August 2007
IMF Country Report No. 07/285

Cameroon: 2007 Article IV Consultation, Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, Request for Modification of Performance Criterion, and Financing Assurances Review—Staff Report; Staff Supplement and Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cameroon

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2007 Article IV consultation with Cameroon, third review under the three-year arrangement under the Poverty Reduction and Growth Facility, request for a waiver of a performance criterion, request for modification of a performance criterion, and financing assurances review, the following documents have been released and are included in this package:

- The staff report for the combined 2007 Article IV Consultation, Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, Request for Modification of Performance Criterion, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on March 15, 2007, with the officials of Cameroon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 29, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint World Bank/IMF debt sustainability analysis.
- A staff statement of June 15, 2007 updating information on recent developments.
- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its June 18, 2007 discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- A statement by the Executive Director for Cameroon.

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

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

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

CAMEROON

Staff Report for the 2007 Article IV Consultation, Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, Request for Modification of Performance Criterion, and Financing Assurances Review

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

Approved by David Nellor and Adnan Mazarei

May 29, 2007

- **Main topics.** The report recommends the Board conclude the 2007 Article IV consultation and complete the third review under the PRGF arrangement. The government's letter of intent (LOI), memorandum of economic and financial policies (MEFP), and technical memorandum of understanding (TMU) are in Appendix I.
- **Team and mission dates.** March 1–15, 2007. Mr. Ghura (head), Mr. Ioannou, and Mr. Singh (all AFR), Mr. Mansour (FAD), Mr. Kireyev (PDR), Mr. Bikoi (STA), Mr. Veyrune (MCM), and Ms. Kabedi-Mbuyi, resident representative. The staff collaborated closely with a parallel World Bank mission.
- **Counterparts.** Prime Minister Inoni; State Minister at the Presidency Esso; Finance Minister Abah Abah; other senior government and central bank officials; and representatives of civil society, labor unions, donors, the banking community, and the press.
- **Last surveillance consultation.** The 2005 Article IV consultation discussions were concluded on April 22, 2005. Executive Directors' views and comments can be found on http://www.imf.org/np/sec/pn/2005/pn0557.htm.
- **Exchange regime.** Cameroon is a member of the Central African Economic and Monetary Community (CEMAC). The region's currency (the CFA franc) is pegged to the euro. With other CEMAC members, Cameroon has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

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Abbreviations and Acronyms

CAMAIR	Cameroon airline
CAMPOST	Cameroon's postal savings company
CAMTEL	Cameroon telephone company
CET	Common external tariff
CEMAC	Central African Economic and Monetary Community
COBAC	Regional banking supervisory agency
CPIA	Country Policy and Institutional Assessment
EITI	Extractive Industry Transparency Initiative
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
HIPC	Heavily Indebted Poor Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NPV	Net Present Value
PRGF	Poverty Reduction and Growth Facility
PSIA	Policy and social impact analysis
REER	Real effective exchange rate
SNH	National oil company
SNEC	National water company
SONARA	National oil refinery
UN	United Nations
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Recent developments. Economic trends in 2006 were encouraging. Growth picked up as construction activities, oil output, and forestry production rebounded. Although inflation rose, reflecting higher fuel prices, it was contained at about 5 percent. Cameroon's overall fiscal position and its current account balance both improved. However, in the fourth quarter of 2006, emergency-related extrabudgetary spending, financed directly by the national oil company, raised concerns about budget transparency.

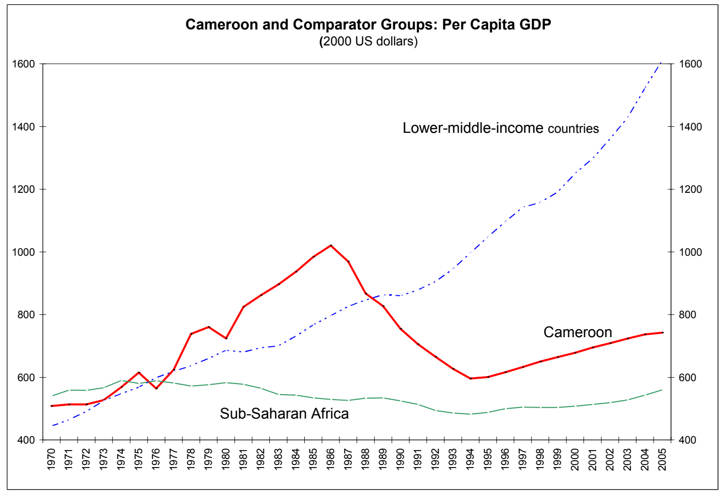
Surveillance discussions. The first priority is to consolidate the fiscal gains of the past two years, with the aim of preserving fiscal stability, while raising priority spending. The second is to turn productivity growth around. To revive productivity, decisive actions are needed to rebuild infrastructure, deepen financial intermediation, liberalize trade, complete reform of public enterprises, and improve governance.

Program performance. The PRGF-supported program was implemented satisfactorily in July–December 2006. Most fiscal and financial targets were met. However, because of extrabudgetary spending in late 2006, the quantitative performance criterion on bank financing was narrowly missed. Structural reforms monitored under the program were mostly implemented as planned. In particular, the publication of two EITI reports covering oil sector operations (in 2001–04 and 2005, respectively) contributed to increasing transparency and effectiveness of public financial management.

Main elements of the PRGF-supported program. The 2007 budget centers on consolidating the recent fiscal gains and expanding poverty-related spending. The program includes measures to improve expenditure tracking and further mobilize revenues. Key to improving the business environment in 2007 would be completion of the envisaged reform of public enterprises in telecommunications, water, rural finance, and air transport sectors.

I. Background and Introduction

1. **Cameroon's economic growth has picked up since 1994, though it remains too low to make a significant dent in poverty.** The devaluation of the CFA franc in 1994 and complementary macroeconomic and structural reforms since then have contributed to output growth. Nonetheless, several factors have stymied Cameroon's growth potential, and factor productivity growth is slowing (Box 1). As a result, per capita real GDP has not grown as much as in comparator countries. The record in social development was mixed. The poverty rate declined by about 13 percentage points during 1994-2001. Education indicators improved, but performance in the health sector was mixed. On the current trajectory, Cameroon is unlikely to meet the MDGs, including the target to halve poverty by 2015.



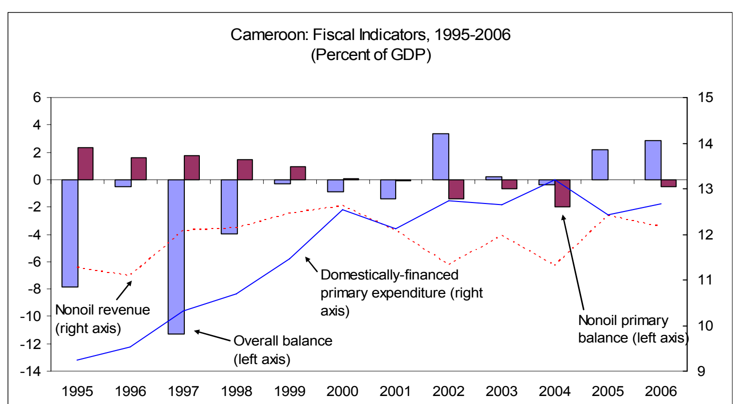
Cameroon: Social Indicators, 1985-2004
(In units indicated; period average)

	1985-89	1990-94	1995-99	2000-04
Adult literacy rate 1/	53	61	67	71
Primary school enrollment ratio 2/	102	94	88	107
Secondary school enrollment ratio 3/	23	28	24	34
Children immunization ratio 4/	44	40	47	64
Infant mortality rate (per 1000 live births)	147	139	151	150
Life expectancy at birth (years)	52	52	49	46

Source: World Bank Social Indicators database.

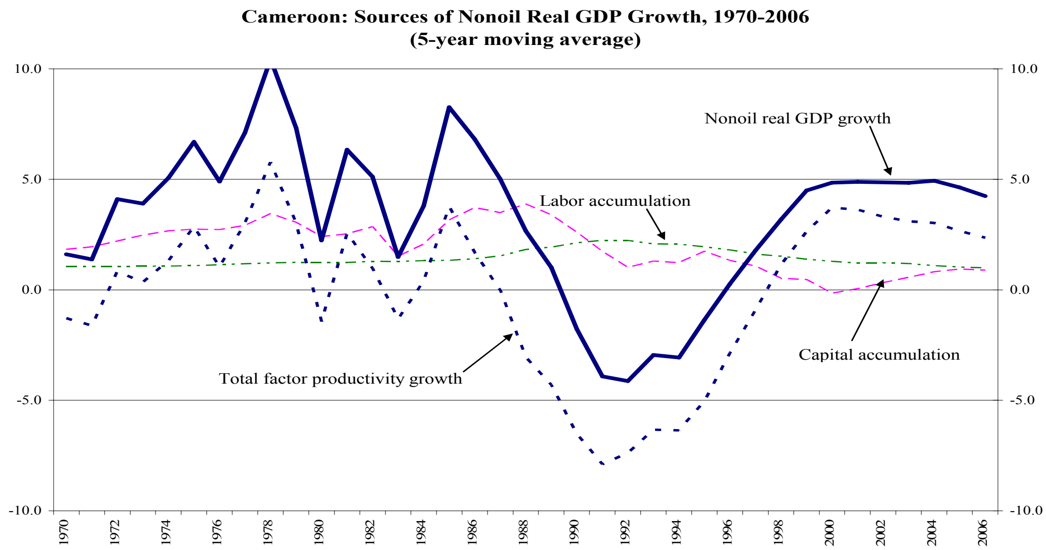
1/ Percent of people ages 15 and above.
2/ Percent of the children of primary school age. Includes repeaters.
3/ Percent of the children of secondary school age.

2. **Debt relief offers new opportunities and challenges.** In the past two years, the government has taken steps to strengthen macroeconomic performance (Box 2). The fiscal position has improved relative to the first part of the 2000s. Measures were taken to improve fiscal transparency and management, as well as governance. These efforts allowed Cameroon to reach the completion point under the enhanced HIPC Initiative and qualify for additional debt relief under the MDRI. It now faces two key challenges: It must (i) consolidate fiscal performance and preserve fiscal sustainability; and (ii) strengthen the business climate to accelerate growth.



Source: Cameroonian Authorities and Fund staff estimates.

Box 1. Growth Sources and Constraints



Assessing the sources of growth within a growth-accounting framework leads to the following observations:

- Productivity played a key role in boosting growth after the devaluation of the CFA franc in 1994. Besides the impulse from the devaluation, that boost likely reflected structural reforms (e.g., Cameroon opened its mobile telecommunications sector to competition; privatized its electricity utility company, key agro-industry companies, and commercial and industrial port services; turned management of the national railroad over to a private company; and reformed its banking and insurance sectors).

- The significant slowdown in productivity over the past 3-4 years may reflect a weakening of human capital in view of deteriorating health indicators, and the cumulative impact of an unfavorable business climate. In addition, delays in attracting new investments in the telecommunications, transportation, and water sectors may have compounded the productivity decline.

Cameroon: Comparative Performance, 1995-2005
(Period average, in units indicated)

	Cameroon	Lower-Middle-Income Economies
Economic indicators		
GDP per capita (constant 2000 US dollars)	677	1282
GDP per capita growth (annual percent change)	2.0	4.5
Gross domestic investment (percent of GDP)	17.9	26.1
Trade in goods (percent of GDP)	33.6	44.2
Fuel exports (percent of merchandise exports)	42.9	13.8
Broad money (percent of GDP)	15.2	74.8
Physical infrastructure		
Irrigated land (percent of cropland)	0.4	23.1
Paved roads (percent of total roads)	11.5	51.8
Social indicators		
Adult literacy rate 1/	69	75
Secondary school enrollment ratio 2/	30	70
Life expectancy at birth (years)	47	69

Source: World Bank Social Indicators database; and Cameroonian authorities.
1/ Percent of people ages 15 and above.
2/ Percent of the children of secondary school age.

Key constraints on economic growth in Cameroon relative to lower-middle-income economies reflect, among other things, its lower investment rate; shallower financial depth; less openness to trade (after adjusting for fuel exports); weaker infrastructure and human capital base; and weaker business environment (Box 3).

Box 2. Cameroon: Response to Previous Fund Advice

Policy Area	Staff recommendations during the 2005 Article IV consultation	Implementation/Outcome
Fiscal policy and management	Raise nonoil revenues and contain expenditures, and improve public finance management.	Nonoil revenues increased—though at a somewhat lower pace than envisaged—reflecting reforms in tax policy, and tax and customs administrations. Noninterest current expenditure was contained, while the share of priority spending was increased. Reforms were implemented to improve expenditure tracking, budget classification, and budget transparency.
Public enterprise reform	Take actions to reduce government participation in public enterprises and improve services.	The restructuring of the airline, telephone, and water companies has yet to be completed.
Private sector development	Improve the business environment in order to boost growth.	Spending on infrastructure outlays increased somewhat. Limited progress was made toward the removal of impediments to trade within CEMAC. The government is taking steps to strengthen the judiciary and fight corruption.

3. **The political environment is stable, though some social tensions linger.** Debt relief has generated expectations of immediate dividends, including increases in salaries and improvements in public service delivery. But analysts do not expect possible strikes and demonstrations to pose any significant political risks for the upcoming parliamentary elections, scheduled for July 2007.

II. Recent Economic Developments and Program Implementation

4. **Economic growth picked up somewhat in 2006, after slowing in 2005, and external sector developments were favorable** (Tables 1 and 2). Nonoil activity strengthened in 2006 following a rebound in construction, oil output, and forestry production. Higher oil prices and production, along with an increase in nonoil export volume, improved the external current account.

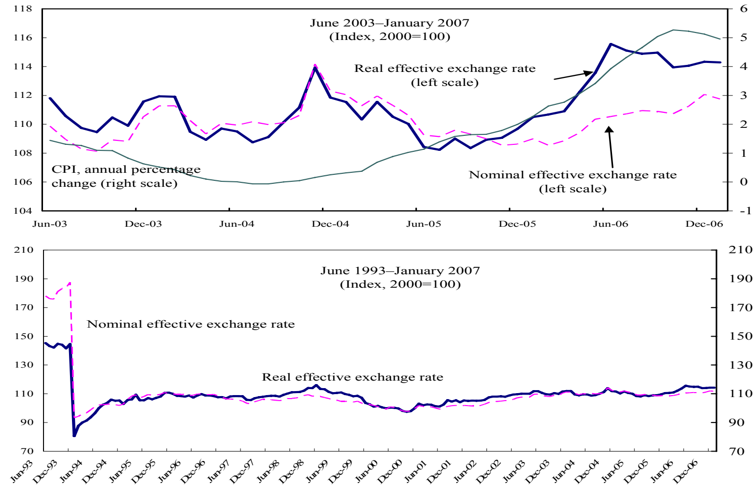
Cameroon: Selected Macroeconomic Indicators, 2003-06

	2003	2004	2005	2006 Est.
Economic growth and prices				
Real GDP	4.0	3.7	2.0	3.8
Oil	-5.0	-9.3	-9.7	6.9
Nonoil	4.9	4.9	2.9	3.5
Consumer prices (period average)	0.6	0.3	2.0	5.1
Gross domestic investment (percent of GDP)	17.5	18.9	18.1	18.0
Balance of payments				
Current account, incl. grants (percent of GDP)	-1.8	-3.8	-3.4	-0.8
Export volume	9.3	-0.7	-8.4	3.4
Of which: nonoil	16.1	2.9	-8.5	2.4
Import volume	0.0	11.2	4.6	6.8
Of which: nonoil	13.8	7.8	3.2	2.4

Sources: Cameroonian authorities, and Fund staff estimates.

