been completed. The work to develop the module for automatically updating the database (transfers, closures, mergers, suspensions, creations) in MESURE and its migration to a web version will be completed by end-July 2018.
  d. Measures to simplify and automate procedures by gradually expanding automation measures already implemented by the DGE, CIMEs and the specialized centers throughout the national territory and to all operations.
- **For the DGD, we will pursue the following measures:**
  a. Securing of customs revenues through the quarterly reconciliation of import declarations and scanner images validated by the SGS and the assessed customs values (new structural benchmark for September). The reconciliation will target at least 30 percent of total import operations based on risk, particularly (i) operations subject to exemptions and (ii) high-risk operators or origins, and will be conducted by a joint SGS/MINFI team;
  b. Monthly reconciliations between revenues collected by Customs and revenues paid to the Treasury (in the context of the TABORD Committee, the operational team of which brings together the revenue agencies with the DAE) to assess and validate the monthly MINFI results;
  c. Elimination of discretionary exemptions not provided by law;
  d. Launching of specific checks in the context of the HALCOMI operation (products subject to tax stickers, vehicles, etc.);
  e. Protection of the information system by securing user profiles and the interconnection with other partners using the PKI technology, and enhancement and securing of ASYCUDA++.

E. Debt Policy and Management of Contingent Liabilities

28. Our debt policy will continue to be focused on the need to avoid debt distress and to place public borrowing on a sustainable trajectory. We intend to continue to limit non-concessional borrowing within program target that are compliant with the results of the debt sustainability analysis. For 2018–19, the non-concessional borrowing ceilings will be set in line with: (i) execution rates for the previous three years; (ii) the volume of projects considered to be mature; and (iii) disbursements planned from committed but not yet disbursed balances (*soldes engagés non-décaissés—SENDs*).

29. The government firmly undertakes to respect the borrowing ceilings defined in the program. However, for non-concessional borrowing, the government has revised the borrowing plan after consultation with the technical and financial partners on the basis of the medium-term development priorities so as to give preference to projects with the least expensive financing over projects involving merely less expensive financing. Given that concessional borrowing in 2017 was below projections, the government hopes to increase the limit accordingly in 2018 to accommodate concessional projects for which the preparations are well under way, many of which have been approved by the boards of directors of some of the partners (Text Table 1). For 2019, a non-zero limit on nonconcessional borrowing will be proposed to accommodate projects critical to the government's development program and for which concessional financing is not available.

Text Table 1. Cameroon: 2018 Borrowing Plan

	Project	Creditor	Amount (CFAF billion)	Concessionality	Status
1	Project for the rehabilitation of the Roumde-adja Stadium, construction of the auxiliary stadium and a 4-star hotel in Garoua	BMCE Bank international	19.7	Non-concessional	Signed (03/19/2018)
2	Project for the expansion of the intelligent urban video surveillance system nationally (Phase I, 1,500 cameras)	BANK OF CHINA	23.0	Non-concessional	Signed (02/28/2018)
3	Imports of crude oil by SONARA	ITFC/IsDB	44.6	Non-concessional	Signed (02/19/2018)
4	Project for the construction of the Ebolowa-Kribi (225 KV) and Mbalmayo-Mekin (90 KV) transmission lines and related works	BANK OF CHINA	33.3	Non-concessional	Project under review by the CNDP
5	Project for the construction of a bridge across the Logone River and adjoining developments	AfDB	21.9	Concessional	Signed (05/24/2018)
6	Project for the construction of a bridge across the Logone River and adjoining developments	ADF	7.8	Concessional	Signed (05/24/2018)
7	Project for the purchase of rolling stock for CAMRAIL (Phase 1)	Standard Chartered Bank	8.0	Non-concessional	Opinion of the CNDP pending
8	Rural electrification project by the OPEC Fund for International Development	OFID	7.8	Concessional	Signed (05/25/2018)
9	Line of credit for the financing of a fertilizer import operation for SODECOTON	ABEDA	15.6	Non-concessional	Compliance report signed (04/2018)
10	Project for the stabilization and improvement of the electricity networks in the city of Douala	SG Paris	108.7	Non-concessional	Signed (03/07/2018)
11	Water supply project for nine cities, Phase II: Dschang, Garoua-boulai, Garoua, Maroua and Yabassi	Eximbank China	53.5	Non-concessional	Signed (03/22/2018)
12	Project for the rehabilitation of the CRTV	Eximbank China	38.7	Non-concessional	High-priority project being implemented since 2016
13	Feasibility and design studies for the project to supply water to the cities of Buea, Tiko and Mutenguene	SG Paris	3.0	Non-concessional	Authorization decree signed (01/29/2018)
14	Cameroon Mining Sector Technical Assistance project	WB	16.6	Concessional	Authorization decree signed (02/02/2018)
15	Feasibility study for the Ngaoundére-Djamena railway route	AfDB	1.6	Concessional	Compliance report signed (01/2018)
16	Project for the interconnection of the electricity networks of Cameroon and Chad, Study	ADF	4.8	Concessional	Compliance report under review
17	Project to increase the capacity of the SODECOTON plants	ABEDA	5.3	Non-concessional	Compliance report signed (2017), Opinion of the CNDP pending
18	Study on the Rural Water Supply and Sanitation Program	AfDB	3.4	Concessional	Compliance report not yet requested
19	Regional project for the socioeconomic reintegration of young people	AfDB	6.2	Non-concessional	Compliance report not yet requested
20	Strengthening Public Sector Effectiveness and Statistical Capacity Project	WB	17.4	Concessional	Authorization decree requested
21	Project for the construction of the Nanga Eboko Vocational Training Center	Raiffeisen Bank	3.3	Concessional	Compliance report signed (2018)
22	Community Development Program Support Response to Forced Displacements	WB	4.5	Concessional	Compliance report under review
23	Health System Performance Reinforcement - Additional Financing	WB	3.3	Concessional	Compliance report under review
24	Social Safety Nets for Crisis Response	WB	19.9	Concessional	Compliance report under review
25	Hydropower Development on the Sanaga River Technical Assistance Project	WB	17.7	Concessional	Compliance report under review
26	Education Reform Support Project	WB	55.0	Concessional	Compliance report under review
27	Project in Support of the Elimination of Mother-to-Child HIV Transmission in Cameroon	IsDB	12.4	Concessional	Compliance report signed (2017)
28	Agricultural infrastructure and value chain development project in Cameroon (RUMPI 2)	IsDB	34.7	Concessional	Favorable opinion of the CNDP pending
29	Agricultural inputs import operation for the 2017, 2018 cotton season	ITFC	64.3	Non-concessional	Under preparation, compliance report not yet requested
30	Project for the modernization of the DGI	KFW	9.83	Concessional	Compliance report under review
	Total		**665.5**		
	of which: **concessional**		**241.8**		
	non-concessional		**423.7**		

30. The processing of the SENDs will accelerate to clarify the amount of signed loans that will actually involve disbursements in the coming years. The government has undertaken a study of the SENDs and has prepared a plan to reduce those that relate to projects that are not mature. This plan will be adopted by MINFI and MINEPAT by end-July 2018 (new structural benchmark) and will include measures to reduce the stock of (non-performing) SENDs by at least one third by end-2018, with initial progress to be seen by September 2018. The absorption of the SENDs corresponding to projects being implemented will be completed in line with the fiscal policy objectives.

31. Moreover, the government intends to gradually expand the collection and analysis of debt data to public enterprises and public establishments, including cross debts. In the particular case of the public utility companies (ENEO, CAMWATER, CAMTEL, SONARA), the Public Treasury will make quarterly payments on the basis of the annual budget allocations to limit the recourse to cross debts with these entities, and will reconcile these payments with actual consumption at the end of the year. An accounting statement of the amount of these payments will be produced for the information of the various parties concerned in these operations starting in September 2018 for payments expected at end-June 2018 (structural benchmark).

32. The strategy to ensure the financial sustainability of SONARA has been revised. It calls for the following measures in the short term:

1- completion of the process for the recapitalization of SONARA by July 31, 2018 at the latest;

2- signing of the agreement on government/SONARA cross debts as at December 31, 2015;

3- signing of the minutes substantiating the clearance of the shortfalls/overpayments as of December 31, 2016 and December 31, 2017;

4- revision of the petroleum products price structure by adjusting:

- the transport equalization payment;
- items not subject to controls (overhead, shrinkage);

5- revision of the gas price structure to control expenditures due to revenue losses on GPL and the SONARA production. Also, an optimization of the GPL supply contracts through competitive bidding.

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

7 - Monthly clearance of the shortfall starting in July 2018 and the settlement of the amounts due within a maximum of 90 days.

33. We will ensure that the proposed electricity market reforms do not result in additional financial pressures for the government. We have created a steering committee to clarify the roles and responsibilities of the parties involved as soon as possible. We will also ensure that SONATREL manages the transmission network on the basis of best practices and by facilitating its modernization, which will be essential to promote medium-term inclusive growth.

F. Regional Monetary Policy and Financial Sector Stability

34. The government undertakes to implement policies that are consistent with maintaining the stability of the monetary arrangement, which requires the stabilization and restoration of BEAC reserves. Specifically, the target for the net accumulation of government deposits at the BEAC at end-June 2018 will be reviewed to take into account the actual level in 2017, the goals of reconstituting the reserves under the regional program and eliminating statutory advances, and the establishment of the government special deposit account with the BEAC in December 2017. In respect of the initial commitments under the program and to support the regional objective of increasing foreign exchange reserves, the government also undertakes to continue to strictly limit drawings on the special account to a maximum of CFAF 50 billion per quarter for short-term liquidity management purposes and to respect the quarterly targets for the balance of the special account defined in Table 1. The government also intends to continue to promote the development and expansion of the domestic and regional market for treasury bonds and bills and to refrain from recourse to direct borrowing with the exception of the commitments already undertaken in the context of the Three-Year Emergency Plan for Accelerated Growth (PLANUT) and the African Cup of Nations (CAN).

35. The government will, by August 2018, finalize the (cost and feasibility) assessment of the resolution options for distressed banks with the support of the technical and financial partners (structural benchmark). This assessment will cover various options (including liquidation, continued operation, and hybrid solutions). The methodology of the asset recovery company (*Société de recouvrement des créances—SRC*) for establishing the transfer prices for unproductive assets has been updated with technical assistance from the IMF, leading to a significant reduction in the transfer prices with a view to protecting the government from financial losses. The eventual transfer of assets to the SRC will follow this new methodology, which has been validated by various partners. The performance contract with the management of the public bank finalized in June 2018 will be signed by July 2018 (structural benchmark) and will specify the main objectives to be achieved by the bank.

36. The government is also preparing a specific action plan to reduce non-performing loans. The plan includes capacity building, generally in business law for judges, clerks, lawyers and bailiffs to ensure better monitoring of judicial procedures and execution of final judicial decisions. In the short term, this capacity building will target areas such as (i) training in banking disputes and the concentration of bank court cases with an appropriate number of judicial participants (including at least 30 judges) by December 2018, particularly in the main judicial activity centers and (ii) appointment of a pre-trial judge for civil and commercial cases by August 2019. Moreover, by December 2018, the National Credit Council will validate a bill on the criminalization of non-repayment of loans, which will serve as a basis for a thought for the finalization of a text on this matter at the Government level. The project for the establishment of movable assets registry, developed with the support of the World Bank, has been postponed with broader coverage to December 2018 (delayed structural benchmark), including in particular the adoption of a specific regulation (which will be transmitted to the Ministry of Justice by end-June 2018) and its operational implementation.