5. **Inflation rose in 2006, and the REER appreciated somewhat.** Consumer prices increased by 5 percent in 2006, as fuel prices were adjusted upward. The higher inflation rate, along with a stronger euro—the currency to which the CFA franc is pegged—contributed to the REER's appreciation. While the REER is still about 20 percent lower than in 1993, nonprice factors continue to hamper Cameroon's external competitiveness (Box 3).

Cameroon: Consumer Prices and Real and Nominal Effective Exchange Rates, June 2003-January 2007



Source: IMF Information Notice System.

6. **The overall fiscal position improved in 2005–06, though concerns about budget execution and poverty reduction remain** (Tables 3, 4). Oil revenues increased, owing to higher world oil prices, and the government took steps to mobilize nonoil revenues (Box 4) and control spending. Capital spending, however, fell below target owing primarily to the sluggish pace of public procurement procedures and disbursement of debt relief, as well as poor planning and appraisal of investment operations. Underperformance on investment outlays raised concerns about achieving the faster growth needed to substantially lower poverty. Emergency one-off extrabudgetary spending (equivalent to 0.2 percent of GDP) in the last quarter of 2006 was financed directly by the national oil company, raising concerns about budget transparency. These outlays related to reconstruction of the Bakassi peninsula (which was reclaimed by Cameroon in June 2006 under a UN-sponsored agreement between Cameroon and Nigeria), as well as special border security operations to stem the illegal crossing of renegade soldiers from neighboring countries.

Cameroon: Key Fiscal Indicators, 2003–06

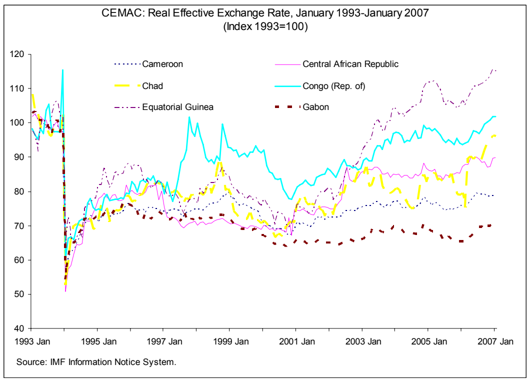
(Percent of GDP)

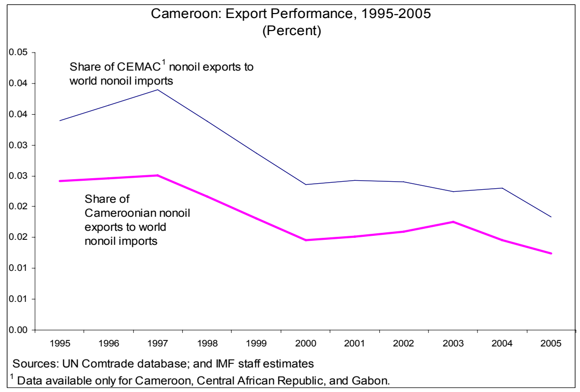
	2003	2004	2005	2006	
			Est.	Prog.	Est.
Total revenue and grants	16.6	15.4	17.9	46.6	46.7
Fiscal revenue	16.1	15.2	17.3	18.7	18.9
Oil revenue	4.1	3.9	4.9	6.6	6.7
Nonoil revenue	12.0	11.3	12.4	12.1	12.2
Grants	0.5	0.2	0.5	27.9	27.8
Total expenditure	15.4	16.0	14.4	15.6	14.2
Current	13.3	14.0	11.9	11.6	11.5
Capital	2.1	2.0	2.3	4.0	2.8
Foreign financed	0.5	0.8	0.5	0.4	0.7
Domestically financed	1.4	1.1	1.8	2.7	1.8
Rehabilitation and participation	0.2	0.1	0.0	0.9	0.3
Unclassified	0.1	-0.1	0.2	0.0	-0.1
Net change in arrears	-0.4	0.4	-0.8	-1.7	-1.8
Overall balance, excluding grants	0.2	-0.4	2.2	1.4	2.9
Memorandum items:					
Nonoil revenue [1]	12.8	12.1	13.5	13.4	13.5
Nonoil primary balance [1, 2]	-0.7	-2.1	0.0	-2.2	-0.6

Sources: Cameroonian authorities; and IMF staff estimates.
[1] Percent of nonoil GDP.
[2] Excludes interest and foreign-financed investment.

Box 3. External Competitiveness

For the CEMAC region as a whole, the REER appears close to its equilibrium level.[1] Staff estimates show that the REER for Cameroon is also close to its equilibrium level.





Other indicators would suggest, however, an erosion in Cameroon's competitiveness. The country's market share in world nonoil products has declined over the past decade. Competitiveness in Cameroon suffers primarily from nonprice factors: weak investment climate and governance. Indeed, according to the World Bank, Cameroon lags comparator countries on business environment indicators. Governance indicators, despite some progress, also remain weak: while its Country Policy and Institutional Assessment (CPIA)[2] rating of 3.3 for 2005 is close to the sub-Saharan Africa average (3.2), its ratings for transparency, accountability, and corruption in the public sector, property rights, and rule-based government are just 2.5.

Cameroon: Doing Business Indicators, 2006

	Doing Business (Overall rank) [1]	Days to acquire licenses	Cost of registering property [2]	Days to enforce contracts
Cameroon	152	444	19	800
Indonesia	135	224	11	570
Phillipines	126	197	6	600
Botswana	48	169	5	501
Mauritius	32	145	16	630
CEMAC	157	248	16	699
Sub-Saharan Africa	131	230	12	581
LMIC [3]	98	214	6	576

Source: World Bank, Doing Business Database, 2006.
[1] Indicates ranking out of 175 countries (lower number = higher ranking).
[2] Percent of value.
[3] Lower-middle income countries.

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[1] For a more detailed discussion, see Country Report No. 06/317.

[2] Countries are rated on a scale of 1 (unsatisfactory) to 5 (satisfactory), in one-half-point increments in 20 areas grouped into four categories: economic management; structural policies; policies for social inclusion/equity; and public sector management. See http://go.worldbank.org/74EDY81YU0 for more information.

Box 4. Revenue Measures Undertaken in 2006

Tax policy

- Extension of excise tax, at a rate of 12½ percent, to passenger vehicles with engine capacity of 2000 cm^3 or more.
- Extension of excise tax, at a rate of 25 percent, to non-alcoholic beverages.
- Reform of property tax to base assessment on value rather than surface area.
- Increase in minimum tax from 1 to 1½ percent on the turnover of enterprises outside the real regime "*régime du réel.*"
- Elimination of the zero-rate tariff category in order to make the national tariff structure conform to that of the CEMAC.
- Elimination of a number of VAT and tariff exemptions.

Customs administration

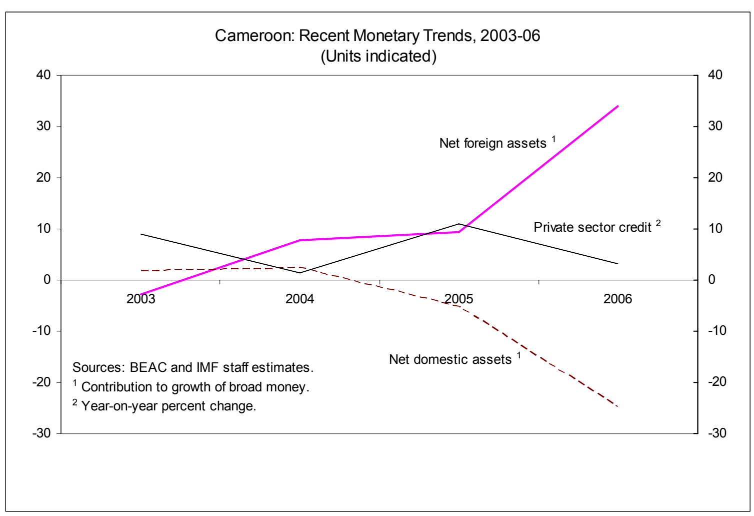
- Implementation of the automated system for customs data in the coastal areas (which accounts for over 90 percent of customs revenue).
- Strengthening of post-clearance control mechanisms and reinforcement of scanner usage for container clearance.
- Continuation of control of exemptions.

Tax administration

- Establishment of a center for medium-sized enterprises in Yaoundé and Douala to facilitate a more efficient monitoring of this category of taxpayers.[1]
- Establishment of control mechanisms to improve the efficiency of VAT and personal income tax collections.
- Establishment of a joint tax-customs administration unit to facilitate information exchange between the two directorates and joint audits.

[1] The tax center for large enterprises has been operational since the late 1990s.

7. **Monetary developments have been influenced by higher world oil prices** (Table 5). Although net foreign assets surged, broad money growth was contained, as the government reduced its liabilities to the banking system. Meanwhile, private sector credit growth slowed in 2006, reflecting a lack of bankable projects, as well as an improvement in the self-financing capacity of private operators following the repayment of a significant part of public domestic debt.



8. **The health of the banking sector has strengthened, though some weaknesses remain.** The number of undercapitalized banks declined, as did the number of banks with excessive credit risk.[1] Two banks in "critical" condition are under COBAC's surveillance; but their relatively small size should limit their impact on the real economy.[2]

Cameroon: Banking System Indicators
(Units indicated)

	2003	2004	2005	2006
Violations of main prudential ratios[1]				
Capital adequacy	1	3	5	4
Liquidity[2]	0	2	0	0
Fixed assets coverage[3]	2	4	5	6
Maturity transformation[4]	3	5	4	4
Minimum capital[5]	1	2	2	2
Limit on single large exposure[6]	7	8	7	6
Quality of loan portfolio				
Nonperforming loans (percent of gross loans)	13.9	13.1	12.6	12.4
Provisions (percent of nonperforming loans)	81.2	85.3	85.4	89.5

Sources: Banking Commission of Central Africa (COBAC) and staff calculations.
[1] Number of banks. There were 9 banks through 2004, 10 in 2005, and 11 in 2006.
[2] Short-term assets (up to one month remaining maturity) over short-term liabilities (up to one month remaining maturity).
[3] Net capital and other permanent resources over fixed assets.
[4] Long-term assets (more than five years) over long-term liabilities (more than five years).
[5] Minimum capital for Cameroon: CFAF 1 billion.
[6] Single large exposure is limited to 45 percent of capital.

9. **Program implementation under the PRGF-supported program was broadly satisfactory** (MEFP ¶ 4):

- Most quantitative targets for end-December 2006—including the performance criterion on the nonoil primary balance—were met (MEFP, Table 1). In view of the above-noted extrabudgetary spending, the related benchmark was missed and the quantitative performance criterion on bank financing was missed by a small margin (0.04 percent of GDP).

- Structural measures under the program were carried out mostly as planned (MEFP, Table 2). The structural performance criteria for end-December 2006 related to the submission to parliament of the 2007 budget, and adoption of a computerized system (SYDONIA) in the country's main customs office were met. The structural performance criterion related to the privatization of the telephone company was completed as scheduled (end-March 2007). And, all structural benchmarks through end-March 2007 were met, including publication of two EITI reports, except the preparation of a study on civil service remuneration.

10. **Progress in reforming public enterprises and implementing anticorruption measures was uneven.** The restructuring of CAMTEL and CAMPOST proceeded as

[1] The 2006 FSAP for the CEMAC region (Country Report No. 06/321) points out, however, that a minimum capital adequacy ratio of 8 percent may not reflect appropriately risk levels of the countries the region. Furthermore, the limit on large exposures—that can be as high as 90 percent for "strategically important" companies—is not in line with the Basel Committee's recommended 25 percent.

[2] These two problem banks represent about 4 percent of total assets in the banking system.

planned. The attempt to privatize CAMAIR, however, was declared unsuccessful by the government in April 2007 after a revised offer from the bidder (implying fewer routes and a smaller fleet capacity) was deemed unsatisfactory. The government in mid-March appointed members to the anticorruption commission set up a year ago. However, the target to appoint a commission to enforce the law requiring public officials to declare their assets by the end-February 2007 went unmet. Despite efforts to strengthen governance, the picture is still mixed (Box 3).

III. Policy Discussions

11. **Cameroon's medium-term challenge is to accelerate growth while maintaining fiscal sustainability.** The authorities at the highest levels have noted the important role of the Fund in helping Cameroon reach these objectives, along with development agencies and donors. Against this backdrop, discussions centered on two key areas:

- *First,* focusing fiscal policies and reforms on preserving fiscal sustainability. This will be achieved by enhancing nonoil revenue mobilization, while raising priority spending in order to meet economic and social objectives in line with the PRSP priorities.[3] Higher poverty-related spending would allow Cameroon to make faster progress toward the MDGs (Table 6). Fiscal sustainability will also require prudent debt management.

- *Second***,** creating an environment conducive to private sector development. Besides improvements to infrastructure, this objective will require policies to deepen financial intermediation, liberalize trade, reform public enterprises, and strengthen governance.

12. **The nonoil real GDP growth projections have been raised somewhat relative to the program baseline** (text table below).[4] The authorities expect better prospects for forestry, construction, and tertiary sectors. In addition, they anticipate policies under the PRGF-supported program to improve execution of government investment in infrastructure and other priority areas, foster fiscal sustainability and macroeconomic stability, and improve productivity.

13. **The staff and the authorities agreed that faster economic growth relative to the past hinges on higher factor accumulation and productivity**. Cameroon's infrastructure and overall investment rate, key predictors of growth, are weaker than in comparator countries (Box 1).[5] Although the macroeconomic scenario envisages increased public investment, much of the factor accumulation would need to come from private sector

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[3] These include health, education, infrastructure, and governance institutions.

[4] Country Report No. 06/165.

[5] See Chapter I of the Selected Issues Paper for details.

investment. Under the updated scenario, real GDP growth is projected at 5 percent per year on average in 2007-15, with factor accumulation and productivity each contributing equally to the forecast. Key to boosting productivity and attracting FDI will be infrastructure development, completion of reforms of public enterprises and improvements in the business climate (see below). An increase in FDI would contribute to the rise in private investment, facilitate international knowledge transfer, and strengthen conditions for domestic competition.

14. **The authorities are aware of the challenges entailed to raise growth rates beyond 5 percent per year.** A scaling up scenario where government and private investment each is higher by about 2 percentage points of GDP per year during 2008-15 would add another ¾-1 percentage point to real GDP growth per annum. Thus, the 7 percent per annum growth rate envisaged in the government's PRSP[6] required to lower the poverty rate by half by 2015 is unlikely to materialize.

[6] The last Annual Progress Report and the corresponding JSAN were issued to the Board in March 2006 (EBD/06/31 and EBD/06/32).

Cameroon: Selected Macroeconomic Indicators, 2006–10

(Units indicated)

		Baseline [1]		Updated Scenario			
	2006	2007	2008	2007	2008	2009	2010
Economic growth and prices							
Real GDP [2]	3.8	4.0	4.1	4.2	4.9	4.8	5.5
Of which: nonoil	3.5	4.0	4.7	4.4	5.2	5.3	5.9
Consumer prices (period average) [2]	5.1	1.9	2.2	1.8	1.8	2.0	2.0
Program oil price (US dollars per barrel)	61.6	62.5	61.3	50.0	54.8	51.5	51.3
Gross domestic investment [3]	18.0	21.6	21.6	20.1	21.5	22.8	23.5
Of which: private	15.1	18.4	17.9	16.4	17.4	18.8	19.4
Fiscal aggregates [3]							
Total revenue (excl. grants)	18.9	19.0	18.9	17.7	17.9	17.6	17.3
of which: nonoil revenue	12.2	12.3	12.6	12.6	12.7	13.0	13.3
Total expenditure	14.2	16.5	16.8	16.8	16.8	16.9	17.4
Of which : noninterest current	10.5	11.3	11.3	11.4	11.3	11.3	11.3
capital	2.8	4.8	5.0	4.9	5.1	5.1	5.6
Overall budget balance (commitment basis, excl. grants)	4.6	2.6	2.1	0.9	1.0	0.7	-0.1
Of which : nonoil primary fiscal balance [4]	-0.5	-2.6	-2.2	-2.6	-2.2	-2.2	-2.2
Balance of payments							
Current account (excl. grants) [3]	-1.3	-1.3	-2.9	-4.0	-4.8	-5.8	-6.3
Export volume [2]	3.4	5.7	2.6	4.2	3.6	3.8	4.4
Of which: nonoil	2.4	5.0	5.4	5.0	5.4	5.9	6.2
Import volume [2]	6.8	5.5	5.3	5.4	5.5	5.9	5.2
Of which: nonoil	2.4	9.3	6.4	7.2	8.7	6.0	5.4

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

[1] Based on Country Report No. 07/129

[2] Percentage change.

[3] Percent of GDP.

[4] Excluding foreign-financed investment.

15. **The macroeconomic impact of lower oil prices relative to the baseline is mixed** (text table above).

- Inflation is projected to decelerate reflecting an expected decline in fuel prices. In addition, Cameroon's membership to a monetary union, accompanied by an open position on current transactions, provides a solid anchor for a low inflation environment.

- The overall fiscal surplus will be about 1 percentage point of GDP lower on average in 2007-08, though the nonoil fiscal balance will remain unchanged.

- The current account deficit will be larger by about 2 percentage points of GDP on average.

A. Fostering Fiscal Sustainability

16. **The nonoil primary fiscal balance remains the anchor for fiscal policy.** The medium-term fiscal strategy (Country Report No. 06/231) is premised on the following:

- conservative projected oil prices in the budget to isolate core government operations from fluctuations in oil revenue and safeguard fiscal sustainability;

- a gradual increase in nonoil revenue to offset losses from the expected decline in oil reserves and the loss of tariff revenues from the EPA with the EU and trade liberalization; and

- expansion of capital expenditure relative to 2005–06 to boost growth, and deploying the resources freed up by debt relief in line with the priorities of the PRSP, while controlling current spending.

17. **Staff discussed with the authorities the appropriateness of the current fiscal strategy.** In the updated scenario, the nonoil primary deficit would be about 3 percent per annum in 2007-09 and gradually decline over the longer term. In this regard, the proposed fiscal stance for 2007 is appropriate and the nonoil primary fiscal deficit (program definition) relative to nonoil GDP remains at about ½ percent of GDP. Cameroon's fiscal space was assessed using two models:

Cameroon: Fiscal Profile, 2005-25
(Percent of nonoil GDP)

	2005-06	2007-09	2010-15	2016-25
Nonoil revenue	13.5	13.7	14.4	15.0
Primary spending[1]	13.8	16.2	16.6	17.0
Current expenditure	11.6	12.2	12.3	12.4
Capital expenditure (domestically financed)	2.0	3.7	4.3	4.6
Interest	1.3	0.5	0.4	0.4
Capital expenditure (foreign financed)	0.6	1.3	1.6	1.1
HIPC and additional bilateral relief spending	0.7	3.8	0.6	0.0
Restructuring expenditure	0.2	0.3	0.0	0.0
Nonoil primary balance	-0.3	-2.5	-2.2	-2.0

Sources: Cameroonian authorities; and Fund staff estimates and projections.
1/ Excluding foreign-financed investment.

- A debt sustainability analysis shows that debt relief has opened up significant fiscal space (Supplement). The baseline assumption of new public debt of 1-2 percent of GDP a year to finance investment would keep debt well below the sustainability threshold. Staff stressed that, even in the updated scenario, debt would rise to about 40 percent of exports (in NPV terms) by 2010 and to 100 percent by 2020. Staff noted that the pace of debt accumulation should also be considered in assessing fiscal space. The authorities agreed, but noted that some flexibility is needed to finance growth-enhancing projects in view of limited scope for external borrowing by the private sector. They expressed concerns about the dearth of concessional financing.

- A permanent income hypothesis (PIH) model shows that a nonoil primary fiscal deficit of about 0.5 percent of nonoil GDP could be sustained over the next 40-50 years.[7] The deviation of the nonoil fiscal primary balance under the baseline scenario from that of the PIH model reflects scaled-up priority investment to accelerate growth. The authorities did not consider the PIH model's results as reliable enough to underpin fiscal strategy.

18. **Notwithstanding the additional fiscal space, scaling up of spending would require close attention to absorptive, administrative, and institutional constraints**:

- **Absorptive capacity**. Staff noted that unless absorptive capacity can be expanded, a significant scaling up of spending may result in "Dutch disease." While the authorities agreed in principle, they pointed out that this risk would be limited, given the existing monetary regime and past experience on inflation. They noted that outlays geared toward improving productive capacity would minimize this risk. In addition, the high import content of infrastructure-related spending would help minimize inflationary pressures.

- **Administrative and institutional capacity**. The authorities attributed recent constraints on expanding investment outlays to the cumbersome procedures under a new procurement system. Staff urged the authorities to (i) strengthen public expenditure tracking, (ii) improve public procurement, (iii) train personnel to perform administrative tasks that would ensure effective utilization of the procurement system, and (iv) improve identification, costing, and planning of projects.

19. **Consolidating the fiscal gains made in 2005 and 2006 and expanding priority spending is at the center of the 2007 budget, as well as the medium-term fiscal scenario**.

- Noninterest current spending is expected to increase by 0.8 percentage point of GDP in 2007 relative to 2006. The wage bill will be kept below 5 percent of GDP, while

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[7] See Chapter II of the Selected Issues Paper for more details.

the impact of oil price increases on domestic fuel prices is split equally between fuel price increases and transfers to SONARA. Over the medium term, priority current spending not financed by debt-relief resources is expected to rise by 0.2-0.3 percentage point of GDP.

- Capital spending is projected to increase by 2 percentage points of GDP in 2007, reflecting primarily debt-relief-financed domestic investment.

- Repayment of domestic debt and arrears will continue. While windfall in oil revenues will be used primarily to accelerate repayment of domestic debt and arrears, priority one-off spending, in line with PRSP priorities, will also be considered in the context of program reviews (MEFP ¶8).

20. **The authorities expect that the nonoil revenue target could be achieved with improvements in tax and custom administrations.** They concur that it is important to further boost Cameroon's nonoil revenues, especially given the expected decline in oil revenues and trade liberalization. Given that tax rates on capital income, labor, and consumption are already high, broadening the tax base through administrative measures would be a priority (MEFP, ¶10-11). At the same time, however, tax incentives introduced in 2007 pose a risk to this objective. Nonetheless, the authorities are convinced that tax policy measures implemented in 2006 (Box 4) and those envisaged in 2007 should contribute to setting nonoil revenues on an upward path. Staff urged the authorities, however, to be vigilant on attaining the nonoil revenues objectives and to be ready to accelerate administrative measures envisaged in 2007 and adopt tax policy measures if tax receipts fall below expectations.

21. **The authorities will continue using prudent oil price assumptions in order to shelter public spending from short-term oil revenue volatility.** In this regard, the staff and authorities agreed that a prudence factor of US$7 per barrel would be appropriate.[8] To prevent future expenditure adjustments if oil prices were to decline, and to support budget operations, staff proposed that part of the oil windfall be set aside in a special BEAC account. The authorities noted that they would give this proposal further consideration.

22. **The authorities will continue taking steps to improve the quality of public spending.** Subsidies to public enterprises burden the budget. Staff pointed out that growth and poverty reduction objectives will be better achieved by reorienting spending toward education, health, and infrastructure. Regarding fuel subsidies, staff called for their gradual phasing out since they benefit primarily high-income households (Box 5). The authorities

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[8] Oil price projections are set below WEO prices by a constant prudence factor. The proposed prudence factor is equivalent to about half a standard deviation of annual prices over the past 20 years and is in addition to a US$3 per barrel quality discount. Should oil prices decline by more than the prudence factor, the staff and authorities will review the macroeconomic framework.

stressed the importance of proceeding cautiously on this front in view of the need to maintain social peace. They agreed to adopt a revised formula to adjust fuel prices, which will permit the automatic adjustment of prices in accordance with international oil price movements (MEFP ¶17).

23. **The authorities concurred on the need to safeguard the quality of government spending.** In this regard, they are pursuing several fiscal reforms.

- **Budget monitoring and expenditure tracking.** To track budget execution better and ensure preparation of coherent budget execution data, the authorities intend to strengthen information technology interlinkages between the budget and the treasury, and prepare a public financial management action plan (MEFP, ¶13). They also plan to adopt a new organic budget law in 2007 (Box 6) aimed at modernizing the budget framework.

- **Procurement system.** The authorities, with the assistance of the World Bank, will improve the procurement system (MEFP, ¶14). They plan to assess annually the reliability and performance of the system and make necessary adjustments.

- **Transparency of budget management.** The authorities will refrain from carrying out extrabudgetary spending; in this regard, they have requested a strengthening of the program condition related to cash spending by the SNH. They will continue publishing data on budget execution and oil sector operations, as well as future EITI reports.

- **Civil service**. Actions are envisaged in the civil service area to help safeguard fiscal sustainability. In this regard, the authorities plan to: (i) ensure that a cost analysis precede any regularization of salaries; (ii) unify the civil service database; and (iii) upgrade the current payroll software to better secure data.

B. Improving the Business Environment

24. **The authorities recognize the importance of further enhancing the business environment to boost private sector activity and growth**. As noted above, the key to boosting investment and growth is higher productivity (Box 1). The latter will require considerable improvement in the business environment through reforms in the financial sector, trade, public enterprises, and governance.

Box 5. Fuel Pricing and Social Impact

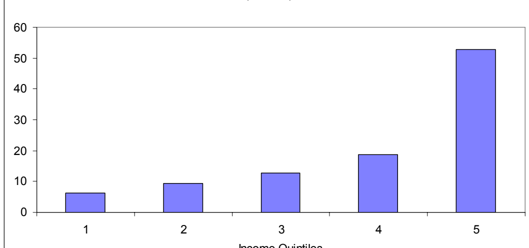
The current pricing of fuel products in Cameroon is complex both in its objectives and implementation. Besides adjusting prices to subsidize the domestic oil refinery, the pricing formula applies a negative excise tax to kerosene (designed to help the poor, who are relatively heavy users of the commodity).

The pricing formula has been further complicated by the recent rise in world oil prices, which in Cameroon has been accompanied by measures to limit the pass-through to domestic fuel prices. Customs taxes and value-added taxes (VAT) on petroleum products since 2004 have been reduced. Ex-refinery prices have also been held below the levels specified by the pricing formula, resulting in the need for direct budget subsidies to the domestic refinery.

In 2006, a Fund TA mission advised the authorities to simplify the formula. It recommended that the authorities begin by isolating the various objectives involved in pricing fuel products and use a single instrument to achieve each of them. For example, the standard VAT rate should be used and differential excise taxes could be introduced to achieve desired domestic fuel prices. It also recommended that the refinery be subject to international fuel prices to increase transparency; any resulting losses could be financed through direct budgetary transfers.

Targeted social spending could replace tax instruments and subsidies in mitigating the effects of higher fuel prices on the poor. Under the current budget mechanism, more than half the budgetary costs (i.e., in the form of subsidies or forgone revenue) now accrue to the top income quintile because richer households consume more kerosene and other fuel products than do poorer households. Measures that instead scale up existing transfer programs and develop effective social protections, while achieving the same objectives, would be more cost-effective.

Distribution of Fuel Subsidies by Income Groups
(Percent)



Sources: Cameroonian authorities; and staff estimates.
Note: "1" indicates lower quintile.

Box 6. New Organic Budget Law

The current budget legal framework, which is primarily based on the 1962 ordinance with some later amendments, is complex. Governance issues associated with budget execution partly reflect the complex expenditure chain. To address these weaknesses, the authorities have decided to introduce a new organic budget law. The law's main objectives are to better define the roles of the government and parliament in the budget process and to increase accountability. Its main innovations would be to

- present and execute the budget according to program rather than by administrative divisions;
- make the ministries fully accountable for their budgets, which requires decentralization of the management of the budget, including analysis and monitoring of programs, at the line ministry level;
- revise the framework guiding the parliament's role in the budget process; and
- improve the content and format of ex post budget audit law.

For the new organic law to become effective, coordinated action will be required to (i) ensure a high degree of cooperation between ministries in preparing and executing their budgets; (ii) decentralize the budget structure so that line ministries have appropriate power over all aspects of budget execution; (iii) establish an effective and integrated management information system; and (iv) build a strong political commitment to the reforms. In view of these requirements, the law's provisions will be implemented over a five-year period starting in 2008.