G. Competitiveness and Private Sector Development

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

a. modernization of the legislative framework through the revision of the CAEMC Customs Code and implementation of the CAEMC customs tariffs, in line with the 2017 version of the Harmonized System, as envisioned in the context of the reforms undertaken as part of the regional program;

b. continuation of the geographic expansion of the electronic payment platform;

c. granting of the "green channel" facility to operators with high revenue potential;

d. continued automation and simplification of procedures;

e. establishment of the bonded warehouse for used vehicles that are less than 10 years old;

f. respect of the concession agreements signed by the government and improvement of the public-private dialogue.

38. The government will also continue to implement the measures aimed at simplifying tax collection procedures and reducing the delays in the payment of government invoices, including:

a. the establishment of an interactive system for tracking VAT credit refund files online;

b. the improvement of the tax regime for micro and small enterprises;

c. the establishment of e-payment machines in divisional tax centers;

d. the reduction of the delays in the processing of government invoices between commitment and acceptance for payment by the Treasury to two months (structural benchmark, June).

39. The government intends to take measures to expand access to financial services for the general population and SMEs. The government is updating its financial inclusion strategy on the basis of a FINSCOPE study. In particular, we plan to focus on the implementation of measures aimed at (i) improving customer information; the CIP-FIBANE-CASEMF platform is now accessible to all credit institutions (14 banks and 8 financial establishments, including CAMPOST), and 76 microfinance institutions (MFIs), including 39 2nd category MFIs, three 3rd category MFIs, 28 independent 1st category MFIs and six networked 1st category MFIs). The ceremony for the launching of the MFI credit information office, which has already been supplied with data by the CIP-FIBANE-CASEMF and can be accessed by around 10 MFIs, is being organized; (ii) facilitating access to movable assets and real property collateral with on the one hand the digitalization of the movable assets register (under way and anticipated for December 2018), and the other hand the computerization of the business registry, and the completion in 2017 of digitized land registries for the cities of Douala, Yaoundé, Garoua and Maroua and the national registry. The regulations on mobile banking, which need to be updated based on current developments, are being revised by the BEAC. As well, national initiatives have been undertaken involving consultations with key stakeholders whose comments and opinions on the main reforms are being considered and will be transmitted to COBAC and the BEAC to support the revision.

40. The business model for the SME bank is being revised. Consultations with the World Bank and the AfDB have been initiated and the new business model will be decided on by August 2018 (structural benchmark). It will be supported by indirect financing from commercial banks (guarantees, financing facilities) and cofinancing with commercial banks and will provide for phasing out direct financing of SMEs by the bank. This new model will make it possible to rely on the expertise of the commercial banks in risk management and will have a multiplier effect by encouraging commercial banks to grant more loans to SMEs.

V. PROGRAM ARRANGEMENTS

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

Table 1. Cameroon: Quantitative Performance Criteria and Indicative Targets and Projections, December-2017-June-19

(Billions CFA Francs, cumulative for each fiscal year)

	2017				2018										2019	
	End-Dec				End-Mar				End-Jun		End-Sep		End-Dec		End-March	End-June
	PC	Adj. PC	Prel	Status	IT	Adj. IT	Prel	Status	PC	Rev. PC	1st Rev Proj	IT	1st Rev Proj	PC	IT	Proj.
A. Quantitative performance criteria and indicative targets 1/																
Floor on the non-oil primary fiscal balance (commitment basis)	-974	-974	-1,203	Not met	-53	-53	90	Met	-320		-519	-477	-777	-872	-46	-278
Ceiling on the net domestic financing of the central government excluding IMF financing 2/	-200	-80	-119	Met	-43	-161	-127	Not met	-153	-25	-76	-96	5	-8	-13	-26
Ceiling on net borrowing of the central government from the central bank excluding IMF financing 2/	-253	-133	-63	Not met	-304	-422	-78	Not met	-403	-47	-316	-46	-376	-15	0	48
Ceiling on the disbursement of non-concessional external debt 8/	540	540	625	Not met	350	350	108	Met	350		596	596	596	596	324	324
B. Continuous quantitative performance criteria 3/																
Ceiling on the accumulation of new external payments arrears	0	0	0	0	0	0	0	Met	0		0	0	0	0	0	0
Ceiling on new non-concessional external debt contracted or guaranteed by the government 4/; 5/; 6/	100	278	343	Not met	436	554	367	Met	436		436	436	436	436	500	500
C. Indicative Targets																
Floor on non-oil revenue	2,457	2,457	2,589	Met	689	689	619	Not met	1,331		1,958	1,968	2,616	2,680	746	1,442
Ceiling on the net accumulation of domestic payment arrears	-57	-57	-213	Met	0	0	248	Not met	0		0	0	-146	-94	0	0
Floor on social spending	624	624	636	Met	144	144	143	Not met	288		460	460	657	657	156	312
Ceiling on direct interventions of SNH	168	168	169	Not Met	156	156	55	Met	156		156	156	156	156	152	152
Share of spending executed through exceptional procedures on authorized (payment order) spending 9/												10		10	5	5
Memorandum items:																
1. Cumulative external budget support, excluding IMF (earliest disbursement)	337	337	198		0	0	118		131	151	131	167	261	253	0	151
2. New concessional external debt contracted or guaranteed by the government 7/	100	100	19		152	152	0		152		152	245	152	245	150	150
3. Balance of the special account for the unused statutory advances										247		247		227	227	227

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.

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 excluding budget support grants.

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.

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

9/ This refer to payment made by the Treasury without prior authorization (issuance of payment order), excluding debt service payments and expenditures linked to tax exemptions.

Table 2. Cameroon: Prior Actions and Structural Benchmarks, 2017–18

		Timetable	Indicator	Status
Prior Actions				
1	Submit for Parliament's approval a supplementary 2018 budget in line with program objectives.		Transmission letter from the Presidency to Parliament	
2	Submit to Parliament the bills for the transposition of CEMAC's directives on the financial regime of state and public entities and transparency and governance in public finance management.		Transmission letter from the Presidency to Parliament	
3	Issue a supplementary circular to the circular N°001/C/MINFI of January 06, 2018, which strictly limits the derogatory spending procedures.		Circular published online and in newspapers.	
4	Clear part of the domestic payment arrears accumulated at end-2017 by end-May 2018, up to CFAF 212 billion.		Accounting statements sent to Fund staff	
Fiscal policy and revenue mobilization				
1	Include the total petroleum receipts of national oil company SNH and direct interventions in the monthly table of government financial operations (TOFE).	From Jun-17	Monthly TOFE	Met
2	Publish the petroleum product price structure on a monthly basis.	From Jun-17	Publication online and in newspapers	Met
3	Publish quarterly budget execution reports.	From Q2 2017	Publication online and in newspapers	Not 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.	From Q2 2017	Report submitted to Fund staff	Met
5	Prepare a strategy aiming at ensuring the sustainability of the petroleum products' price structure and the financial viability of the SONARA.	Dec-17	Strategy Paper submitted to Fund staff	Met
6	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.	Dec-17	Report submitted to Fund staff	Met
7	Prepare a national social protection strategy (or policy) to be implemented starting with the 2018 budget.	Dec-17	Consultant Report	Met
8	Implement the interface between the taxpayer registration database (NIU) and the tax management application (MESURE).	Jun-18	Report submitted to Fund staff	*Not met, reformulated and proposed for end-July 2018*
9	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	In progress
Public finance and debt management				
10	Disclose the type and volume of contingent liabilities in an annex to the budget law, including the firm and contingent liabilities of all existing public-private partnerships (PPPs).	Annual beginning October 2017	Annexed to the budget law	Met
11	Update and implement the guide to the project maturity process.	Dec-17	Circular signed by the Prime Minister	Not met
12	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.	Jan-18	Audit report sumitted to Fund staff	Met
13	Verify the stock of domestic arrears at end-2016 by conducting an external audit.	Mar-18	Audit report sumitted to Fund staff	Met
14	Adopt a plan for the gradual clearance of domestic arrears for prior fiscal years.	Mar-18	Plan submitted to Fund staff	Met
15	Ensure compliance with the complementary budget period of two months provided for by law starting from 2018.	Apr-18	TOFE final 2017	Not met
16	Produce a quarterly report on balances payable and arrears for prior fiscal years.	Quarterly, starting in Jul-18	Report submitted to Fund staff	In progress

Table 2. Cameroon: Prior Actions and Structural Benchmarks, 2017–18 (Concluded)

		Timetable	Indicator	Status
Financial sector stability and private sector led growth				
17	Expand access to creditor databases to all credit and microfinance institutions.	Mar-18	Database available	Met
18	Computerize the register of movable collateral.	Mar-18	Register available online	*Not met, reproposed for Dec-18*
19	Revise the plan for dealing with troubled banks.	Jun-18	Plan finalized in consultation with Fund staff	*Not met, reformulated and proposed for August 2018*
20	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
21	Provide training in banking disputes' resolution for commercial court judges in the major business centers.	Dec-18	At least 10 judges trained in the fiscal year	In progress
New structural benchmarks				
1	Monthly monitoring report of disbursement requests and actual disbursements.	Monthly starting in Jul-18	Report submitted to Fund staff	
2	Publish a communiqué conditioning the customs clearance operations of the goods to the existence of the professional taxpayers in the active file of the DGI.	Jul-18	Communiqué published in the press and online	
3	Sign a performance contract with the management of the state-owned bank.	Jul-18	Contract signed and submitted to Fund staff	
4	Implement the interface between the active taxpayers' database (FISCALIS) and the tax management application (MESURE).	Jul-18	Report submitted to Fund staff	
5	Adoption by MINFI and MINEPAT of a plan to reduce SENDs related to projects that are not mature, that includes measures to reduce SENDs linked to non-performing projects by at least one-third by end-December 2018.	Jul-18	Plan submitted to Fund staff	
6	As part of the strategy to expand the Treasury Single Account (TSA), establish a calender for the closure and rapatriation of the Bank accounts of the EPAs and some of the accounts of CAA.	Jul-18	Calendar for accounts closure identifying different accounts submitted to Fund staff	
7	Decide the business model of the SME bank.	Aug-18	The revised bussiness model is sumited to Fund staff	
8	Close all accounts for non-revenue generating entities (mainly public administrations such as sectoral ministries and public agencies), and stop the transfer of new budget appropriations to these accounts.	Aug-18	Accounting statements confirming the closure of the accounts.	
9	Evaluate (cost and feasability) the resolution options of the troubled banks.	Aug-18	Evaluation report finalized in consultation with Fund staff	
10	Prepare quarterly reconciliation of import declarations and scanner images validated by SGS and the assessed customs values.	Quarterly starting in Sep-18	Quaterly verification reports submitted to Fund staff	
11	Quarterly payment of utility bills (ENEO, CAMWATER, CAMTEL, SONARA) based on annual budget allocations.	Quarterly, starting in Sep-18	Accounting and budgetary statement indicating the monthly payments will be sent to Fund staff.	
12	Computerize the register of movable collateral.	Dec-18	Register available online	

Attachment II. Technical Memorandum of Understanding

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

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

Conditionality

2. **The quantitative performance criteria and indicative objectives for end-June and end-December 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.