Financial sector

25. **Bold measures will be needed to enhance banking intermediation.** Based on the recommendations of the regional FSAP, staff called on the authorities to improve the judicial system and land registries, and expand the information base to enable banks to price risks better.[9] In addition, limits on interest rates at the regional level would need to be reviewed to reflect market conditions. While broadly agreeing that policy and structural factors have impeded financial intermediation, the authorities said that market imperfections (e.g., oligopolistic structure of banking system, limited access to banks in rural areas, etc.) should be given due consideration. They agreed to prepare by end-2007 an action plan aimed at deepening financial intermediation, taking into account the recommendations of a forthcoming FSAP mission. They also agreed to facilitate credit access through measures that

[9] For more details, see Chapter III of the Selected Issues Paper.

ease procedures for collecting on guarantees, create a commercial tribunal, and expand financial information (MEFP, ¶21).

26. **To help bring banking services to remote areas, the authorities will pursue the restructuring of CAMPOST**. They see CAMPOST as an important player in the financial sector. Staff urged the authorities to adhere to the envisaged timetable, which requires the financial services subsidiary to be spun off and brought under the supervision of COBAC by June 2007 (performance criterion).

27. **Efforts are needed to broaden the depth of the financial sector.** The development of domestic debt and equity markets will be important for accelerating long-term growth (MEFP, ¶22). To foster greater capital market development, the authorities plan to transfer all secondary market transactions on zero-coupon government debt to the bond market. These transactions will take place under the supervision of the financial markets commission.

Trade reform

28. **Trade liberalization will contribute to lowering the cost of doing business.** The authorities are pursuing the trade reform agenda, including to lower the common external tariffs, within the CEMAC (MEFP, ¶20). They concurred that lower import tariffs could stimulate growth, but expressed concerns about the revenue losses that may result. The staff shared these concerns, and discussed ways to make up for the revenue losses. On the policy side, the staff recommended an expansion of the tax base for income taxes, and a reduction of the reliance on tax exemptions as a tool to encourage investment and consumption. Over the longer run, the staff suggested that a reduction in top marginal income tax rates could reduce the incentive for tax evasion. The authorities broadly concurred and plan to prepare a medium-term plan for improving nonoil revenue mobilization.

Public enterprise restructuring

29. **The reform of key public enterprises should be accelerated** (MEFP, ¶24). Staff urged the authorities to complete pending reforms in a timely manner in order to alleviate the burden on the budget and improve services. In CAMAIR's case, the authorities stressed their commitment to relaunch the reform with a view to improving efficiency and eliminating budgetary subsidies. Reforms are also envisaged in telecommunications (CAMTEL) and the water sector (SNEC).

Governance

30. **The authorities noted that, by lowering uncertainty in the regulatory and judicial environment, anticorruption efforts will also improve the business climate** (MEFP, ¶25). They will appoint members to the commission that will implement the law requiring high public officials to declare their assets by year-end 2007. Furthermore, in the framework of donor-coordinated efforts on governance under the OECD-DAC initiative,

they will prepare a comprehensive anticorruption strategy and an accompanying action plan. Publication of corruption-related court decisions and administrative sanctions will continue.

IV. Financing Assurances Review

31. **Given Cameroon's arrears to private external creditors, the staff discussed issues related to financing assurances**. The staff reiterated the importance of resolving pending litigation with relevant creditors in line with Cameroon's commitment to the Paris Club of offering comparable treatment to nonparticipating creditors.[10] Negotiations with private creditors are ongoing. While Cameroon has offered terms that are comparable with the enhanced HIPC Initiative, commercial creditors have yet to accept them. A few have improved their offers by agreeing to forgo accumulated interest and penalties, but have insisted that Cameroon repay the principal in full.

V. Program Risks and Monitoring

32. **The program is subject to risks, notably in the areas of growth, revenue mobilization, and expenditure control:**

- Slow action to improve the business climate could jeopardize growth and poverty reduction.
- Sluggish progress in raising nonoil revenues could threaten the fiscal objectives, especially the goal to increase priority spending on a sustained basis.
- Parliamentary elections in 2007 could test the authorities' ability to resist spending pressures.

33. **The program will be monitored every six months** on the basis of quantitative and structural performance criteria, benchmarks, and indicative benchmarks (MEFP, Tables 1-4). Reflecting the authorities' commitment to zero extrabudgetary spending, they requested that the structural benchmark on spending by the national oil company be changed to a performance criterion. Furthermore, because of reduced oil revenues, reflecting the decline in oil prices relative to earlier projections, the authorities have requested a modification of the end-June 2007 performance criterion on the net claims of the banking system on the central government (MEFP, Table 1). The program is fully financed through the next review.

34. **Data provision to the Fund remains adequate for surveillance purposes, though further improvements are needed.** Efforts have been made to strengthen national accounts

[10] Of the 22 commercial creditors that did not participate in the 2003 debt buy-back operation, 5 have resorted to litigation. Two of those creditors have already received favorable judgments and have seized government assets.

and fiscal data. From here, the quality and timeliness of BOP statistics needs to improve. The authorities have expressed interest in further improving and disseminating Cameroon's macroeconomic statistics.

VI. Staff Appraisal

35. **Improvements in macroeconomic performance over the past decade are encouraging.** Nonoil output has increased since 1995, and inflation overall has been low. The fiscal position has generally strengthened, and debt relief has brought the country's debt to a sustainable level. The authorities are to be commended for implementing the policies and reforms needed to achieve these results.

36. **The authorities will need to consolidate these gains and ensure a steady pace of improvement.** Although the macroeconomic performance has broadly improved, the rhythm of progress has been uneven. In particular, there have been swings in the pace of fiscal consolidation, including progress on nonoil revenue mobilization and expenditure control. In addition, while the declining trend in economic activity observed until 1994 has been reversed, the growth pick up has not been strong enough to achieve a significant reduction in poverty. Finally, the recent productivity deceleration is a cause for concern. Against this background, key forward-looking priorities relate to: consolidating the recent fiscal gains and preserving fiscal sustainability; and strengthening the business climate to accelerate growth.

37. **Steps should be taken to set nonoil revenues on a steady upward path,** especially in the context of declining oil reserves and the expected trade liberalization. In view of the high tax rates, administrative measures being implemented by the authorities to expand the tax base are essential. The authorities should nonetheless remain vigilant about meeting their nonoil revenue objectives and be ready to accelerate tax administration measures envisaged in 2007 and adopt policy measures if tax receipts fall below expectations.

38. **Continued attention on spending levels would be needed, while promoting priority outlays.** The staff urges the authorities to follow budgetary procedures and refrain from undertaking extrabudgetary spending. Meanwhile, chronic capital spending shortfalls raise concerns about progress towards achieving growth and poverty reduction objectives. Staff welcomes the authorities' efforts to enhance capital budget execution, including through timely budget presentation to parliament, allocation of adequate counterpart funds to externally-financed projects, and staff training.

39. **Expenditure quality should be enhanced.** The staff urges the authorities to contain and then eliminate over time budgetary subsidies in order to create fiscal space for more priority spending. In addition, the tracking of budget execution will need to be further reinforced, including by strengthening interlinkages between the budget and the treasury. More generally, the authorities' intention to prepare a medium-term action plan to further improve budget management is welcome.

40. **Debt must be managed prudently.** The authorities should continue to borrow on concessional terms and ensure that borrowed resources are put to effective use, and to analyze debt sustainability on a regular basis. As confirmed by a review under the Fund's Lending into Arrears policy, Cameroon is making good-faith efforts to reach agreements with commercial creditors and is pursuing appropriate policies. In staff's view, Cameroon's adjustment efforts are not undermined by developments in its relations with creditors.

41. **Decisive actions are needed to strengthen the business environment.** In order to boost productivity and accelerate growth, it is necessary to improve financial intermediation, liberalize trade, reform public enterprises, and tackle corruption.

- The strengthening of financial intermediation will be greatly facilitated by easing procedures for collecting on guarantees and creating a commercial tribunal. The authorities' commitment to build on the recommendations of the upcoming national FSAP mission and prepare an action plan to reform of the financial system is welcome.

- The authorities are to be commended for pursuing the trade reform agenda within the CEMAC, including a lowering of the common external tariffs.

- Ongoing public enterprise reforms should be accelerated. It will be critical for the authorities to complete the reforms, begun a few years ago, in telecommunications, water, finance, and air transport. The timely completion of these reforms will buoy the budget and allow the authorities to direct freed-up resources to more productive areas.

- The staff urges the authorities to step up anticorruption efforts aimed at lowering uncertainty in the regulatory and judicial environment in order to improve the business climate.

42. **Staff recommends that the Board:**

- **complete the financing assurances review**, given that Cameroon's current relations with its external creditors offer sufficient financing assurances for the Fund-supported program;

- **complete the third review under the PRGF,** in view of satisfactory performance through April 2007 and commitments made through the rest of 2007;

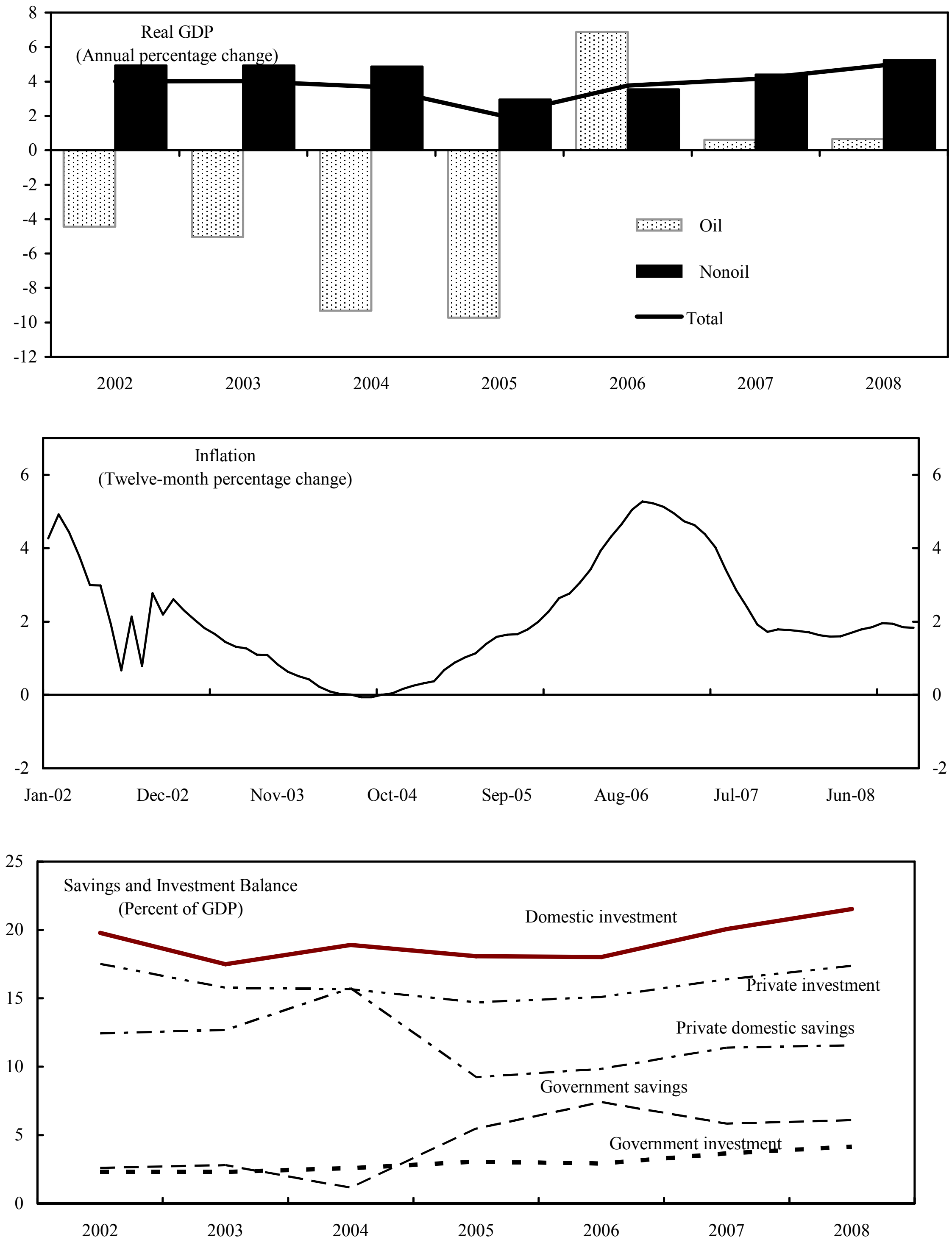
- **convert the quantitative benchmark on cash spending by SNH to a performance criterion,** reflecting the authorities' commitment to refrain from extrabudgetary spending;

- **grant a waiver for the nonobservance of the performance criterion on net claims of the banking system on the central government,** given the small margin by which the target was missed and the authorities' commitment to uphold future targets; and

- **modify the end-June 2007 performance criterion on net claims of the banking system on the central government,** to allow for lower government deposits since oil prices are running below the baseline projections.

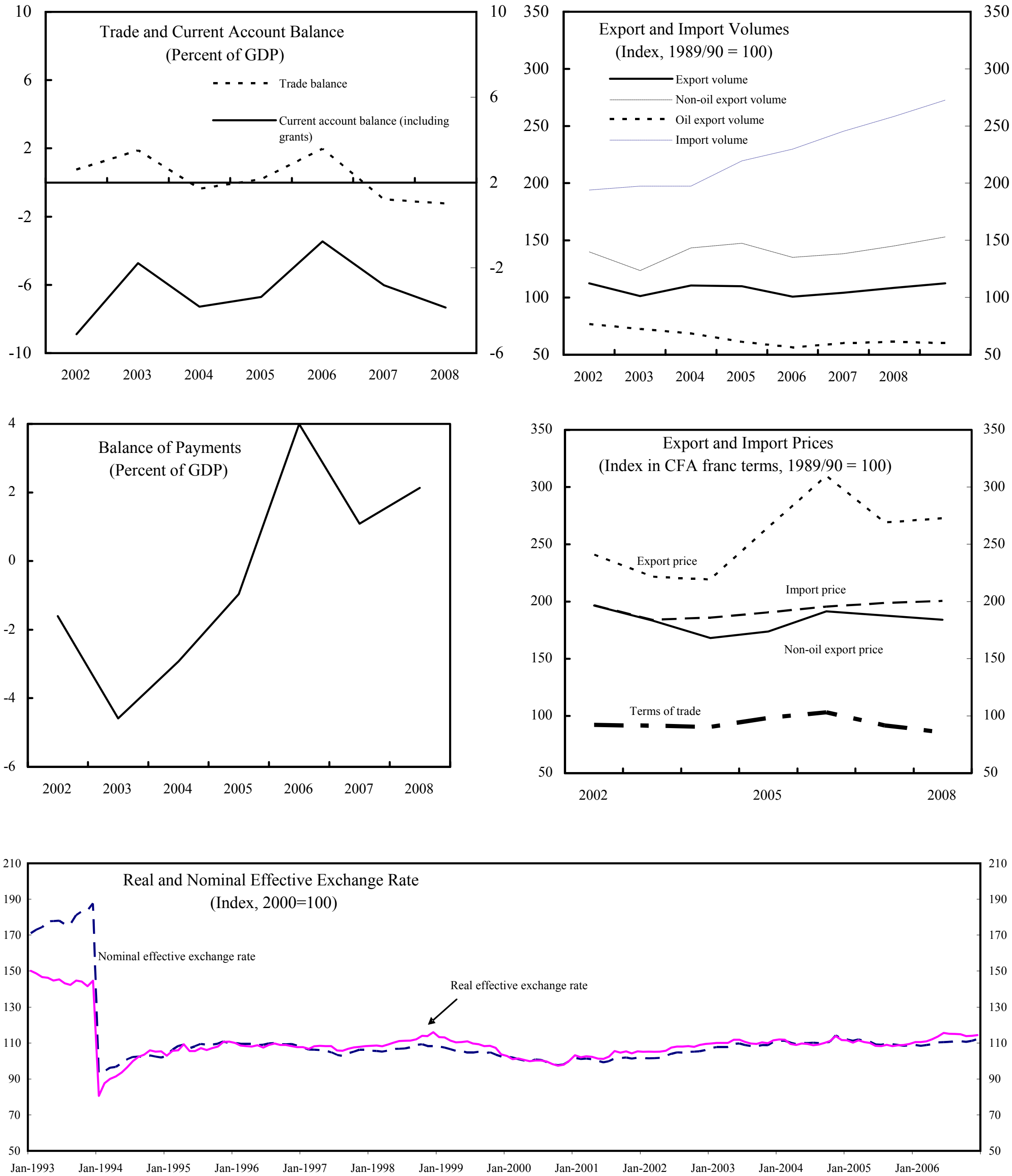
43. **Staff proposes that the next Article IV consultation with Cameroon take place within 24 months**, subject to the provisions of the decision on consultation cycles in program countries.

Figure 1. Cameroon: Output, Prices, Savings, and Investments, 2002- 08



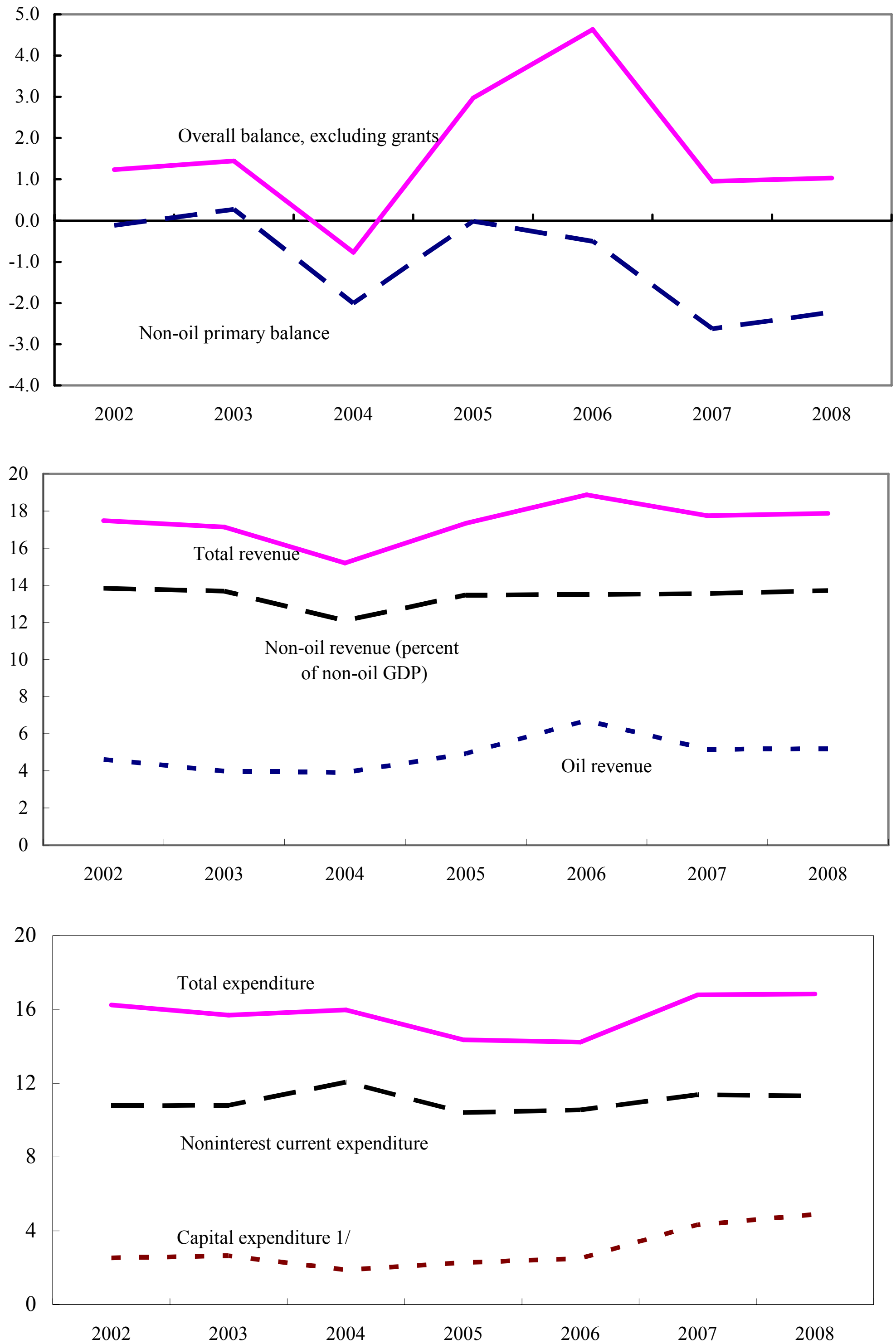
Sources: Cameroonian authorities; and IMF staff estimates and projections.

Figure 2. Cameroon: External Sector Developments and Prospects, 2002- 08



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

Figure 3. Cameroon: Fiscal Developments and Prospects, 2002-08
(Percent of GDP)



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

1/ Excluding restructuring expenditures.

Table 1. Cameroon: Selected Economic and Financial Indicators, 2004–08

	2004	2005	2006		2007		2008
	Est.	Est.	Prog.	Est.	Prog.	Proj.	Proj.
	(Annual percentage changes, unless otherwise indicated)						
National income and prices							
GDP at constant prices	3.7	2.0	3.5	3.8	4.0	4.2	4.9
Oil	-9.3	-9.7	8.8	6.9	3.6	0.6	0.7
Non-oil	4.9	2.9	3.1	3.5	4.0	4.4	5.2
GDP deflator	1.5	4.7	5.2	3.7	2.2	1.2	1.9
Consumer prices (12-month average)	0.3	2.0	4.6	5.1	1.9	1.8	1.8
Nominal GDP (billions of CFA francs)	8,334	8,901	9,687	9,581	10,296	10,095	10,794
Oil	541	714	948	946	988	727	799
Non-oil	7,792	8,187	8,739	8,634	9,308	9,368	9,995
Oil output (thousands of barrels a day)	89	82	88	87	91	88	86
External trade							
Export volume	-0.7	-8.4	3.5	3.4	5.7	4.2	3.6
Of which: Non-oil sector	2.9	-8.5	2.4	2.4	5.0	5.0	5.4
Import volume	11.2	4.6	5.3	6.8	5.5	5.4	5.5
Average oil export price (U.S. dollars per barrel)	34.9	50.4	60.7	61.6	62.5	50.0	54.8
Nominal effective exchange rate	1.8	-4.4	...	3.2	...	...	...
Real effective exchange rate	0.1	-3.5	...	4.5	...	...	...
Terms of trade	-2.2	18.0	12.7	14.0	-0.1	-14.6	0.4
Non-oil export price index (CFA francs)	-8.3	3.4	6.7	10.2	-2.8	-2.0	-1.9
Money and credit (end of period)							
Net domestic assets 1/	0.3	-5.3	-14.8	-24.8	-9.3	-0.4	-5.0
Net credit to the public sector 1/	0.1	-8.7	-12.6	-21.7	-13.3	-3.8	-9.2
Credit to the private sector	1.4	10.9	4.8	3.2	8.0	6.8	8.5
Broad money (M2)	7.3	4.2	11.0	9.3	7.1	6.7	7.7
Velocity (GDP/average M2)	5.8	6.0	5.9	5.9	5.9	5.7	5.8
Central government operations							
Total revenue	-0.4	21.8	17.4	17.1	8.1	1.6	7.8
Of which: Non-oil revenue	-0.7	17.3	6.1	5.5	8.5	12.1	7.8
Total expenditure	9.2	-4.0	18.3	6.7	12.1	16.3	7.3
	(Percent of GDP, unless otherwise indicated)						
Gross national savings	15.1	14.7	21.0	17.3	21.4	17.2	17.7
Gross domestic investment	18.9	18.1	21.4	18.0	21.6	20.1	21.5
Central government operations							
Total revenue (excluding grants)	15.2	17.3	18.7	18.9	19.0	17.7	17.9
Oil revenue	3.9	4.9	6.6	6.7	6.7	5.2	5.2
Non-oil revenue	11.3	12.4	12.1	12.2	12.3	12.6	12.7
Non-oil revenue (percent of non-oil GDP)	12.1	13.5	13.4	13.5	13.6	13.6	13.7
Total expenditure	16.0	14.4	15.6	14.2	16.5	16.8	16.8
Noninterest expenditure 2/	13.1	12.4	13.2	12.3	14.3	14.6	14.7
Capital expenditure 3/	1.9	2.3	3.1	2.5	4.2	4.3	4.9
Fiscal balance (excluding net changes in arrears)							
Excluding grants	-0.8	3.0	3.1	4.6	2.6	1.0	1.0
Including grants	-0.5	3.5	31.0	32.4	3.9	2.3	2.1
Primary balance 4/	1.9	4.9	4.6	6.2	4.1	2.5	3.0
Non-oil primary balance (percent of non-oil GDP) 4/	-2.1	0.0	-2.2	-0.6	-2.9	-2.8	-2.4
External sector							
Current account balance (including grants)	-3.8	-3.4	-0.4	-0.8	-0.1	-2.8	-3.9
Gross official reserves	9.3	8.6	10.7	10.4	9.0	8.7	13.1
Stock of external debt 5/	44.2	36.7	3.1	5.0	4.0	5.6	6.7
Stock of public debt	61.3	52.7	17.8	14.3	16.3	12.4	11.7
	(Percent of exports of goods and services, unless otherwise indicated)						
NPV of external debt after HIPC, bilateral relief beyond HIPC, and MDRI	26.3	11.1	9.1	3.6	11.2	3.8	4.4
External debt service 6/	7.1	6.7	3.4	13.7	0.8	16.4	19.5
External debt service (as a percent of government revenue) 7/	10.8	9.2	4.5	4.5	0.8	2.7	2.8

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

1/ In percent of broad money at the beginning of the period.
2/ Excluding foreign-financed investment, restructuring expenditure, and separation grants.
3/ Excluding restructuring expenditure.
4/ Excluding grants, interest, and foreign-financed capital expenditures.
5/ Assumes cancellation of C2D debt in 2006.
6/ NPVs calculated using the LIC DSA methodology.
7/ Actual payments through 2004, and after all expected debt relief from 2006 onward.

Table 2. Balance of Payments, 2004-10

	2004	2005	2006		2007		2008	2009	2010
	Est.	Est.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
			(Billions of CFA francs)						
Current account balance	-319	-300	-38	-72	-15	-285	-417	-567	-705
Trade balance	-30	17	191	190	204	-100	-132	-268	-365
Exports, f.o.b.	1,362	1,509	1,791	1,825	1,891	1,651	1,733	1,690	1,710
Oil and oil products	574	763	975	983	1,059	784	837	762	739
Non-oil sector	789	746	816	842	832	867	896	929	972
Imports, f.o.b.	-1,392	-1,492	-1,599	-1,635	-1,687	-1,751	-1,865	-1,958	-2,075
Services (net)	-156	-188	-262	-263	-263	-302	-370	-399	-430
Income (net)	-212	-243	-151	-131	-165	-90	-109	-97	-91
Of which: Interest due on public debt	-139	-112	-90	-73	-37	-37	-36	-36	-35
Transfers (net)	79	114	183	132	209	207	194	196	182
Inflows	91	127	195	145	221	221	206	207	193
Of which : Official program grants	3	6	13	0	16	16	6	5	0
Of which : HIPC grants	10	35	13	13	12	11	9	6	2
Outflows	-11	-13	-12	-13	-13	-14	-11	-11	-11
Capital and financial account balance	75	214	263	455	290	394	647	809	946
Capital account	6	6	2,596	2,610	12	12	11	11	10
Capital transfers	6	6	134	157	12	12	11	11	10
Of which: Other transfers (MDRI grant-IMF)	...	...	133	131.8	0	0	0	0	
Debt forgiveness	0	0	2,463	2,452	0	0	0	0	0
Principal not yet due forgiven	0	0	2,463	2,452	0	0	0	0	0
Financial account	69	208	-2,333	-2,155	278	382	636	799	936
Official capital	-191	-236	-2,591	-2,558	39	39	93	71	129
Long-term borrowing	104	38	67	63	124	124	175	158	201
Principal not yet due rescheduled	0	0	14	14	0	0	0	0	0
Amortization	-296	-273	-195	-169	-85	-84	-82	-87	-71
Principal not yet due	0	0	-2,477	-2,467	0	0	0	0	0
Private capital (net)	260	444	257	403	239	342	543	728	806
Oil sector	-76	-25	-39	-49	36	24	-41	-5	-15
Non-oil sector	337	469	296	452	203	318	583	733	821
Overall balance	-244	-86	225	382	275	109	230	242	241
Financing	244	86	-225	-382	-275	-109	-230	-242	-241
Bank of Central African States (BEAC)	-87	-140	-335	-475	-276	-111	-231	-243	-242
Use of IMF credit (net)	-15	-19	-139	-137	4	4	4	0	0
Use of Fund credit	-15	-19	-139	-137	4	4	4	0	0
Change in arrears vis-à-vis the Fund, net	0	0	0	0	0	0	0	0	0
Other reserves (net)	-72	-121	-196	-338	-280	-115	-235	-243	-242
Exceptional financing (debt relief) 1/	297	237	107	89	0	0	0	0	0
Net change in arrears	34	-11	2	3	0	1	0	0	0
Financing need 3/	0	0	2	0	1	1	1	1	1
Of which : Possible debt relief 2/	0	0	2	0	1	1	1	1	1
Possible IMF disbursement	0	0	0	0	0	0	0	0	0
Remaining financing gap	0	0	0	0	0	0	0	0	0
			(Percent of GDP)						
Trade balance	-0.4	0.2	2.0	2.0	2.0	-1.0	-1.2	-2.3	-2.9
Current account balance									
Excluding grants	-4.0	-3.8	-1.5	-1.3	-1.3	-4.0	-4.8	-5.8	-6.3
Including grants	-3.8	-3.4	-0.4	-0.8	-0.1	-2.8	-3.9	-4.9	-5.7
Overall balance	-2.9	-1.0	2.3	4.0	2.7	1.1	2.1	2.1	1.9
			(Percentage change, unless otherwise indicated)						
Export volume	-0.7	-8.4	3.5	3.4	5.7	4.2	3.6	3.8	4.4
Oil sector	-10.4	-7.9	6.7	6.4	7.9	1.9	-2.0	-3.1	-2.1
Non-oil sector	2.9	-8.5	2.4	2.4	5.0	5.0	5.4	5.9	6.2
Import volume	11.2	4.6	5.3	6.8	5.5	5.4	5.5	5.9	5.2
Of which : Non-oil sector	7.8	3.2	-0.1	2.4	9.3	7.2	8.7	6.0	5.4
Terms of trade	-2.2	18.0	12.7	14.0	-0.1	-14.6	0.4	-5.2	-3.8
Non-oil export price index (CFA francs)	-8.3	3.4	6.7	10.2	-2.8	-2.0	-1.9	-2.1	-1.5
Import price index (CFA francs)	1.1	2.4	1.8	2.6	0.0	1.6	0.9	-0.9	0.8
Exchange rate (CFA francs per U.S. dollar)	528.0	527.3	...	522.8	…	…	…	…	…

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

1/ From Paris Club creditors.