Balance and Financing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I. QUANTITATIVE PROGRAM OBJECTIVES

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

A. Non-oil Primary Balance

Performance Criteria

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

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

Cutoff Dates for Reporting Information

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

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

Performance Criteria

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

Adjustment

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

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

Cutoff Dates for Reporting Information

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

C. Disbursement of Non-concessional External Debt

Performance Criteria

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

Cutoff Dates for Reporting Information

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

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

Performance Criteria

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

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

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

Cutoff Dates for Reporting Information

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

E. Non-accumulation of External Payment Arrears

Performance Criteria

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

Cutoff Dates for Reporting Information

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

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

Performance Criteria

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

G. 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.

H. 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.

I. 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.

J. Share of Exceptional Expenditures on Total Authorized Expenditures Excluding Debt.

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

Cutoff Dates for Reporting Information

44. Monthly accounting statements showing the amount of cash advances, provisional budget commitments, and advance funds must be reported to IMF staff within 3 weeks of the end of each month

III. DATA SUBMISSION REQUIREMENTS

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

Table 1. Summary of Data Reporting Requirements

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

Table 1. Summary of Data Reporting Requirements (Continued)

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

Table 1. Summary of Data Reporting Requirements (Continued)

Information	Responsible institution	Frequency of the data	Reporting Lag
VAT reimbursement balance (requests for reimbursement, payments made, and status of the VAT reimbursement account)	MINFI/DGI	Monthly	6 weeks
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
Budgetary and accounting statement showing the payment of utility bills to utility companies (ENEO, CAMWATER, CAMTEL, SONARA)	MINFI	Monthly	3 weeks
The situation of payments of subsidies and tax liabilities of public enterprises	MINFI	Quarterly	6 weeks
Monetary sector			
Consolidated balance sheet of monetary institutions	BEAC	Monthly	6 weeks
Provisional data on the comprehensive monetary survey	BEAC	Monthly	6 weeks
Final data on the comprehensive monetary survey	BEAC	Monthly	10 weeks
Government net position	BEAC	Monthly	6 weeks
The balance of the special account of the unused statutory advances	BEAC	Monthly	6 weeks
Intervention rate and borrowing and lending interest rates	BEAC	Monthly	6 weeks
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

Table 1. Summary of Data Reporting Requirements (Concluded)

Information	Responsible institution	Frequency of the data	Reporting Lag
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

June 22, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By African Department

CONTENTS

RELATIONS WITH THE FUND

A. Financial Relations

As of May 31, 2018

Membership Status: Joined: July 10, 1963;		Article VIII
General Resources Account:	**SDR Million**	**%Quota**
Quota	276.00	100.00
Fund holdings of currency	274.94	99.61
Reserve Tranche Position	1.07	0.39
SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	177.27	100.00
Holdings	15.26	8.61
Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ESF RAC Loan	27.86	10.09
ECF Arrangements	207.80	75.29

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 26, 2017	Jun 25, 2020	483.00	207.00
ECF [1]	Oct 24, 2005	Jan 31, 2009	18.57	18.57
ECF [1]	Dec 21, 2000	Dec 20, 2004	111.42	79.59

[1] Formerly PRGF.

Projected Payments to Fund:[1]

(SDR millions; based on existing use of resources and present holdings of SDRs)

		Forthcoming	
	2018	2019	2020
Principal	9.82	18.84	
Charges/Interest	0.76	1.54	1.53
Total	10.58	20.38	1.53

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	Framework
Decision point date	Oct-00
Assistance committed	
by all creditors (US$ Million) [1]	1,267.00
Of which: IMF assistance (US$ million)	37.04
(SDR equivalent in millions)	28.62
Completion point date	Apr-06
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	28.62
Interim assistance	11.25
Completion point balance	17.37
Additional disbursement of interest income [2]	5.05
Total disbursements	33.67

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1]	173.26
Financed by: MDRI Trust	149.17
Remaining HIPC resources	24.09
II. Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
April 2006	N/A	173.26	173.26

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

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC. A full safeguards assessments (SA) under the periodic 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 enhance financial reporting transparency through full transition to the international financial reporting standards (IFRS) beginning with the 2018 financial statements. The focus will now shift to implementation of the reforms in daily decision-making and secondary legal instruments. The assessment noted, however, that the BEAC will need to reinforce the capacity of its accounting, internal audit, and risk management functions, and that the governance arrangements over reserves management be aligned with the new BEAC charter.

B. Nonfinancial Relations

Exchange Arrangement:

Cameroon participates in a currency union with five other members of the CEMAC and has no separate legal tender. Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro. Local currency equivalent: CFAF 807.4=SDR 1, as of December 31, 2017. Effective January 1, 2007, the exchange arrangement of the CEMAC countries was reclassified as a "conventional pegged arrangement" and not anymore as an "exchange arrangement with no separate legal tender." The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

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

Article IV Consultation:

The last Article IV consultation with Cameroon was concluded by the Executive Board on November 18, 2015.

FSAP Participation and ROSCs:

A Financial System Stability Assessment (FSSA) report was issued in May 2000. An update of the FSSA was completed in February 2009, based on the work of a joint IMF-World Bank mission that visited Cameroon as part of the Financial Sector Assessment Program (FSAP) in June 2007, itself building upon the CEMAC regional FSAP that was conducted in 2006. A CEMAC regional FSAP update was conducted in 2015.

The first Report on the Observance of Standards and Codes (ROSC) on fiscal transparency and transparency of monetary and financial policies for Cameroon was issued in June 2000.

A fiscal ROSC reassessment mission visited Yaoundé, Cameroon, during May 6–18, 2009. Its report was issued in June 2010.

Technical Assistance:

2018

June	FAD mission on fiscal reporting and accounting
June	STA mission on balance of payments statistics
April	FAD mission on assessing the efficiency and equity of public expenditures
April	FAD mission on medium term budget framework
April	AFRITAC mission on public debt management
April	MCM mission on assessing the valuation of the non-performing loan portfolio
March	AFRITAC mission on identifying macro-budgetary needs
March	MCM mission on distressed asset valuation
March	AFRITAC mission on identifying macro-budgetary needs
February	MCM mission on distressed asset valuation

2017

November	FAD mission on improving budget execution by streamlining derogatory procedures
November	AFRITAC government finance statistics
September	FAD mission on advancing reforms in tax administration
July	STA mission on balance of payments statistics
May	AFRITAC-PFM
April	TADAT mission
April	FAD mission on PFM

April	AFRITAC-Central training on PFM
April	FAD/AFC tax administration STX visit
April	AFRITAC-Central mission on government finance statistics
March	FAD short term expert mission on payroll management
February	FAD JSA-funded mission on strengthening customs administration
February	STA mission on the compilation of quarterly national statistics
February	MCM mission on monetary policy design and implementation
January	STA/AFC mission on national accounts
January	MCM/AFC Public debt management
January	FAD/AFW seminar on GDP
January	AFRITAC-Central mission and workshop on PFM
January	AFRITAC-West workshop on program budgeting

2016

November	STA JSA funded mission on improving external sector statistics
November	FAD/JSA mission to strengthen customs administration for EPA
November	STA/AFC mission on Government finance statistics
November	AFRITAC-Central mission on revenue administration
October	AFRITAC-Central mission on 2008 System of National Accounts
October	FAD follow-up mission on mining, oil and gas resource taxation
July	FAD/AFC mission on tax administration
May	STA mission for AfDB OpenData Initiative for Data Collection
May	AFRITAC-Central training mission on PFM
April	STA mission on e-GDDS
April	FAD mission on budget preparation
March	STA/AFRITAC-Central mission on national accounts
March	STA mission on e-GDDS
March	FAD mission on RA-GAP follow up
March	FAD mission on accrual accounting
February	STA workshop on monetary and financial statistics
February	FAD mission on budget execution
February	FAD/AFC mission on PFM
January	FAD mission on PFM reform follow up

2015

December	STA/AFC mission on national accounts
November	FAD missions on extractive industries
November	FAD mission on budget execution training
November	MCM/AFC mission on liability management
November	MCM/AFC mission on public debt management
October	STA mission on GDDS/NSDP development
September	AFRITAC-Central government financial statistics
September	FAD/AFC mission on tax administration

September	FAD mission on customs administration
September	MCM/AFC mission on liability management
August	AFRITAC-Central mission on national accounts
July	FAD/AFC mission on PFM
July	AFRITAC-Central CEMAC Commission regional seminar
July	FAD mission on resource taxation follow-up
July	STA/AFC mission on government financial statistics
June	FAD diagnostic mission on resource
May	FAD Customs Administration follow-up visit
May	FAD mission on expense targeting
May	MCM mission on medium-term management strategy follow-up
May	FAD mission to support reforms to budget preparation
May	STA AfDB Open Data initiative mission
April	FAD mission on revenue administration
March	STA mission on production and producer price statistics
March	FAD mission on budgetary accounting
February	MCM mission on Medium-term Management Strategy
February	FAD visit on budget execution and fiscal reporting

Resident Representative:

The post of IMF Resident Representative has been maintained in Yaoundé continuously since 1989. The current Resident Representative, Mr. Kadima Kalonji, has been stationed in the field since September 1, 2015.

WORK PROGRAM WITH PARTNER INSTITUTIONS

The World Bank work program can be found on the following website:
http://www.worldbank.org/en/country/cameroon

The African Development Bank work program can be found on the following website:
https://www.afdb.org/en/countries/central-africa/cameroon/

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings, but is broadly adequate for surveillance purposes. There is scope for Improvements in quality, coverage, and timeliness in most macroeconomic datasets.

Real sector statistics: A rebasing to 2005 of national accounts was implemented in July 2017 by the Institut National de la Statistique du Cameroun (INS). The INS is in the process of incorporating the source data to base year 2015. The INS also compiles a quarterly GDP time series, and has received IMF technical assistance to improve seasonal adjustments. INS publishes a monthly Consumer Price Index (CPI) using base year 2011.

Government finance statistics: The quality of fiscal data is broadly adequate for surveillance, but there are some shortcomings in terms of coverage, periodicity, timeliness, and accessibility of the data. Monthly reports on the overall budget execution and the investment budget execution have been produced on a continuous basis. Despite this progress, there is a need for the dissemination of data based on the *Government Finance Statistics Manual 2001/2014* (*GFSM 2001/2014*). Weaknesses in the fiscal data include: (i) incomplete compilation of budget implementation data on a commitment and, to some extent, on a cash basis; (ii) a lack of information on the financial situation of local governments; (iii) poor monitoring of cross-liabilities in the public sector and of public enterprise debt; and (iv) lack of comprehensive and timely financial information on public enterprises.

The authorities plan to establish comprehensive fiscal accounts on a commitment basis, a functional classification of the budget and will strive to monitor the float (i.e., the difference between balances on a cash and on a commitment basis). Efforts to enhance transparency of financial operations in the oil sector should also improve overall fiscal reporting. Efforts are also underway to collect data on the operations of all public enterprises, and the 2018 budget included an annex with detailed financial information on state-owned enterprises (*Livre vert*).

The authorities should focus on the implementation of the CEMAC TOFE Directive 5/11, requesting compilation and publication of a TOFE for general government (based on GFSM2001) by January 1, 2024.