Table 3. Cameroon: Central Government Operations, 2004–08
(Billions of CFA francs)

	2004	2005	2006		2007		2008
			Prog.	Prel. Est.	Prog.	Proj.	Proj.
Total revenue and grants	1,286	1,590	4,512	4,472	2,092	1,925	2,044
Total revenue	1,267	1,543	1,812	1,808	1,958	1,791	1,930
Oil sector revenue	325	439	641	643	688	521	560
Non-oil sector revenue	942	1,104	1,171	1,165	1,270	1,270	1,370
Total grants	19	47	2,700	2,664	134	134	114
Total expenditure	1,331	1,278	1,512	1,364	1,695	1,695	1,818
Current expenditure	1,169	1,055	1,121	1,097	1,198	1,198	1,271
Wages and salaries	450	414	443	419	479	479	500
Goods and services	414	337	395	381	466	466	512
of which: HIPC	33	22	14	19	20	20	9
C2D	...	...	8	0	21	21	24
MDRI	...	...	10	0	18	18	18
Subsidies and transfers	141	175	180	211	205	205	208
of which: fuel subsidies	...	17	23	22	28	25	25
Pensions	64	77	80	72	92	92	95
Interest due	164	129	102	87	49	49	50
External	138	111	89	72	35	35	35
Domestic	26	18	13	15	14	14	15
Capital expenditure	167	206	392	271	496	496	547
Foreign-financed investment	67	44	43	64	110	110	158
Domestic investment	90	159	259	177	327	327	369
of which: HIPC	10	52	84	34	80	80	69
C2D	...	...	19	0	49	49	56
MDRI	...	...	10	0	20	20	18
Rehabilitation and participation	10	3	90	31	60	60	20
Unclassified expenditure	-5	17	0	-5	0	0	0
Overall balance, excluding net change in arrears							
Excluding grants	-64	265	300	444	264	97	112
Including grants	-45	312	3,000	3,108	398	230	226
Net change in arrears	31	-73	-168	-170	-60	-59	-35
External	34	-11	2	3	0	1	0
Domestic	-4	-62	-169	-173	-60	-60	-35
Overall balance, cash basis							
Excluding grants	-34	192	132	274	204	37	76
Including grants	-15	239	2,832	2,938	338	171	191
Financing	15	-239	-2,834	-2,938	-338	-172	-192
External financing, net	51	-35	-2,507	-2,476	13	13	66
Amortization	-296	-273	-195	-2,635	-85	-84	-82
Drawings	94	38	42	38	97	97	148
Project financing	0	38	42	38	97	97	148
Program financing (loans)	43	0	0	0	0	0	0
Debt rescheduling	0	0	14	14	0	0	0
Exceptional financing [1]	252	200	109	107	0	0	0
Domestic financing, net	-36	-204	-327	-462	-351	-185	-258
Banking system	13	-139	-165	-305	-232	-66	-168
Banking system, excluding HIPC and C2D	-7	-151	-149	-238	-222	-58	-158
Net HIPC flows	20	12	34	-2	14	16	-1
Net C2D flows	...	...	-50	-65	-23	-23	-9
Amortization	-33	-69	-164	-159	-110	-110	-79
Non-bank financing	-16	5	2	2	0	0	0
Reserves	0	0	0	0	-10	-10	-10
Memorandum items:							
IMF MDRI relief	…	…	…	133	0	0	0
Non-oil revenue	942	1,104	1,171	1,165	1,270	1,270	1,370
Non-oil primary balance [2]	-167	-1	-196	-48	-266	-266	-240
Non-oil primary balance (program definition) [3]	-106	76	19	36	-36	-36	-62

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

[1] Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance in 2006, at the time of the completion point.

[2] Excludes grants, interest, and foreign-financed capital expenditures.

[3] Excludes restructuring and debt relief-financed expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

Table 4. Cameroon: Selected Fiscal Indicators, 2004–08
(Percent of GDP, unless otherwise indicated)

	2004	2005	2006		2007		2008
			Prog.	Prel. Est.	Prog.	Proj.	Proj.
Total revenue and grants	15.4	17.9	46.6	46.7	20.3	19.1	18.9
Total revenue	15.2	17.3	18.7	18.9	19.0	17.7	17.9
Oil sector revenue	3.9	4.9	6.6	6.7	6.7	5.2	5.2
Non-oil sector revenue	11.3	12.4	12.1	12.2	12.3	12.6	12.7
Total grants	0.2	0.5	27.9	27.8	1.3	1.3	1.1
Total expenditure	16.0	14.4	15.6	14.2	16.5	16.8	16.8
Current expenditure	14.0	11.9	11.6	11.5	11.6	11.9	11.8
Wages and salaries	5.4	4.7	4.6	4.4	4.6	4.7	4.6
Goods and services	5.0	3.8	4.1	4.0	4.5	4.6	4.7
of which: HIPC	0.4	0.3	0.1	0.2	0.2	0.2	0.1
C2D	...	...	0.1	0.0	0.2	0.2	0.2
MDRI	...	...	...	...	0.2	0.2	0.2
Subsidies and transfers	1.7	2.0	1.9	2.2	2.0	2.0	1.9
of which: fuel subsidies	...	0.2	0.2	0.2	0.3	0.2	0.2
Pensions	0.8	0.9	0.8	0.8	0.9	0.9	0.9
Interest due	2.0	1.5	1.1	0.9	0.5	0.5	0.5
External	1.7	1.2	0.9	0.8	0.3	0.3	0.3
Domestic	0.3	0.2	0.1	0.2	0.1	0.1	0.1
Capital expenditure	2.0	2.3	4.0	2.8	4.8	4.9	5.1
Foreign-financed investment	0.8	0.5	0.4	0.7	1.1	1.1	1.5
Domestic investment	1.1	1.8	2.7	1.8	3.2	3.2	3.4
of which: HIPC	0.1	0.6	0.9	0.4	0.8	0.8	0.6
C2D	...	...	0.2	0.0	0.5	0.5	0.5
MDRI	...	...	...	...	0.2	0.2	0.2
Rehabilitation and participation	0.1	0.0	0.9	0.3	0.6	0.6	0.2
Unclassified expenditure	-0.1	0.2	0.0	-0.1	0.0	0.0	0.0
Overall balance, excluding net change in arrears							
Excluding grants	-0.8	3.0	3.1	4.6	2.6	1.0	1.0
Including grants	-0.5	3.5	31.0	32.4	3.9	2.3	2.1
Net change in arrears	0.4	-0.8	-1.7	-1.8	-0.6	-0.6	-0.3
External	0.4	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	-0.7	-1.7	-1.8	-0.6	-0.6	-0.3
Overall balance, cash basis							
Excluding grants	-0.4	2.2	1.4	2.9	2.0	0.4	0.7
Including grants	-0.2	2.7	29.2	30.7	3.3	1.7	1.8
Financing	0.2	-2.7	-29.3	-30.7	-3.3	-1.7	-1.8
External financing, net	0.6	-0.4	-25.9	-25.8	0.1	0.1	0.6
Amortization	-3.5	-3.1	-2.0	-27.5	-0.8	-0.8	-0.8
Drawings	1.1	0.4	0.4	0.4	0.9	1.0	1.4
Project financing	0.0	0.4	0.4	0.4	0.9	1.0	1.4
Program financing (loans)	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Exceptional financing [1]	3.0	2.2	1.1	1.1	0.0	0.0	0.0
Domestic financing, net	-0.4	-2.3	-3.4	-4.8	-3.4	-1.8	-2.4
Banking system	0.2	-1.6	-1.7	-3.2	-2.2	-0.7	-1.6
Banking system, excluding HIPC and C2D	-0.1	-1.7	-1.5	-2.5	-2.2	-0.6	-1.5
Net HIPC flows	0.2	0.1	0.4	0.0	0.1	0.2	0.0
Net C2D flows	...	...	-0.5	-0.7	-0.2	-0.2	-0.1
Amortization	-0.4	-0.8	-1.7	-1.7	-1.1	-1.1	-0.7
Non-bank financing	-0.2	0.1	0.0	0.0	0.0	0.0	0.0
Reserves	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
Memorandum items:							
Non-oil revenue [2]	12.1	13.5	13.4	13.5	13.6	13.6	13.7
Non-oil primary balance [2, 3]	-2.1	0.0	-2.2	-0.6	-2.9	-2.8	-2.4
Non-oil primary balance (program definition) [4]	-1.3	0.9	0.2	0.4	-0.3	-0.4	-0.6
Non-oil primary balance (program definition) [2, 4]	-1.4	0.9	0.2	0.4	-0.4	-0.4	-0.6

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

[1] Interim HIPC assistance and accumulated reschedulable arrears under Paris Club 6 until 2005, assuming delivery of the remaining HIPC assistance at the completion point, projected for 2006.

[2] In percent of nonoil GDP.

[3] Excludes grants, interest, and foreign-financed capital expenditures.

[4] Excludes restructuring and debt relief-financed expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

Table 5. Cameroon: Monetary Survey, December 2004–December 2007

(Billions of CFA francs, unless otherwise noted)

	2004	2005	2006	2007			
	Dec.	Dec.	Dec.	March	June	Sept.	Dec.
			Est.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	357	500	1,034	1,064	1,095	1,125	1,155
Bank of Central African States (BEAC)	242	382	856	884	912	940	967
Commercial banks	115	118	178	180	183	185	188
Net domestic assets	1,148	1,069	679	691	692	678	673
Domestic credit	1,231	1,174	863	875	876	862	856
Net claims on the public sector	469	338	-2	-25	-30	-54	-68
Net credit to the central government	374	238	-90	-113	-119	-142	-156
Claims	572	461	301	303	304	305	305
Deposits	-198	-223	-391	-416	-423	-447	-461
Of which : HIPC	-86	-75	...				...
Credit to autonomous agencies	15	22	17	17	17	17	17
Credit to public enterprises	81	78	71	71	71	71	71
Credit to financial institutions	11	4	6	6	6	6	6
Credit to the private sector	750	832	859	894	900	909	918
Other items (net)	-83	-106	-184	-184	-184	-184	-184
Money and quasi money	1,505	1,568	1,713	1,756	1,787	1,803	1,828
Currency outside banks	324	273	259	251	250	261	265
Deposits	1,181	1,295	1,455	1,505	1,537	1,542	1,562
Memorandum items:							
Contribution to the growth of broad money (in percentage points)							
Net foreign assets	7.8	9.5	34.1	30.2	13.7	10.2	7.1
Net domestic assets	2.5	-5.3	-24.8	-18.4	-1.7	-0.8	-0.4
Of which : Credit to the central government	1.6	-9.0	-20.9	-18.9	-6.4	-7.5	-3.8
Private sector credit (annual percentage change)	1.4	10.9	3.2	5.7	7.1	8.5	6.8
Broad money (annual percentage change)	7.3	4.2	9.3	11.8	11.9	9.4	6.7
Currency	9.2	-15.6	-5.4	2.5	2.5	2.3	2.6
Deposits	6.7	9.6	12.4	13.5	13.6	10.7	7.4
Claims on government/domestic credit ratio	30.4	20.3	-10.5	-12.9	-13.6	-16.5	-18.2
Currency outside banks/deposit ratio	27.4	21.1	17.8	16.7	16.3	16.9	17.0
Velocity (non-oil GDP/average M2)	5.4	5.5	5.3	...	...	...	5.4
Velocity (GDP/average M2)	5.8	6.0	5.9	...	...	...	5.7
Net claims on the public sector 1/	340.9	205.0	-90.4	-113.0	-118.9	-142.2	-156.0

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

1/ In billions of CFA francs, using the definition of the BEAC, which includes deposits of public enterprises and autonomous agencies.

Table 6. Cameroon: Millennium Development Goals, 1990–2015

	1990	1995	2001	2002	2003	2004	2015 Target
Goal 1. Eradicate extreme poverty and hunger							
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.							
1. Population below US$1 a day (percent)	...	3.2	17.1	...	...	...	...
2. Poverty gap ratio at US$1 a day (percent)	...	9.0	4.1	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	...	...	5.6	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger							
4. Prevalence of child malnutrition (percent of children under 5)	15.1	...	...	...	...	18.0	7.6
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	24.6	...	...
Goal 2. Achieve universal primary education							
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling.							
6. Net primary enrollment ratio (percent of relevant age group)	73.6	...	...	...	...	...	100.0
7. Percent of cohort reaching grade 5	...	...	51.0	...	...	...	100.0
8. Youth literacy rate (percent ages 15-24)	...	...	...	...	72.8	72.8	...
Goal 3. Promote gender equality and empower women							
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education by 2015							
9. Ratio of girls to boys in primary and secondary education (percent)	73.7	...	...	...	87.2	...	100.0
10. Ratio of young literate females to males (percent, ages 15-24)	...	...	84.8	...	81.1	80.8	...
11. Share of women employed in the nonagricultural sector (percent)	21.6	...	...	...	22.6	22.6	...
12. Proportion of seats held by women in the national parliament (percent)	10.8	12.0	...	...	12.7	12.2	...
Goal 4. Reduce child mortality							
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate							
13. Under-5 mortality rate (per 1,000)	139.0	156.0	151.0	166.0	166.0	149.0	46.3
14. Infant mortality rate (per 1,000 live births)	85.0	89.0	88.0	...	79.1	87.0	21.8
15. Immunization against measles (percent of children under 12 months)	57.6	46.0	47.0	...	65.5	64.0	19.2
Goal 5. Improve maternal health							
Target 6: Reduce by three-fourth, between 1990 and 2015, the maternal mortality ratio.							
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	730.0	...	...	...	...
17. Proportion of births attended by skilled health personnel	58.4	...	60.0	...	...	62.0	14.6
Goal 6. Combat HIV/AIDS, malaria, and other diseases							
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS							
18. HIV prevalence among females (percent, ages 15-24)	...	...	12.7	...	...	5.0	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	16.0	...	26.0	...	...	26.0	...
20. Number of children orphaned by HIV/AIDS (Thousands)	...	...	...	...	...	24.0	...

Table 6. Cameroon: Millennium Development Goals, 1990–2015 (concluded)

	1990	1995	2001	2002	2003	2004	2015 Target
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases.							
21. Prevalence of death associated with malaria	...	...	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	145.0	187.7	180.5	180.5	...
24. Tuberculosis cases detected under DOTS (percent)	...	2.0	16.0	59.6	86.4	86.4	...
Goal 7. Ensure environmental sustainability							
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.							
25. Forest area (percent of total land area)	53.0	...	48.0	...	...	...	...
26. Nationality protected areas (percent of total land area)	5.0	4.0	4.0	4.5	4.5	5.0	
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	3.9	3.7	4.7	...	4.7	...	...
28. CO2 emissions (metric tons per capita)	0.1	0.3	0.4	...	...	...	...
29. Proportion of population using solid fuels							
Target 10: Halve by 2015 proportion of people without access to safe drinking water							
30. Access to improved water source (percent of population)	51.0	...	58.0	...	63.0	66.0	74.0
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers							
31. Access to improved sanitation (percent of population)	48.0	...	79.0	...	48.0	51.0	...
32. Access to secure tenure (percent of population)	...	...	...	...	...	...	...
Goal 8. Develop a Global Partnership for Development 1/							
Target 16. Develop and implement strategies for productive work for youth.							
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...	...	...
Target 17: Provide access to affordable essential drugs.							
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...	...	...
Target 18: Make available new technologies, especially information and communications							
47. Fixed line and mobile telephones (per 1,000 people)	3.5	5.1	34.5	49.7	...	102.7	...
48. Personal computers (per 1,000 people)	...	1.5	3.9	5.7	...	10.0	...

Sources: World Bank, World Development Indicators database, 2003; and UNDP, Human Development Report 2005.

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC initiative.

Table 7. Cameroon: Indicators of IMF Credit, 2004-08[1]

	2004	2005	2006	Projections 2007	2008
IMF credit outstanding					
In millions of SDRs	214.7	190.3	5.3	10.6	15.8
In millions of U.S. dollars	318.0	281.2	7.8	15.8	23.7
In billions of CFA francs	167.1	149.4	4.0	8.0	11.9
In percent of quota	115.6	102.5	2.8	5.7	8.5
Debt service to the IMF					
In millions of SDRs	20.0	28.0	188.4	1.5	1.8
In millions of U.S. dollars	29.7	41.4	277.2	2.3	2.7
In billions of CFA francs	15.7	21.8	144.9	1.1	1.3
In percent of					
Exports of goods and nonfactor services	0.8	1.0	5.8	0.0	0.1
Total debt service due	3.6	5.7	43.4	0.4	0.5
Government revenue	1.2	1.4	8.0	0.1	0.1
GDP	0.2	0.2	1.5	0.0	0.0
Quota	10.8	15.1	101.5	0.8	1.0
Debt service to the IMF (in millions of SDRs)					
Interest and charges	1.1	1.0	0.5	1.5	1.8
Repurchases/repayments	18.9	27.0	187.9	0.0	0.0

Sources: IMF, Finance Department; and IMF staff estimates and projections.

[1] Including remaining disbursements under the current PRGF arrangement.

Table 8: Cameroon: Fund Disbursements and Timing of Reviews Under the PRGF, 2007-08

Date of Availability (on or after)	Conditions	Amount (in millions of SDR)
May 31, 2007	Completion of third review (end-December 2006 quantitative and structural performance criteria)	2.65
October 15, 2007	Completion of fourth review (end-June 2007 quantitative and structural performance criteria)	2.65
April 15, 2008	Completion of fifth review (end-December 2007 quantitative and structural performance criteria)	2.65
October 15, 2008	Completion of sixth review (end-June 2008 quantitative and structural performance criteria)	2.67

May 29, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. During the second half of 2006, the government continued its efforts to consolidate the macroeconomic framework and implement structural reforms in the context of its economic program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). The government remains convinced that the continued implementation of the economic measures and policies it has undertaken under the PRGF will enable it to build on the satisfactory results already obtained and combat poverty more effectively, while improving the prospects for growth.

2. The government's efforts to pursue fiscal consolidation during the period of July-December 2006 helped it to meet most of the program's quantitative criteria and benchmarks at end-December 2006. Nonetheless, a waiver is needed for the nonobservance of the performance criterion on the increase in net claims of the banking system on the central government owing to extrabudgetary expenditure for which payments were made directly by the national oil company. In this regard, the government wishes to stress the exceptional nature of those transactions, and to confirm its determination to take all necessary steps to prevent the resurgence of extrabudgetary expenditure and to improve compliance with budgetary procedures. The government has therefore decided to strengthen the program by requesting to change the structural benchmark on cash payments by the national oil company on account of the government into a performance criterion.

3. Progress was also achieved in the implementation of structural reforms in the areas of public finance and transparency. In particular, two reports conducted within the Extractive Industry Transparency Initiative covering 2001-04 and 2005, respectively, have been published on the website of the government. The government is aware of the importance of improving governance and the business environment with a view to achieving greater economic growth and reduced poverty in a sustainable way. Given the unsuccessful negotiations for the privatization of CAMAIR, the government wants to reiterate its commitment to eliminating budgetary subsidies to airline companies, including CAMAIR, and improving air services. In this regard, it plans to commence end-July 2007 implementation of a strategy to recruit a private strategic partner for CAMAIR.

4. The macroeconomic policies and objectives for the second year of the program and the medium term remain consistent with the general framework underlying the government's three-year PRGF-supported program. The attached Memorandum on Economic and Financial Policies (MEFP) supplements the MEFP attached to the letter of intent of December 6, 2006. It evaluates the implementation of the government's economic program during the second half of 2006, and presents the economic policies and objectives for the period spanning January to June 2007.

5. For purposes of the execution of its economic and financial program, the government set ambitious medium-term objectives, consistent with the macroeconomic framework of the three-year program. In this context, particular emphasis will continue to be placed on enhancing fiscal management, mobilizing nonoil revenue, combating corruption, and improving the quality of public investment.

6. The government is convinced that the economic and financial policies described in the attached MEFP will help to achieve the objectives of its January-June 2007 economic program. Nevertheless, it is prepared to take any further measures that may become appropriate for this purpose. The government will consult with the IMF Managing Director on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. However, the lower-than-projected oil revenue would call for a modification of the performance criterion on the ceiling on the increase in net claims of the banking system on the central government for end-June 2007.

7. The government will take all necessary measures to ensure that the fourth program review is completed by end-December 2007. This review will be based on the quantitative and structural performance criteria at end-June 2007.

8. Given performance so far and the commitments undertaken in the MEFP, the government requests that the fourth disbursement under the arrangement in the amount equivalent to SDR 2.65 million be made available upon completion of the third review.

9. Finally, the government of Cameroon authorizes the IMF to make this letter and the attached MEFP available to the public.

Sincerely yours,

/s/

Inoni Ephraim
Prime Minister and
Head of Government

Enclosures: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

REPUBLIC OF CAMEROON

Memorandum on Economic and Financial Policies

Yaoundé, May 29, 2007

I. Introduction

1. In 2006, the government continued to improve its fiscal position and implement structural reforms. Debt cancellation under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) have created a conducive environment for Cameroon to tackle its medium-term challenges, namely, preserving long-term fiscal sustainability and accelerating economic growth, mainly through infrastructure and a more favorable business environment. This memorandum reviews the achievements during July-December 2006 of the three-year program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF) and updates the economic and financial objectives and policies for 2007 and 2008, described in the Memorandum on Economic and Financial Policies of December 6, 2006.

II. Recent Economic Developments and Results of the Implementation of the PRGF-Supported Program

2. Nonoil economic growth was 3.5 percent in 2006, following a contraction in the agro-export sector. The erosion in the preferential treatment granted by the European Union to Cameroon's agricultural exports (notably bananas) made inroads into Cameroon's nonoil exports. At the same time, local production had to face increased competition from finished products from lower cost producing countries. Higher oil prices and production nonetheless improved the external balance for 2006. In December 2006, consumer prices recorded a year-on-year increase of 5.1 percent, reflecting mainly higher prices for petroleum products. There was a marked rise in net foreign assets in 2006, attributable to higher oil revenue. Nevertheless, money supply growth was contained through a reduction in net bank credit to the government.

3. The primary fiscal balance for 2006 improved by 1.3 percent of GDP compared with 2005. This result essentially stemmed from a good outturn in oil revenue. The execution of capital expenditure was lower than expected, mainly because of bottlenecks in disbursing aid under the debt relief initiative and in procurement procedures.

4. The implementation of the program supported by the PRGF for the period July-December 2006 was broadly satisfactory. Most of the quantitative performance criteria and benchmarks of the PRGF-supported program for the period July-December 2006 were met (Table 1). However, following the resurgence of extra-budgetary spending directly financed by the SNH (0.2 percent of GDP), the criterion on net bank credit to the central government

could not be met. This spending was mostly related to sovereign expenditure executed at the end of the fiscal year 2006, either to rehabilitate restituted areas under the Greentree Accord, or to address security problems in border areas. The implementation of structural measures was satisfactory overall (Table 2).

- **Government finance and civil service**. The two performance criteria for end-December were observed, that is, submission to Parliament of the draft 2007 Budget Law in accordance with the program and its adoption by end-2006; and the implementation of the customs information system in the Littoral province. The summary tables tracking expenditure were produced on a regular basis and also covered pro-poor spending. With the assistance of the IMF and the World Bank, the government improved its new draft organic law on government finance, which also included a timetable for its implementation over the period 2007-2011. The government completed its census of civil servants on the basis of the payroll file and payment records, and used the results to clean up the payroll. Furthermore, the establishment of tax centers for medium-sized enterprises in Yaoundé and Douala at end-December 2006 will enable a more efficient tax monitoring.

- **Public enterprises.** Public enterprise reform is ongoing with the assistance of the World Bank and the International Finance Corporation. In the telecommunications sector, a public call for bids for the privatization of the national telephone company (CAMTEL) was made in January 2007 (performance criterion). The call for bids for the management contract of the national water company (SNEC) within the framework of a public-private partnership was launched in February 2007 (performance criterion). Concerning the privatization of the national airline company (CAMAIR), the government terminated negotiations with the provisional bidder in April 2007 in view of difficulties in reaching an agreement on a satisfactory offer.

- **Financial sector.** The recruitment of the management team for CAMPOST was completed in October 2006. The team assumed responsibility for managing the company in February 2007. To ensure the successful reconstitution of the assets of CAMPOST, the government: (i) opened an escrow account at the BEAC to deposit the transfers it made to CAMPOST as part of its domestic debt settlement; and (ii) entrusted the financial supervision of CAMPOST to the unit within the Ministry of Economy and Finance in charge of the oversight of nonbank financial institutions, which will produce a quarterly supervision report. The first report covering the operations of the third quarter of 2006 has been prepared.

5. The government also continued its implementation of transparency-enhancing measures, but delays have been experienced in meeting some of the anticorruption commitments:

- **Publication**. The quarterly budget-execution reports, the quarterly operating reports of the national oil company (SNH), and the annual financial aggregates of the main public enterprises were published. In addition, the government began publishing statistical data and debt analysis on the CAA website (www.caa.gov.cm). Judicial decisions and administrative penalties against government employees as part of the anti-corruption campaign were also published on the Prime Minister's website (www.spm.gov.cm).

- **The Extractive Industries Transparency Initiative (EITI).** Some progress was made in implementing the EITI principles. A consortium was recruited to produce the administrator's report on oil revenue data covering the period 2001 to 2004. The first report was published on the government's website. The second report covering 2005 was published on the government's website in March 2007.

- **Fight against corruption**. The National Anti-Corruption Commission (CONAC), established in March 2006, was made operational in March 2007, as its president and its members got appointed. However, the Commission planned as part of the implementation of asset disclosure by senior government officials did not begin operations in February 2007, as the implementing regulations under the law had not yet been adopted.

III. Economic and Financial Policies for 2007 and 2008

A. Macroeconomic Framework

6. The economic outlook should improve in 2007, partly due to the beneficial impact of external debt relief under the HIPC Initiative and the MDRI. Nonoil GDP growth is therefore expected to be about 4.5 percent, mainly as a result of the recovery in the agro-industrial export and service sectors and of the increase in public investment. The inflationary pressures evident in 2006, fuelled mainly by higher oil prices, should ease in 2007. Cameroon's external position should weaken, however, as oil prices ease.

B. Fiscal Policy

7. Given the fall in oil prices, the government is expecting a drop of about CFAF 167 billion in its oil revenue compared with the 2007 program (about 1.5 percent of GDP).[11] The main fiscal objectives of the 2007 program remain unchanged. Nonoil revenue

[11] The program's approach of using conservative oil price projections is maintained; oil prices have been estimated at a constant prudence factor of US$7 per barrel below the IMF's *World Economic Outlook* (WEO) projections (excluding the US$3 per barrel discount on Cameroonian crude).

should materialize as programmed. On the expenditure side, noninterest expenditure in 2007 will increase by 3 percentage points of GDP compared with 2006, of which about two thirds are for capital expenditure. To improve the execution of poverty reduction expenditure, the government will seek to ease the constraints on HIPC Initiative and C2D financing by involving donors and lenders in discussions at budget conferences. The government will also take measures to accelerate the execution of capital expenditure. The 2007 budget appropriations were made very early in January, thus enabling a more rapid start in the execution of the capital budget. Starting with the 2008 budget, expenditure items that have been committed, but for which payment has not been authorized by the end of a fiscal year, will be entered as priority items in the budget for the following year. The government will also prepare a road map toward executing a multiyear investment budget.