Monetary and financial statistics: Monetary statistics are reported to the Fund by the *Banque des États de l'Afrique Centrale* (BEAC) on a monthly basis in the standardized report forms (SRFs), with delays of up to two months. A key shortcoming of monetary and financial statistics is the lack of data for interest rates offered by financial institutions to non-financial entities on deposits and loans. In addition, the depository corporation survey does not include data from deposit taking microfinance institutions, a fast-growing sector in the country.

Financial sector surveillance: The Banking Commission of Central African States (COBAC) reports all core and some encouraged financial soundness indicators to STA for Cameroon.

Balance of payments: Cameroon participates in the JSA/AFR Project to Improve External Sector Statistics (ESS) in selected francophone African Countries. Cameroon has received technical assistance (TA) in ESS

under the JSA/AFR project since Nov 2016. Balance of payments data are reported annually. Since the March 2006 STA technical assistance, the authorities have started to produce higher quality BOP data, albeit with significant delays, partly due to delays in reporting financial and capital account data from BEAC. Yearly IIP data were submitted for the first time in December 2016 for the years 2012–15.	
External debt: External debt data are broadly adequate for surveillance, but are comprehensive only for public and explicitly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissement* (CAA), which is responsible for servicing the government's external debt obligations. The CAA's database is fairly comprehensive, contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis. However, debt disbursements and position statements are not regularly received from some foreign creditors, which causes significant impairment to real-time and comprehensive debt monitoring.	
II. Data Standards and Quality	
Cameroon commenced its participation in the General Data Dissemination System (GDDS) in 2001. In July 2017, Cameroon began publishing critical macroeconomic data on the website of the National Institute of Statistics—the National Summary Data Page (NSDP), marking the implementation of the enhanced General Data Dissemination System (e-GDDS).	No ROSC data are available.
III. Reporting to STA	
Cameroon does not report data for publication in the IMF Government Finance Statistics Yearbook or the government finance statistics section in International Financial Statistics. Data reporting for publication in the Fund's Balance of Payments Statistics publications has encountered delays.	

Cameroon: Table of Common Indicators Required for Surveillance

(As of May 31, 2018)

	Date of latest observation	Date received	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates	May 2018	June 2018	M	M	M
International reserve assets and liabilities[2]	April 2018	June 2018	M	M	M
Reserve/Base money	April 2018	June 2018	M	M	M
Broad money	April 2018	June 2018	M	M	M
Central bank balance sheet	April 2018	June 2018	M	M	M
Consolidated balance sheet of the banking system	April 2018	June 2018	M	M	M
Interest rates[3]	April 2018	June 2018	M	M	M
Consumer price index (main cities)	April 2018	June 2018	M	M	M
Consumer price index (national)	April 2018	June 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General government[5]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[4] – Central government[5]	March 2018	May 2018	M	M	Partial data published monthly
Stocks of debt contracted or guaranteed by the central government[6]	March 2018	May 2018	M	M	M
External current account balance	December 2017	March 2018	Q	Q	NA
Exports and imports of goods and services[7]	March 2018	May 2018	M	M	NA
GDP/GNP	December 2017	March 2018	Q	Q	Q
Gross external debt	March 2018	May 2018	Q	Q	Q
International investment position	NA	NA	NA	NA	NA

[1] Monthly (M), Quarterly (Q), Annual (A), and Not Available (NA).

[2] Of the monetary authorities. Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Including currency and maturity composition.

[7] Goods only, data on trade in services are not available.

INTERNATIONAL MONETARY FUND

CAMEROON

June 22, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Owen (IMF) and Paloma Anos Casero (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association

Cameroon's risk of external debt distress remains high. Fiscal consolidation and the Fund-supported envisaged reforms, coupled with the increasing share of concessional new borrowing, would improve the debt profile over time. However, at present, Cameroon's external debt remains highly vulnerable to exogenous shocks: the policy-dependent threshold for the present value of debt to exports and debt service to exports are breached in the baseline program scenario as well as under standard stress tests. Mitigating risks to public debt thus requires a number of policy actions including: (i) a resolute and effective fiscal consolidation; (ii) a shift in the composition of new borrowing towards concessional loans; (iii) enhanced controls on externally-financed investment projects at all levels of government; (iv) implementation of policies to boost growth and non-oil exports; and (iv) a strengthening of public debt management

BACKGROUND

1. Public debt increased to 38.2 percent of GDP in 2017, a full 5 percent higher than what was reported at the time of the 1st ECF Review (Text Table 1, Text Figure 1). The increase can be explained by two factors: (i) a broadening of the definition of public debt to include all SONARA debt due to third parties (1.8 percent); and (ii) a larger-than-expected fiscal deficit at end-2017, financed by higher external disbursement and higher expenditure float. As a result, total public and publicly guaranteed debt (external plus domestic) increased from a revised 33.3 percent of GDP in 2016 to 38.2 percent in 2017.[1]

Text Table 1. Cameroon: Public and Publicly Guaranteed Debt, 2016–17
(percent of GDP)

	2016 First Review	2016 Revised perimeter	2017 Est.
Public debt contracted and	**27.9**	**27.4**	**31.6**
External debt	20.7	20.7	23.4
Domestic Debt	5.6	5.1	8.0
BEAC statutory advances	1.2	1.2	...
Publicly guaranteed debt	0.4	0.4	0.3
SONARA debt	**0.4**	**2.8**	**3.0**
o/w external	...	1.5	1.9
Expenditure float	**3.2**	**3.1**	**3.6**
Total PPG debt	**31.5**	**33.3**	**38.2**
Domestic	10.4	10.7	12.6
External	21.1	22.7	25.6
Memo:			
Stock of contracted but undisbursed de	*20.1*	*20.1*	*21.9*
Domestic	1.3	1.3	0.9
External	18.8	18.8	21.0

Sources: Cameroonian authorities; and IMF staff calculations.

2. The stock of contracted-but-undisbursed debt also increased. A 2017 study by the National Debt Committee (CNDP) found that the large stock of undisbursed loans reflects a number of factors, including (i) normal project execution lags; (ii) delays in large infrastructure projects; (iii) non-performing projects with very low or nil disbursements, owing to lack of maturation or lack of available counterpart funds. This stock reached CFAF 4.5 trillion or 23 percent of GDP, up from 20 percent of GDP at end-2016. China's share in undisbursed loans is still the largest, but dropped from 36 percent at end-2016 to 28 percent at end-2017, as new borrowing agreements were signed mostly with multilateral creditors, which now account for over 40 percent of undisbursed debt. Commercial loans account for 15.6 percent of the undisbursed amount.

3. The share of external concessional and semi-concessional debt has increased, in line with the objectives of the ECF-supported program. Multilateral and Paris Club (PC) debt represented almost half of total debt. Bilateral non-PC debt is dominated by China, while commercial debt mostly reflects a $750 million Eurobond issued in 2015 (Text Table 2).

Text Table 2. Cameroon: Composition of External Debt by Creditor, 2016–17
(percent of GDP)

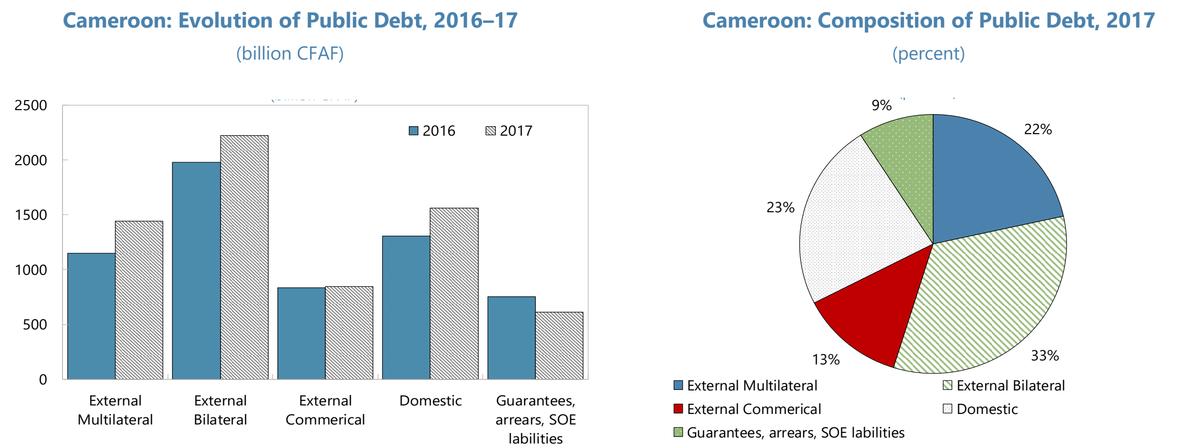
	2016	**2017**
Multilateral	6.0	7.3
Bilateral PC	3.2	3.7
Bilateral non-PC	7.2	7.9
Commercial	5.9	6.4
o/w SONARA	1.5	1.9
n/a (guaranteed)	0.4	0.3
Total	**22.7**	**25.6**

Sources: Cameroonian authorities; and IMF staff calculations.

[1] In line with the previous DSA, the figures reported in the current DSA are higher than those reported by the authorities (and reported in the accompanying Policy Note), because of SONARA debt (see paragraph 6).

4. Domestic[2] bank debt remains low at 8 percent of GDP in 2017. The composition of bank debt remained tilted towards the long term, with T-bills only accounting for 20 percent of domestic debt.

Text Figure 1. Cameroon: Public Debt



Sources: Cameroonian authorities; and IMF staff calculations.

5. The coverage of public debt for the purposes of this DSA has expanded compared to the 2016 DSA. Specifically, the entire debt to the private sector of the oil refinery SONARA, estimated at 3 percent of GDP, is included. As in the previous DSA, other liabilities linked to other SOEs are small and limited to their external debt (0.1 percent of GDP).

6. However, the debt of State-Owned Enterprises (SOEs) not yet covered by the DSA remains significant. According to a recent report by the authorities, SOE debt stood at 12.5 percent of GDP at end-2016 (see Box 1). For most of SOEs, data for 2017 is not available and further work is needed to clarify the nature of certain liabilities. Staff has agreed with authorities not to include SOEs ex-SONARA in the debt definition, but to work towards expanding it in the future to include all non-financial SOEs. Given that SONARA's debt (4 percent of GDP) is already included in the DSA analysis, and the significant cross-debts between SOEs and the state and across SOEs, the existing stock of SOE debt not included in this DSA (about 8.5 percent of GDP) could give rise to much lower contingent liabilities.

7. Cameroon's capacity to monitor and manage public debt for the purposes of IMF's debt limit policy is adequate and is improving, but further improvements are needed. Discrepancies in reporting persist between the ministry of finance and the debt agency. While progress has been made in making the approval of National Public Debt Committee (CNDP) a requirement for all externally financed projects, some proposals still move forward to relatively advanced stages without preliminary authorization by the CNDP. The tracking of project loan disbursements remains inadequate, often leading to significant ex-post revisions in external debt data. Rapid and concrete actions to reduce the SENDs, particularly those related to loans signed over four years ago and that have very low or zero disbursement rates, is needed to

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[2] Domestic and external debt are defined on a currency-basis. Preliminary data shared by the authorities show that changing the definition to a residency basis would not materially change the split between domestic and external debt.

provide a clearer picture of the existing commitments' overhang and space for new borrowing. On the other hand, progress has been made in the monitoring of SOE debt and other contingent liabilities (see Box 1).

Box 1. Public Debt and State-Owned Enterprises

Improved monitoring. The authorities took a decisive step in improving monitoring of SOEs by publishing, at the end of 2017, a "livre vert" listing all companies where the state or public entity is a shareholder, and all Public Establishments with an Industrial or Commercial Character (EPIC), which are legally distinct from SOEs but imply the same modalities of operation and state control. It is expected that the livre vert will be updated and published yearly.

Coverage. This analysis employs data from SOEs with a state participation above 50 percent and the EPICs for which reliable financial data are available. Financial companies (such as public banks) are excluded.

Text Table. A census of public enterprises

	Livre Vert	Financial data available
SOEs	38	26
Development companies	2	1
EPIC	17	10
Total	57	37

SOE gross debt is sizeable. Total SOE debt reached 12.5 percent of GDP in 2016, up from 11.7 percent in 2014. Over two thirds of outstanding SOE debt is financial (banks, securitized debt and other loans) and suppliers' debt.

Cross-debts with the central government are significant. Anecdotal evidence suggests liabilities across SOEs are significant. A substantial portion of gross SOE debt, exceeding 2 percent of GDP, is owed to the state. At the same time SOE claims on the state declined to 0.3 percent of GDP at end-2016, (1.5 percent in 2014).

Text Table: SOEs and EPIC debt, 2014-16

(percent of GDP)	2014	2015	2016
Dividends	0.0	0.0	0.0
Subsidies	0.7	1.0	1.2
Claims on the state	1.5	1.3	0.3
Financial Debt	4.5	5.1	6.4
Suppliers	4.0	3.2	2.6
Tax debt	1.8	2.6	2.3
Social debt	0.2	0.2	0.3
Other	1.3	1.2	0.9
Total debt	**11.7**	**12.4**	**12.5**

The public oil refinery SONARA is a concern. Total SONARA debt reached 5 percent of GDP in 2014, before gradually declining to 4 percent of GDP at end-2017, as lower oil prices triggered higher-than-expected profits. However, the increase in international oil prices has already started to strain SONARA's finances again in 2018. At end-2017, reported state debt vis-à-vis the refinery stood at 0.5 percent of GDP; the refinery's debt to the state, mainly in the form of tax and customs arrears, stood at 1.2 percent of GDP.

SONARA DEBT	In percent of GDP			
	2014	2015	2016	2017
Financial	0.6	0.6	0.6	0.8
Suppliers	3.1	2.1	1.6	1.7
Tax	1.1	1.7	1.6	1.2
Social security	0.0	0.0	0.0	…
Other	0.2	0.2	0.4	0.3
Total debt	5.0	4.5	4.2	4.0

ASSUMPTIONS

8. The macroeconomic framework reflects recent economic developments and the policies underpinning the ECF-supported program. The baseline scenario is predicated on full implementation of program consolidation and reforms, as well as completion of ongoing infrastructure projects, which should lead to higher FDI and exports. Compared to the 2016 DSA, growth is projected to be lower in 2017 and 2018 following a slower-than-expected recovery and declining oil production; economic activity is expected to gradually pick up and growth to average 4.4 percent in 2018–22. Higher-than expected spending weakened fiscal consolidation in 2017; corrective measures should ensure more tightening in 2018, but revenues are projected to be on average 1 percent of GDP lower than in the 2016 DSA over the long term due to more conservative assumptions about organic revenue growth. Non-oil exports are projected to remain dynamic and support the current account even as oil exports decline (Text Table 3).

Text Table 3. Cameroon: Key Macroeconomic Assumptions, 2016–38

	2016–17[1/]	2018–22[2/]	2023–38[3/]
Real GDP growth (percent)			
DSA 2017	3.8	4.4	5.1
DSA 2016	5.2	4.9	5.5
DSA 2015	5.9	5.2	4.8
Total revenue excluding grants (percent of GDP)			
DSA 2017	15.0	16.0	17.2
DSA 2016	16.9	17.1	18.1
DSA 2015	17.7	16.6	15.6
Exports of goods and services (percent of GDP)			
DSA 2017	18.9	16.1	14.6
DSA 2016	22.5	22.3	21.9
DSA 2015	25.6	21.7	15.8
Oil price (US dollars per barrel)			
DSA 2017	47.8	56.7	53.6
DSA 2016	46.8	54.6	55.2
DSA 2015	69.2	56.3	61.1

1/ 2015 DSA referred to 2014–15 and 2016 DSA referred to 2015–16.
2/ 2015 DSA referred to 2016–20 and 2016 DSA referred to 2017–21.
3/ 2015 DSA referred to 2021–35 and 2016 DSA referred to 2022–36

9. The financing assumptions have been adjusted to reflect a higher concessionality than in the 2016 DSA. The financing gap during 2018–20 is assumed to be fully covered by IMF financing and budget support from donors. In line with 2017 disbursements and the government's intention to shift the composition of new project borrowing towards concessional loans, the projected new debt will be skewed towards multilaterals creditors and the grant element of new borrowing is assumed to remain relatively high through the projection horizon.

EXTERNAL DEBT SUSTAINABILITY

10. Cameroon is classified in the category of weak policy performers based on the World Bank Country Policy and Institutional Assessment (CPIA). With a three-year average CPIA score of 3.2 on a scale of 1 (low) to 6 (high), Cameroon falls within the range of 1 to 3.25 for weak policy performers. However, Cameroon fares better than the average of CEMAC countries (2.9) and its score is comparable to the SSA average. The policy-dependent thresholds applicable to this category are the following: (i) a present value (PV) of debt-to-exports ratio of 100 percent; (ii) a PV of the debt-to-revenue ratio of 200 percent; (iii) a PV of the debt service-to-exports ratio of 30 percent; (iv) a debt service-to-exports ratio of 15 percent; and (v) a debt service-to-revenue ratio of 18 percent.

11. The PV of external PPG debt-to-exports breaches its threshold for a prolonged period of time under the baseline scenario. The PV of debt-to exports ratio—which is the most critical ratio for Cameroon—reached 103 percent in 2017, breaching its policy dependent threshold, and would remain above it until 2035. Its average deviation to the threshold is about 16 percent throughout the period. The path has further deteriorated compared to that projected in the 2016 DSA, reflecting recent export trends and more conservative projections over the medium term, in spite of the fact that the baseline trajectory rests on the assumption of continued access to highly concessional financing and limited use of non-concessional loans.[3]

12. Other debt stock indicators remain well below their thresholds. The PV of external debt stood at 19.8 percent of GDP and 132 percent of government revenues (excluding grants) at end-2017. After peaking in 2019, ratios are expected to decline steadily during the projected period. The PV of debt-to-GDP ratios has declined by about 15 percent compared to the 2016 DSA reflecting the rebasing of the GDP that occurred in July 2017. These ratios remain well below their thresholds throughout the horizon under the baseline.

13. Debt service payment increase substantially in 2023–25, and liquidity ratios need to be monitored carefully. The external debt service to export ratio remains comfortably below the threshold over the program horizon, but rises to 15.4 percent, slightly above its threshold, in 2023–25 due to the repayment (in three yearly instalments) of the US$750 million 2015 Eurobond. It then quickly declines after the last installment of the Eurobond is repaid in 2025. Despite an increase in 2023–25, The PV of external debt service to revenue remains below its threshold through the projection horizon.

14. Standard stress tests underline the broad scope of risks to the debt outlook. The ratios of PV of debt-to-exports exports breaches threshold under all eight standardized stress tests, while debt-service-to-exports breaches under four of eight tests. The most severe of these shocks are those that diminish export growth for a short interval (figure 1). Under the combined scenario, the PV of debt-to-GDP ratio briefly and marginally breaches its threshold, and the PV of debt to revenue ratio approaches it (without breaching it) in 2020, before declining. The debt-service-to-revenue ratio marginally breaches its threshold in 2019–25 under the scenario of 30 percent nominal depreciation.

PUBLIC SECTOR DEBT SUSTAINABILITY

15. Public debt is projected to lie on a downward trajectory in the medium to long term. Public debt is projected to peak at 38.7 percent of GDP in 2018 and gradually decline to below 30 percent of GDP by 2030. The incidence of public external debt would increase temporarily as the government relies on external financing to support key infrastructure and pro-poor projects. In the baseline scenario, the PV of total public sector debt as a share of GDP is expected to reach 33 percent in 2018, close to the DSF benchmark level of 38 percent of GDP associated with heightened public debt vulnerabilities for weak policy performers, but is then expected to decline steadily over time to 15 percent of GDP in the long term.

[3] The large residual over the projection horizon reported in Table 1 is due to the gradually improving current account, which would turn positive over the medium term, buoyed by dynamic non-oil exports.

Enhanced revenue mobilization would also help reduce the PV of total public debt as a share of revenue from 216 percent in 2017 to 169 percent in 2023 and 91 percent in the long term.

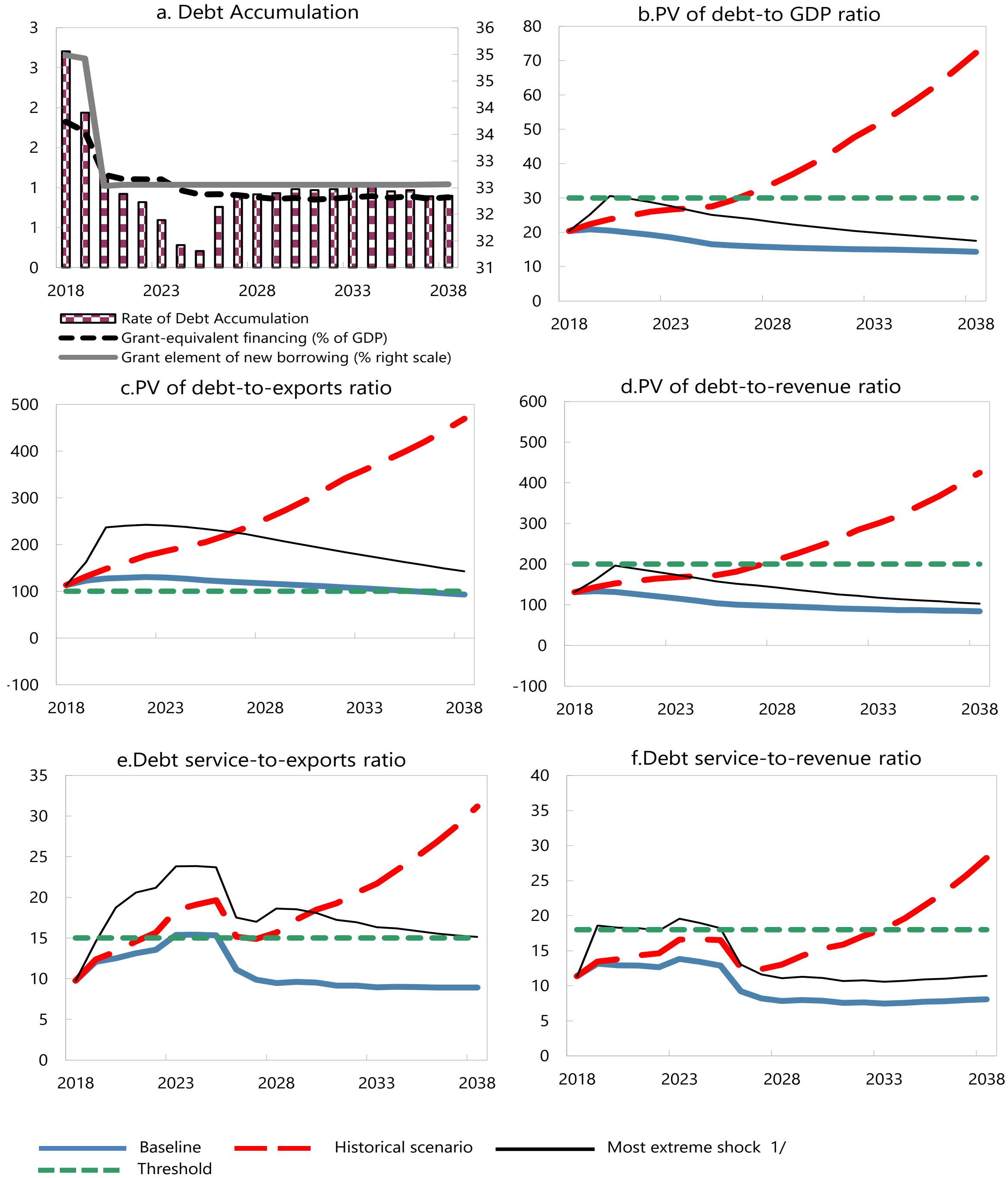
16. The threshold for the PV of debt to GDP ratio would be breached under the real depreciation and contingent liabilities scenario. A 30-percent real depreciation would push the PV of public debt to 40 percent of GDP (the policy threshold) next year, before declining steadily. The same results are obtained under a 10 percent contingent liabilities shock (however, this shock is larger than the total stock of SOE debt not included in the DSA plus the realization of existing contingent liabilities on existing PPPs).

CONCLUSION

17. The assessed risk of debt distress remains high. The present value (PV) of debt-to exports ratio and debt-service-to-exports ratio breach the policy dependent thresholds over several years. This results in the categorization of risk of debt distress as "high". Steadfast implementation of ambitious fiscal and structural reforms supported by the IMF program is crucial to mitigate risks. The weaknesses presented in all debt burden indicators which are expressed as a proportion to exports points to the need for deep structural reforms to improve competitiveness and achieve economic diversification, while fiscal consolidation and a prudent borrowing policy, skewed towards concessional loans, remain crucial to keep public debt dynamics on a sustainable path and rebuild buffers ahead of upcoming high debt repayments.

18. Authorities' view. The authorities noted that large infrastructure needs, including for the upcoming African Cup of Nations (CAN) are an exceptional factor driving the recent increase in debt. As several large projects come to fruition in the coming months, the upward pressure on debt would start easing. They were also confident that steady improvements in non-oil exports and higher growth in the medium term would ensure external sustainability over the projection horizon. Going forward, the authorities also plan to continue prioritizing concessional loans and contract new debt only to fund critical projects with proven strong growth or social potential. The authorities also maintain that only a fraction of SONARA's debt to the private sector (that came under distress following the refinery's losses due to the fixed pump prices) should be included in the definition of public debt.

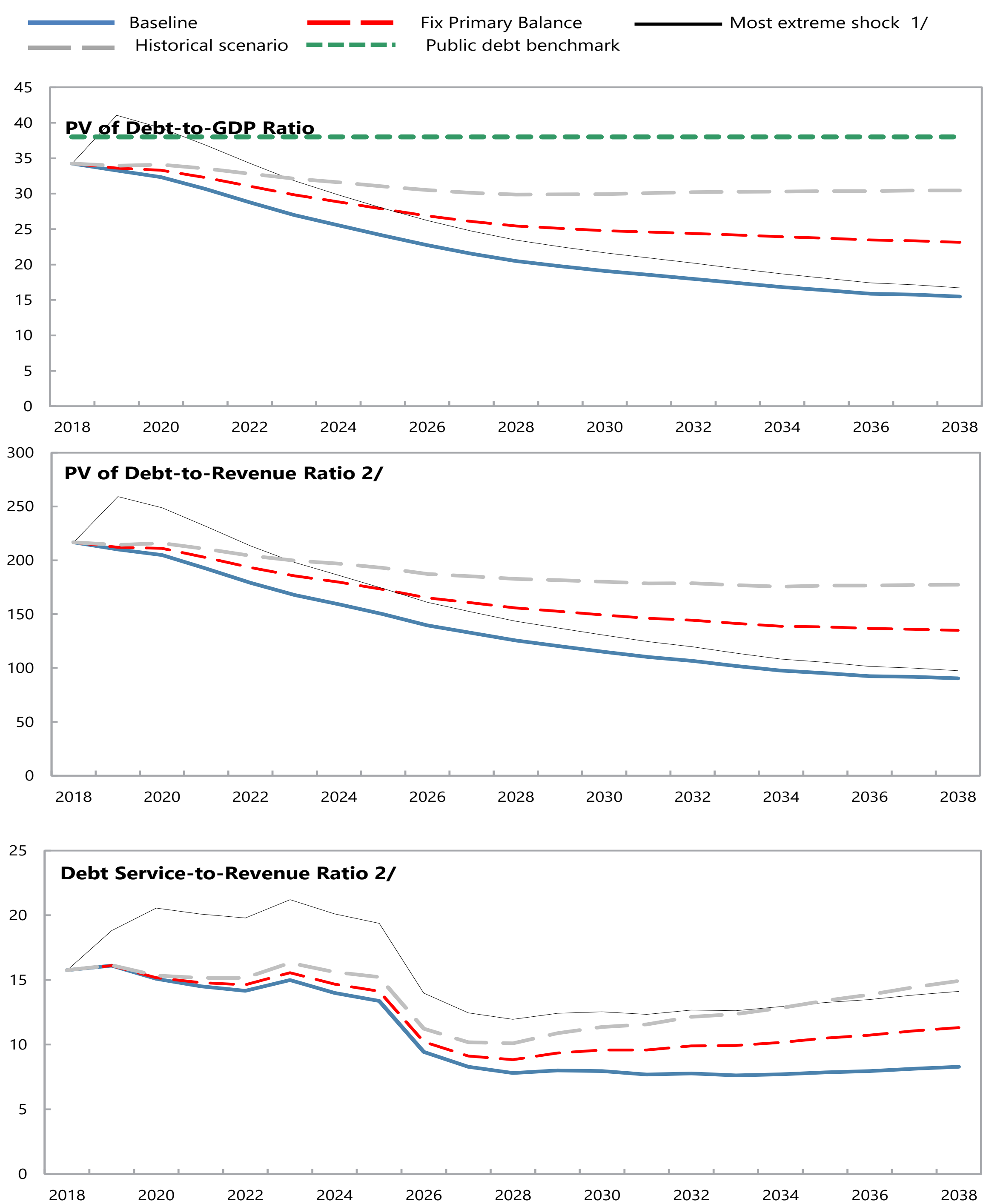
Figure 1. Cameroon: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2018–38 [/1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2018–38 /1



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028.

2/ Revenues are defined inclusive of grants.

Table 1. Cameroon: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**21.6**	**25.4**	**28.2**			**28.9**	**29.9**	**29.5**	**29.0**	**28.5**	**27.8**		**25.0**	**23.0**	
of which: public and publicly guaranteed (PPG)	19.9	22.6	25.6			26.3	27.3	27.0	26.4	25.9	25.2		22.4	20.4	
Change in external debt	7.0	3.7	2.9			0.6	1.0	-0.4	-0.5	-0.5	-0.7		-0.2	-0.2	
Identified net debt-creating flows	3.8	-0.6	-4.9			-1.9	-1.8	-2.0	-2.1	-2.1	-1.9		-4.3	-9.4	
Non-interest current account deficit	**3.5**	**2.5**	**2.0**	**2.6**	**0.8**	**2.0**	**2.0**	**1.9**	**1.9**	**1.9**	**2.0**		**-0.3**	**-7.1**	-2.3
Deficit in balance of goods and services	3.4	2.6	2.0			2.7	2.9	3.0	3.2	3.3	3.2		0.7	-6.3	
Exports	21.8	19.4	19.2			18.0	17.0	16.1	15.4	14.8	14.3		13.4	15.4	
Imports	25.2	22.0	21.2			20.8	19.8	19.1	18.6	18.1	17.5		14.1	9.1	
Net current transfers (negative = inflow)	-1.0	-1.1	-1.2	-1.2	0.5	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2		-1.1	-0.9	-1.0
of which: official	-0.2	-0.2	-0.3			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.2	-0.2	
Other current account flows (negative = net inflow)	1.1	1.0	1.2			0.5	0.4	0.1	-0.1	-0.1	0.1		0.0	0.1	
Net FDI (negative = inflow)	**-1.9**	**-3.0**	**-6.3**	**-2.6**	**1.4**	**-3.9**	**-3.5**	**-3.5**	**-3.5**	**-3.6**	**-3.3**		**-3.4**	**-1.8**	-2.7
Endogenous debt dynamics 2/	**2.2**	**-0.2**	**-0.6**			**0.0**	**-0.3**	**-0.3**	**-0.5**	**-0.5**	**-0.6**		**-0.6**	**-0.5**	
Contribution from nominal interest rate	0.3	0.7	0.8			1.0	0.9	1.0	0.9	0.9	0.8		0.7	0.7	
Contribution from real GDP growth	-0.9	-0.9	-0.8			-1.0	-1.2	-1.3	-1.4	-1.4	-1.4		-1.3	-1.2	
Contribution from price and exchange rate changes	2.9	0.1	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**3.2**	**4.3**	**7.8**			**2.6**	**2.8**	**1.6**	**1.5**	**1.7**	**1.2**		**4.0**	**9.2**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	22.5			22.9	23.4	23.0	22.5	21.8	21.0		18.2	16.9	
In percent of exports	...	...	117.5			127.3	137.7	143.1	145.6	147.5	147.1		136.0	109.6	
PV of PPG external debt	**...**	**...**	**19.8**			**20.4**	**20.8**	**20.5**	**19.9**	**19.3**	**18.5**		**15.7**	**14.3**	
In percent of exports	**...**	**...**	**103.5**			**113.0**	**122.6**	**127.2**	**129.0**	**130.2**	**129.2**		**116.9**	**93.0**	
In percent of government revenues	**...**	**...**	**132.0**			**131.4**	**133.3**	**131.5**	**126.6**	**121.5**	**116.3**		**96.9**	**84.2**	
Debt service-to-exports ratio (in percent)	**3.4**	**9.4**	**11.0**			**16.2**	**16.4**	**16.5**	**16.7**	**17.4**	**19.3**		**13.7**	**12.6**	
PPG debt service-to-exports ratio (in percent)	**3.4**	**6.6**	**7.1**			**9.8**	**12.1**	**12.5**	**13.1**	**13.6**	**15.4**		**9.5**	**8.9**	
PPG debt service-to-revenue ratio (in percent)	**4.5**	**8.7**	**9.1**			**11.3**	**13.2**	**12.9**	**12.9**	**12.6**	**13.8**		**7.8**	**8.1**	
Total gross financing need (Billions of U.S. dollars)	0.7	0.4	-0.8			0.4	0.6	0.5	0.5	0.5	0.8		-1.5	-11.1	
Non-interest current account deficit that stabilizes debt ratio	-3.5	-1.2	-0.9			1.3	1.0	2.2	2.4	2.4	2.8		-0.1	-6.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.7	4.5	3.2	4.2	1.2	4.0	4.5	4.8	5.0	5.2	5.4	4.8	5.4	5.5	5.4
GDP deflator in US dollar terms (change in percent)	-16.3	-0.2	2.4	0.4	8.3	10.3	2.4	2.7	2.2	2.3	2.1	3.7	1.7	1.8	1.8
Effective interest rate (percent) 5/	1.8	3.4	3.4	2.9	0.5	4.0	3.3	3.5	3.4	3.5	3.1	3.5	2.9	3.1	3.0
Growth of exports of G&S (US dollar terms, in percent)	-21.7	-7.1	4.3	1.8	17.8	7.9	0.9	1.9	3.0	3.3	3.9	3.5	7.6	8.9	7.8
Growth of imports of G&S (US dollar terms, in percent)	-19.5	-9.1	2.0	3.1	17.0	12.4	2.2	3.8	4.6	4.6	3.8	5.2	3.1	2.3	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	35.0	34.9	32.5	32.6	32.6	32.6	33.3	32.6	32.6	32.6
Government revenues (excluding grants, in percent of GDP)	16.4	14.7	15.0			15.5	15.6	15.6	15.7	15.9	15.9		16.2	17.0	16.6
Aid flows (in Billions of US dollars) 7/	1614.8	3.1	4.0			1.1	1.1	0.6	0.7	0.7	0.8		0.9	1.9	
of which: Grants	0.0	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
of which: Concessional loans	1614.7	3.0	3.9			0.9	1.0	0.5	0.6	0.6	0.7		0.8	1.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.8	1.7	1.2	1.1	1.1	1.1		0.9	0.9	0.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			39.4	38.4	37.4	37.4	37.1	36.9		37.1	36.5	36.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	30.9	32.2	34.1			39.1	41.9	45.0	48.4	52.1	56.0		79.2	160.8	
Nominal dollar GDP growth	-11.6	4.2	5.7			14.8	7.1	7.6	7.4	7.7	7.6	8.7	7.2	7.4	7.3
PV of PPG external debt (in Billions of US dollars)			7.1			8.0	8.8	9.2	9.7	10.1	10.4		12.4	23.1	
(PVt-PVt-1)/GDPt-1 (in percent)						2.7	1.9	1.1	0.9	0.8	0.6	1.4	0.9	0.9	0.8
Gross workers' remittances (Billions of US dollars)	0.5	0.5	0.6			0.7	0.7	0.8	0.8	0.8	0.9		1.1	1.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	19.5			20.0	20.5	20.1	19.6	19.0	18.2		15.5	14.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	95.1			102.8	111.2	115.1	116.6	117.4	116.3		105.7	86.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	6.6			8.9	11.0	11.3	11.9	12.2	13.8		8.5	8.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38
(percent)

		Projections						
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	20	21	20	20	19	18	**16**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	20	22	24	25	26	27	**34**	72
A2. New public sector loans on less favorable terms in 2018-2038 2	20	22	22	22	22	22	**22**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	20	21	21	21	20	19	**16**	15
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	20	23	26	25	25	24	**20**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	20	23	25	25	24	23	**20**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	20	23	24	24	23	22	**19**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	20	25	31	30	29	28	**23**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	20	30	29	28	27	26	**22**	20
PV of debt-to-exports ratio								
Baseline	113	123	127	129	130	129	**117**	93
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	113	132	148	161	176	186	**254**	469
A2. New public sector loans on less favorable terms in 2018-2038 2	113	129	138	144	150	154	**161**	154
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	113	123	128	130	131	130	**117**	93
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	113	163	237	240	242	241	**214**	143
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	113	123	128	130	131	130	**117**	93
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	113	135	152	154	156	155	**138**	96
B5. Combination of B1-B4 using one-half standard deviation shocks	113	150	195	198	200	199	**177**	117
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	113	123	128	130	131	130	**117**	93
PV of debt-to-revenue ratio								
Baseline	131	133	131	127	122	116	**97**	84
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	131	143	153	158	164	167	**211**	425
A2. New public sector loans on less favorable terms in 2018-2038 2	131	140	142	142	140	139	**134**	140
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	131	136	136	131	126	120	**100**	87
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	131	147	168	162	155	149	**122**	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	131	149	164	158	151	145	**121**	105
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	131	147	157	152	145	139	**114**	87
B5. Combination of B1-B4 using one-half standard deviation shocks	131	161	196	189	181	174	**142**	103
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	131	190	187	180	172	165	**137**	119

Table 2. Cameroon: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38 (concluded)

(percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
Debt service-to-exports ratio								
Baseline	10	12	13	13	14	15	**9**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	10	12	13	15	16	18	**16**	31
A2. New public sector loans on less favorable terms in 2018-2038 2	10	12	12	13	13	15	**12**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	10	12	13	13	14	15	**9**	9
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	10	15	19	21	21	24	**19**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	10	12	13	13	14	15	**9**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	10	12	13	14	14	16	**12**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	10	13	15	17	17	20	**15**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	10	12	13	13	14	15	**9**	9
Debt service-to-revenue ratio								
Baseline	11	13	13	13	13	14	**8**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	11	13	14	14	15	17	**13**	28
A2. New public sector loans on less favorable terms in 2018-2038 2	11	13	12	12	12	13	**10**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	11	13	13	13	13	14	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	11	13	13	14	14	15	**11**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	11	15	16	16	16	17	**10**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	11	13	13	14	13	14	**10**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	11	14	15	16	16	17	**12**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	11	19	18	18	18	20	**11**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	28	28	28	28	28	28	**28**	28

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly a an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Cameroon: Public Sector Debt Sustainability Framework Baseline Scenario, 2015–38

(percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	32.0	33.3	38.2			38.7	38.6	37.9	36.6	35.1	33.6		27.3	21.6	
of which: foreign-currency denominated	19.9	22.6	25.6			26.3	27.3	27.0	26.4	25.9	25.2		22.4	20.4	
Change in public sector debt	10.4	1.4	4.9			0.4	-0.1	-0.7	-1.4	-1.5	-1.5		-1.1	-0.3	
Identified debt-creating flows	10.4	6.7	3.2			0.4	0.2	-0.5	0.0	-0.1	-0.1		-0.5	0.1	
Primary deficit	4.0	5.3	4.1	2.2	2.3	1.8	1.2	0.7	0.7	0.7	0.8	1.0	1.0	1.2	1.1
Revenue and grants	16.5	15.0	15.4			15.8	15.8	15.8	15.9	16.1	16.1		16.3	17.1	
of which: grants	0.1	0.3	0.3			0.3	0.2	0.2	0.2	0.2	0.2		0.2	0.1	
Primary (noninterest) expenditure	20.5	20.3	19.5			17.6	17.0	16.5	16.7	16.8	16.9		17.4	18.4	
Automatic debt dynamics	1.0	0.1	-2.6			-2.0	-1.5	-1.6	-1.7	-1.7	-1.8		-1.5	-1.1	
Contribution from interest rate/growth differential	-1.3	-1.1	-0.6			-1.0	-1.3	-1.4	-1.6	-1.6	-1.7		-1.6	-1.1	
of which: contribution from average real interest rate	-0.1	0.2	0.5			0.5	0.3	0.3	0.2	0.2	0.1		-0.1	0.0	
of which: contribution from real GDP growth	-1.2	-1.4	-1.0			-1.5	-1.7	-1.8	-1.8	-1.8	-1.8		-1.5	-1.1	
Contribution from real exchange rate depreciation	2.3	1.2	-2.0			-1.0	-0.1	-0.1	-0.1	-0.1	0.0		...	...	
Other identified debt-creating flows	5.4	1.3	1.7			0.5	0.5	0.4	0.9	0.9	0.8		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	2.1	1.3	1.1			1.0	1.0	1.0	0.9	0.9	0.8		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	3.3	0.0	0.6			-0.5	-0.5	-0.5	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.0	-5.3	1.6			0.1	-0.3	-0.2	-1.3	-1.4	-1.4		-0.6	-0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	32.5			32.7	32.1	31.4	30.1	28.4	26.9		20.5	15.5	
of which: foreign-currency denominated	...	...	19.8			20.4	20.8	20.5	19.9	19.3	18.5		15.7	14.3	
of which: external	...	...	19.8			20.4	20.8	20.5	19.9	19.3	18.5		15.7	14.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.5	7.8	5.9			4.3	3.7	3.1	3.1	3.0	3.2		2.3	2.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	211.6			206.8	202.4	199.2	188.6	177.0	167.1		125.5	90.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	216.2			210.9	205.5	202.1	191.1	179.2	169.1		126.7	91.1	
of which: external 3/	...	...	132.0			131.4	133.3	131.5	126.6	121.5	116.3		96.9	84.2	
Debt service-to-revenue and grants ratio (in percent) 4/	8.7	17.2	11.3			15.7	16.1	15.1	14.5	14.2	15.0		7.8	8.3	
Debt service-to-revenue ratio (in percent) 4/	8.7	17.6	11.6			16.1	16.3	15.3	14.7	14.3	15.2		7.9	8.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.4	3.9	-0.8			1.4	1.2	1.3	2.1	2.2	2.3		2.1	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.7	4.5	3.2	4.2	1.2	4.0	4.5	4.8	5.0	5.2	5.4	4.8	5.4	5.5	5.4
Average nominal interest rate on forex debt (in percent)	1.8	3.6	3.4	3.0	0.5	2.4	2.5	2.4	2.4	2.4	2.1	2.4	1.7	1.8	1.7
Average real interest rate on domestic debt (in percent)	1.3	1.1	2.8	-0.5	2.2	2.6	1.4	1.7	0.7	0.8	0.3	1.2	-1.5	4.7	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	16.8	6.4	-9.0	2.7	8.6	-4.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.2	0.0	0.4	2.0	1.9	0.5	1.3	1.5	1.5	1.6	1.6	1.3	1.7	1.8	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	6.4	3.1	-0.7	0.9	2.2	-6.0	0.9	1.4	6.5	5.8	6.2	2.5	5.7	4.8	6.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	35.0	34.9	32.5	32.6	32.6	32.6	33.3	32.6	32.6	...

Sources: Country authorities; and staff estimates and projections.

1/Coverage includes the central government and certain SOEs. Gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Cameroon: Sensitivity Analysis for Key Indicators of Public Debt, 2018–38

	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	33	32	31	30	28	27	21	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	33	33	33	33	32	30	30
A2. Primary balance is unchanged from 2018	33	32	32	32	31	30	26	23
A3. Permanently lower GDP growth 1/	33	32	31	30	29	27	22	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	33	33	33	32	30	29	24	21
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	33	34	36	35	33	31	24	18
B3. Combination of B1-B2 using one half standard deviation shocks	33	34	35	34	32	31	25	20
B4. One-time 30 percent real depreciation in 2019	33	40	38	36	34	32	24	17
B5. 10 percent of GDP increase in other debt-creating flows in 2019	33	39	38	37	35	33	26	18
PV of Debt-to-Revenue Ratio 2/								
Baseline	207	202	199	189	177	167	125	90
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	207	207	211	207	203	200	183	178
A2. Primary balance is unchanged from 2018	207	205	206	199	192	186	156	135
A3. Permanently lower GDP growth 1/	207	202	199	189	179	170	135	123
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	207	206	207	198	188	179	145	121
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	207	217	230	218	205	194	148	102
B3. Combination of B1-B2 using one half standard deviation shocks	207	213	223	213	201	191	152	117
B4. One-time 30 percent real depreciation in 2019	207	252	244	228	212	198	144	98
B5. 10 percent of GDP increase in other debt-creating flows in 2019	207	248	243	230	217	205	156	107
Debt Service-to-Revenue Ratio 2/								
Baseline	16	16	15	15	14	15	8	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	16	15	15	15	16	10	15
A2. Primary balance is unchanged from 2018	16	16	15	15	15	16	9	11
A3. Permanently lower GDP growth 1/	16	16	15	15	14	15	8	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	16	16	16	15	15	16	9	10
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	16	16	16	16	15	16	9	10
B3. Combination of B1-B2 using one half standard deviation shocks	16	16	16	16	15	16	9	10
B4. One-time 30 percent real depreciation in 2019	16	19	21	20	20	21	12	14
B5. 10 percent of GDP increase in other debt-creating flows in 2019	16	16	16	17	15	16	11	10

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Daouda Sembene, Mr. Mohamed-Lemine Raghani, and Mr. Regis N'Sonde on Cameroon
July 6, 2018

1. Our Cameroonian authorities appreciate Fund's continued support to their reform efforts and the CEMAC strategy to address domestic and external imbalances. They are fully mindful of the importance of pursuing this strategy and Cameroon's key role as the largest economy of the Community.

2. A number of developments have taken place since the first review of the country's ECF-supported program amid a challenging environment, including security and social tensions. The spending overruns occurred at the end of last year and during the complementary period for the 2017 budget execution, notably as a result of spending pressures related to socio-political tensions and terrorist threats, the preparation of the soccer African Cup of Nations (CAN) scheduled for 2019 in Cameroon, and the clearance of arrears to the electricity company (ENEO). The authorities are taking corrective measures as laid out in their Memorandum of Economic and Financial Policies (MEFP) to bring back the fiscal situation in line with program targets. Further, the Cameroonian government is pursuing fiscal consolidation thus helping build up external buffers. At the regional level, these efforts are supported by the implementation of tight monetary policy and foreign exchange regulations.

I. RECENT MACROECONOMIC DEVELOPMENTS

3. The challenging security situation in the Far North, North-West and South-West regions of the country, coupled with the sharp decline in oil production, have somewhat contributed to holding back activity below the projected growth for 2017, affecting the primary and secondary sectors. Nonetheless, real GDP grew by about 3.2 percent last year, thanks to buoyant non-oil activity as the investments in electricity supply are bearing fruits. Growth should accelerate to above 4 percent in 2018 on the back of completed road and energy projects while inflation should remain subdued.

4. The authorities pursued their fiscal consolidation efforts although recent spending overruns occurred following the settlement of ENEO's arrears, significant security expenditures, and capital outlays related to the organization of CAN. Considerable efforts to collect VAT and increased export receipts allowed non-oil revenues to exceed projections by 0.7 percent of GDP at end-2017 even though this performance softened somewhat in Q1 2018 due to lower growth and trade. Public debt remains sustainable although public debt-to- GDP ratio rose by 4 percentage points due to higher-than-expected disbursements related to externally-financed projects, the conversion of BEAC statutory advances into long-term debt, and the inclusion of the debt of the refinery company (SONARA) due to marketers.

5. Tighter monetary conditions, combined with the deceleration of economic activity, have slowed the growth of credit to private sector. Cash flow difficulties encountered by the private

sector translated into banks' lending more short-term financing to businesses as well as an increase in non-performing loans (NPLs) in early 2018. On the external front, exports of commodities and manufactured products have performed well while imports decreased significantly amid the authorities' fiscal consolidation efforts. The improved current account position, along with enhanced enforcement of foreign exchange regulations and lower private capital outflows, contributed to the recovery of net foreign assets and the rebuilding of foreign exchange reserves.

II. PROGRAM PERFORMANCE

6. Program implementation has underperformed original expectations, notably on the quantitative front. The spending overruns resulted in the nonobservance of the PC on non-oil primary balance. Two other PCs at end-2017 on disbursements of non-concessional loans and net BEAC financing were also missed amid the structuring of major development projects. The IT on the national oil company SNH direct interventions was missed with a narrow margin. The lower-than-expected bond issuance and non-disbursement of a portion of budgetary support by donors also contributed to the unfavorable program outcomes.

7. That said, no new non-concessional loans were signed between the conclusion of the first review and the date for this second review. In addition, the PCs related to net domestic financing of the government and the accumulation of external payment arrears as well as all but one indicative targets (ITs) were met. To prevent the occurrence of untimely disbursements in the future, the authorities are taking steps to enhance project planning and monitoring.

8. The implementation of the structural measures was strong, with most benchmarks (SBs) met. These include measures aimed at strengthening fiscal policy and transparency; enhancing revenue mobilization; improving public finance and debt management notably through tackling contingent liabilities, containing correspondent accounts and accounts without principal accountant, conducting an external audit of domestic arrears at end-2016, and designing a plan for their gradual clearance. Through their efforts to foster financial stability, the authorities have extended to all credit and microfinance institutions access to creditor databases. The remaining SBs, notably the 2017 budget execution report, the circular on implementing the projects' maturation guide, and computerization of the register of property collaterals, were either observed with some delay or are being implemented.

III. POLICIES AND REFORMS IN 2018 AND BEYOND

9. The Cameroonian authorities remain determined to achieve the program objectives for the rest of 2018 and to the end of the arrangement. They will pursue measures to prevent the reoccurrence of fiscal overruns while protecting social spending, notably in the areas of health, education, social protection, and gender equality. The favorable economic outlook will provide an opportunity for the authorities to advance fiscal and structural reforms to broaden the non-oil revenue base, enhance the efficiency of public investment, strengthen the budgetary process, and

control public debt. To accelerate growth, the authorities intend to continue improving energy supply and key transport infrastructures and enhance the economy's competitiveness.

Pursuing Growth-Friendly Fiscal Consolidation

10. Staff analysis suggests that revenue and capital expenditure multipliers in Cameroon are small and in line with those of comparable countries, as evidenced in the Selected Issues Paper. This suggests that effective growth-friendly fiscal adjustment will require relatively greater focus on revenue mobilization over time. Against this backdrop, Fund continued technical support to the authorities' revenue mobilization agenda will be particularly important going forward.

11. The objectives of the 2018 budget have been revised in line with the government's priorities and program goals. It aims at boosting non-oil revenues and limiting investment spending and incorporating non-budgeted expenditures for security and subsidies. On the revenue side, the main course of action will be to broaden the tax base and enhance revenue collection. Efforts in 2018 will be geared toward boosting revenues at the tax administration through improved management of the VAT, enhanced monitoring, audits of large and medium-sized businesses, increased collection of tax arrears, and greater use of electronic means for tax payments. Moreover, the authorities are considering options to improve VAT efficiency. Revenue-enhancing actions are also planned by the customs administration, including the introduction of administrative measures to optimize revenues including, joint DGI-DGD audits, and interfaces with sectoral ministries to fight against the frauds.

12 On the spending front, expenditures will be curtailed while preserving social spending. In this regard, measures include mainly the continued cleaning of the payroll database to reduce "ghost" civil servants; additional cuts in goods and service expenditures in line with the Prime Minister's circular; the prioritization of domestically-financed capital spending; greater monitoring of budget execution; and reinforced programming and monitoring of disbursements. All these measures are expected to achieve budget savings equivalent to at least 2.3 percent of GDP. The government undertakes to prevent any increase in domestic arrears and clear the domestic arrears that have been validated through an audit. As of end- May 2018, the government has already cleared the equivalent of 1.3 percent of GDP in domestic arrears.

13. Over the medium term, the authorities plan to undertake bold actions to boost further non-oil revenue mobilization, with the collection of property taxes through the electricity bill; an action plan to gradually reduce tax expenditures, notably discretionary exemptions; and external financing arrangements for investment incorporating relevant taxes. They are already undertaking urgent measures to better control the budget execution and enhance fiscal discipline, as laid out in their MEFP.

14. The Cameroonian authorities also intend to pursue their public financial management (PFM) reforms—with technical assistance from the Fund and other partners—with a view to enhancing the quality of, and data on, expenditure; focusing on the transposition into national laws of CEMAC directives for which draft decrees are either ready or will be finalized

by year-end; pursuing and expanding the cash flow management reforms; strengthening the government financial reporting system; improving the effectiveness and quality of capital spending; and strengthening the management of SOEs. At the same time, the DGD and DGI will further enhance revenue collection, strengthen the taxpayer database and IT systems, and fight fraud and tax evasion.

Preserving Debt Sustainability

15. The authorities will pursue prudent debt strategy and management, including closely monitoring contingent liabilities, with a view to preventing a downgrading to “debt distress” of the country’s DSA rating and preserve debt sustainability. Their borrowing plan has been revised, in consultation with the country’s partners, to integrate medium-term development priorities and give preference to projects with the least expensive financing. The authorities will continue to favor concessional borrowing over non-concessional financing provided that the former is available.

16. Actions are envisaged on different fronts to reduce the stock of public debt. First, the authorities are committed to reducing the balance of contracted but undisbursed debt (*SEND*) through a joint plan by the ministries of finance and planning. Furthermore, the authorities will expand to public enterprises and public establishments the collection of cross debts. They are also determined to improve the financial situation of SOEs, notably the cash flow and financial viability of SONARA and the electricity transmission company SONATREL through the implementation of best practices in management. The soundness of the latter company is key to promoting inclusive growth.

Tackling Macro-Financial Vulnerabilities

17. As Chapter 4 of the Selected Issues makes evident, sovereign risks dominate the banking sector in Cameroon. Therefore, fiscal consolidation and addressing contingent liabilities should help reduce risks to banks. The authorities are also committed to finalizing a cost and feasibility assessment of resolution options for distressed banks, in coordination with regional authorities and with the support of development partners. Moreover, an action plan to address NPLs is being prepared that will include building capacities in the area of business law to ensure an adequate treatment of disputes. Judicial specialists, including at least 30 judges, will be trained in resolution of banking disputes in the main activity centers. The authorities will lean on strengthened prudential standards to preserve financial sector stability, in coordination with the regional supervisor COBAC.

18. The Cameroonian authorities take note of staff’s recommendation to identify actions to tackle weaknesses in the AML/CFT framework, and look forward to Fund technical assistance in this area. They also continue to attach high priority to fighting tax evasion and illicit financial flows.

Fostering Competitiveness and Private Sector Development

19. The development of the private sector and increased economic diversification remain at the center of the authorities' transformation agenda. Efforts will be aimed at closing the infrastructure gaps, promoting greater competitiveness and improving access of the private sector to financial services. The authorities envisage measures to reduce the costs and delays related to foreign trade and the congestion of the Port of Douala, which hamper competitiveness. They share the view that improving the business climate will require simplifying tax collection procedures and reducing delays in the payment of government invoices.

20. The authorities are already taking measures to improve credit access for SMEs and the public, notably through the ongoing update of the financial inclusion strategy. Finally, they are consulting with development partners, notably the World Bank and the African Development Bank to revise the business model for the SME bank while encouraging commercial banks to lend more to SMEs.

IV. CONCLUSION

21. Our Cameroonian authorities are confident that the policies and reforms laid out in their MEFP will enable the country to meet the objectives of their ECF-supported program. They stand ready to take any additional measures deemed necessary to this end. In light of the above, the authorities would appreciate Directors' support for the completion of the second review under the ECF-supported program. They also request waivers of nonobservance of performance criteria (PCs) and modification of PCs.