8. The government is committed to continue to use any windfall in oil revenue exclusively for one-off purposes, particularly to: (i) accelerate payments on domestic debt and arrears; (ii) repurchase debt held by external commercial creditors who did not take part in the commercial debt repurchase initiative (London Club); and (iii) after consultation with IMF staff, finance investment projects in the sectors defined in the PRSP, including the counterpart funds for jointly-financed projects such as infrastructure development (roads, energy) and investment in major sectoral programs (education, health, and rural and urban development).

C. Fiscal Reform

9. The government reaffirms its commitment not to have recourse to extrabudgetary expenditure, and intends to make further efforts to enhance budgetary procedures and initiate the fiscal reforms described in the Memorandum on Economic and Financial Policies of December 6, 2006. To this end, the government has requested to change the quantitative benchmark on cash payments by the SNH on account of the government to the status of a continuous performance criterion.

10. The mobilization of nonoil revenue is a major challenge for Cameroon. To achieve the revenue objectives, the government is committed to: (i) completing by November 2007 the online connection between the IT systems of the General Directorate of Taxes (DGI) and the General Directorate of Customs (DGD); (ii) completing by end-September 2007 the establishment of the electronic one-stop window to facilitate foreign trade by finalizing the interfaces with the various foreign trade stakeholders, including Customs; and (iii) eliminating by end-June 2007 the "minimum administrative values" for all imported products (except sugar, pasta, cigarettes, palm oil, and concrete reinforcing bars, of which the minimal administrative values will be eliminated at end-December 2007), and taxing imported goods based on Central African Economic and Monetary Community (CAEMC) rules. To broaden the duty base, the authorities will continue their efforts to control and reduce exemptions, and will publish a quarterly report identifying exemptions and the related revenue losses. The government is also committed to improving ex-post controls. It will also improve the

implementation and control of customs and economic regimes, in particular the transit to Chad and the Central African Republic. Lastly, the government is committed to submitting to Parliament at its November 2007 session a draft law on electronic commerce and electronic bank payments.

11. In addition, the government will take a number of measures to broaden the tax base: (i) by end-December 2007, the number of taxpayers covered by the tax centers for medium-sized enterprises in Yaoundé and Douala will grow some 20 percent compared with the tax roll as at January 1, 2007; (ii) streamlining of taxpayer identification, reforming the single taxpayer identification number, and safeguarding the single taxpayer file will be completed by end-October 2007; (iii) at end-November 2007, the implementation of a tax-related information management software (AREN) will also have been completed. In addition, the launching on March 23, 2007 of the framework for performing point audits pursuant to the 2007 Budget Law will contribute to increasing VAT and personal income tax receipts. Finally, the government is committed to creating a Review Commission of Domestic Tax and Foreign Trade Taxation, for which the terms of reference will be completed by end-May 2007. This commission, which will bring together government departments, economic operators, and civil society, will submit a summary report on its work and recommendations by end-December 2007. The plan for implementing the commission's recommendations will be examined and approved in the first half of 2008. The first round of reforms will be proposed in the draft 2009 Budget Law.

12. To increase forestry revenue, the government re-instituted the Program to Secure Forestry Revenue (PSRF) as the sole point of contact for the forestry sector for tax purposes. Protocols for collaboration will be worked out between the PSRF and all the other entities involved in monitoring the forestry sector. The collaboration protocols will state clearly the data required from the entities, as well as the periodicity, deadlines, and modalities for transferring the information. It is also the intention of the government to establish by December 2007 an online connection between the Ministry of Forests and Wildlife and the Ministry of Economy and Finance. This is an essential step toward restoring the capacity to monitor sectoral economic data and control the tax base.

13. The government confirms its commitment to strengthen monitoring of public expenditure. In this regard, it will continue to prepare consistent monthly budget execution tables on a cash basis and on a payment order basis, as well as a monthly expenditure table broken down by economic function to track spending in priority sectors. In addition, the government intends by end-June 2007 to consolidate the connection between the IT systems of the General Directorates of the Budget and the Treasury and produce summary reports on budget execution – from commitment through payment – on a functional basis for the January-April 2007 period. The government is also committed to engaging in discussions aimed at presenting budget execution along the lines of the government financial operations table (TOFE) on a commitment-basis. To this end, a diagnostic study will be prepared by end-August 2007 on the measures and the critical path toward preparing the TOFE on a

payment order basis for all expenditure. On this basis, the TOFE for the execution of the 2007 budget will be produced by end-May 2008. In addition, the experts from the ministries in priority sectors will receive further training on using budget classification by end-June 2007. The government will also continue to strengthen the overall and sectoral medium-term expenditure frameworks (MTEFs) and their use in the budget preparation, beginning with the preparation of the draft 2008 Budget Law. The government's commitment also extends to the preparation, by end-December 2007, of an action plan to improve further public expenditure management.

14. The government intends to pursue its public procurement reforms by periodically assessing the public procurement system and systematically publishing the penalties imposed on offenders. In this regard, the government completed its updating of the general conditions of contract (*Cahier des Clauses Administratives Générales* - CCAG) by implementing since February 13, 2007 the related documents. All these documents, including the new CCAG, were published on the government's website. In addition, the government plans to: (i) implement the standard bid documents and procedural manuals by end-August 2007; (ii) publish by end-September 2007 the audit report on public procurement activities in 2005; (iii) adopt in 2007 the implementing regulations on amicable settlement under the Public Procurement Code; and (iv) conduct annual assessments of the reliability and performance of the national public procurement system, using a set of performance indicators defined in collaboration with the World Bank.

D. Civil Service

15. The government will continue its ongoing civil service reforms to establish a solid basis for determining staffing levels and the payroll, secure and harmonize the related data, and increase the efficiency of the civil service. Following the clean-up of the payroll file, measures were taken to further contain the wage bill and staffing levels to maintain the accuracy of the file, which will in turn improve the quality of the simulations of the financial impact of wage policies. The new payroll file has already been used to: (i) calculate the financial impact of adjusting salaries for promotions and (ii) assess wage arrears stemming from past unpaid promotions. In this context, the government plans to give priority to adjusting the salaries using the savings from the census and clean-up of the payroll. These amounts will be paid only once the full cost of the adjustments is assessed to ensure that they are commensurate with the available resources. By June 2008, the government also plans to replace the current IT system used for the payroll with a more efficient one, particularly regarding security and access privileges. The integrated personnel management system will be installed in 24 administrations by end-December 2007, including the four current pilot sites, covering 75 percent of the civil service. Its expansion to include the rest of the civil service will be completed at end-2008.

E. Fuel Pricing Policy

16. The policy of adjusting retail fuel prices, which began in 2005 as part of Cameroon's financial program, will be pursued in 2007. The expected decline in oil prices should reduce actual budgetary transfers to the SONARA compared to what was appropriated in the 2007 Budget.

17. The government is committed to adopting a system for full pass-through of fuel prices. In this regard, in consultation with IMF and World Bank staff, a formula for adjusting ex-refinery prices (reflecting international prices and allowing an automatic adjustment) and a simplified price structure (reducing or eliminating the cross subsidies and tax distortions of the current pricing regime) will be adopted at end-December 2007. To this end, a study will be conducted by end-September 2007 to assess the possible fiscal implications of this reform.

18. The government also intends to pursue the implementation of measures to bolster the financial position of SONARA, as described in paragraph 38 of the Memorandum on Economic and Financial Policies of October 13, 2005. Following the recommendations of the audit of SONARA, the government adopted a restructuring plan for the company, and began its implementation. Since the audit revealed the need to increase production capacities through investments to improve SONARA's refining system, the government intends to conduct a feasibility study that will evaluate the cost of those investments, whether they are economically viable, and their financing modalities. Specifically, the government is committed to engage in no further investments unless their economic viability is proven and their financing falls within the framework of a sustainable fiscal policy.

F. External Debt Management and Trade Liberalization

19. The government will pursue a prudent debt policy and ensure that its debt is managed in a sustainable way. With this in view, it will prepare a new comprehensive public debt management strategy by May 2007. This strategy will be consistent with the medium-term macroeconomic framework and fiscal objectives. Specifically, it will include the following items: the contraction of loans on concessional terms, a detailed study of projects requiring loan financing, periodic preparation of a debt-sustainability analysis (at least once a year) and before signing any loans amounting to more than 0.5 percent of GDP. As a result of the debt relief extended to Cameroon by the Paris Club in June 2006, the government also intends to finalize the signing of bilateral agreements with the various member creditor countries. It will continue to negotiate in good faith with its private creditors to clear its arrears without overlooking the principle of comparable treatment.

20. The government also plans to pursue reforms aimed at strengthening trade liberalization and boost the volume of foreign trade, particularly with a view to consolidating subregional integration. To achieve this, it intends to play an active leadership role in the CAEMC to ensure the proper implementation of common rules by all member states, the

removal of barriers to intracommunity trade, and the lowering of the maximum Common External Tariff (CET) rate. Thus, in March 2007, the government proposed to the other CAEMC member countries that the maximum CET rate be reduced from 30 percent to 20 percent. The government is also committed to proposing to the member countries no later than March 2008: (i) an assessment and reduction of the obstacles to the development of intraregional trade, including the harmonization of the rules of origin with those of the World Trade Organization; and (ii) a revision of CET exemptions. In addition, the government will define, in collaboration with other member countries, the concept of free movement, which would spare economic operators in the CAEMC zone from cascading taxes.

G. Financial Sector

21. The government has requested that a joint IMF-World Bank mission undertake a diagnostic assessment of the financial sector. Based on the mission's recommendations, the government will draft an action plan for strengthening financial intermediation by end-December 2007. In the interim, the government is committed at the national level to support initiatives to facilitate credit access by reducing the constraints related to the business environment, notably through: (i) a significant improvement in financial reporting; (ii) simplification of the procedures for calling in collateral; and (iii) the establishment of a commercial court. At the regional level, the government is committed to supporting the BEAC in finalizing the establishment of the central credit register (computerization, payment problems, financial analysis center).

22. To provide an alternative source of financing, the government is also committed to developing the securities market (stocks and bonds) by issuing new securities by end-2007 and transferring the secondary market transactions on zero-coupon treasury bonds to the financial market by end-October 2007. Transactions in government securities will take place under the supervision of the Financial Markets Commission.

23. At the regional level, the government plans to support the BEAC in its implementation of the recommendations made by the regional Financial Sector Assessment Program (FSAP).

H. Public enterprise reform

24. The government, in collaboration with the World Bank, will continue implementation of its public enterprise privatization and restructuring programs. In the case of CAMTEL, the objective is to complete the selection of a provisional successful bidder by end-June 2007. To achieve this, the government is preparing financial information for 2006 and incorporating investors' suggestions for improving the transaction structure initially proposed. For the SNEC, the government will do its utmost to ensure that the provisional successful bidder for the management contract is selected by end-June 2007. As regards air transportation, the government remains committed to eliminating budgetary subsidies to airline companies, including CAMAIR, and improving air services. In this regard, it plans to commence

implementation of a transparent strategy by end-July 2007 to recruit a private strategic partner. The government will implement the strategy speedily. In the interim period, the government is committed to operating within the budgetary envelope for subsidies and transfers agreed under the PRGF-supported program.

I. Transparency, Good Governance, and the Business Climate

25. The government is resolute in its decision to enhance good governance and combat corruption in an effort to improve the business environment and the quality of public expenditure. In addition to the measures described in the Memorandum on Economic and Financial Policies of December 6, 2006, the government will publish the administrator's reports on its website regularly as part of the implementation of the EITI principles within no more than a year. The government will prepare a communication strategy aimed at broadly disseminating the administrator's report. It will publish by end-July 2007 its comments in response to the observations recorded on oil revenue for 2001-2004. It will also publish on its website a summary of the reports of the local committees monitoring the physical and financial execution of investment projects in the central government budget. Furthermore, the government will launch the operations of the Commission planned as part of the implementation of the asset disclosure process for senior government officials by end 2007. In addition, following a joint OECD-DAC donors and lenders mission in 2006, the joint CHOC program (*Changer d'Habitudes-S'Opposer à la Corruption*—Change Habits-Out with Corruption) of the government and donors was adopted in February 2007. This will be used as a basis for the government's preparation of an anti-corruption strategy by end-December 2007. By March 2008 an action plan will be prepared for an assessment of corruption among staff at the Ministry of Economy and Finance, which will be completed by end-December 2008. An assessment of corruption in the health sector should also be available by September 2007. Also, the government will implement by end-December 2007 a one-stop shop for business creation to reduce the time and costs involved in creating businesses.

IV. Monitoring Program Implementation

26. Program monitoring from December 2006 to end-June 2007 will be based on the performance criteria and quantitative and quarterly structural benchmarks indicated in Tables 1-4. The government will report the data necessary for program monitoring to the IMF, in accordance with the Technical Memorandum of Understanding.

Table 1. Cameroon: Quantitative targets for July, 2006–June, 2007[1]
(Billions of CFA francs; cumulative from July 1, 2006, unless otherwise indicated)

	End-Sep. 06				End-Dec. 06					End-Mar. 07		End-Jun. 07	
	Quantitative benchmarks	Adjustor	Adjusted benchmark	Outturn	Performance criteria [6]	Adjustor	Adjusted criteria	Outturn	Status	Quantitative benchmarks	Projected outturn	Performance criteria [6]	Revised Performance criteria [7]
Ceiling on the increase in net claims of the banking system on the central government	27	-35	-8	61	73	-92	-19	-15	not met	-8	-56	-9	59
Floor on the non-oil primary budget balance	1	0	1	-13	-34	15	-19	-18	met	8	23	-21	-21
Ceiling on the accumulation of external payments arrears of the central government [2, 3, 4]	0	none	0	0	0	none	0	0	met	0	0	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government [2, 4]	0	none	0	0	0	none	0	0	met	0	0	0	0
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year [2, 4, 5]	0	none	0	0	0	none	0	0	met	0	0	0	0
Floor on non-oil revenue of the central government	283	none	283	248	571	none	571	564	not met	913	907	1216	1216
Ceiling on spending on goods and services	105	none	105	98	208	none	208	196	met	307	295	419	419
Ceiling on cash spending by SNH													
Payments on account of the government (interventions directes)	0	none	0	0	0	none	0	24	not met	0	0	0	0 [2]
Other operating costs (autres charges)	5	none	4.5	3.4	9	none	9.0	3.9	met	14	14	18	18
Floor on reduction of domestic debts													
Structured debt	72	none	72	67	101	none	101	102	met	136	137	164	164
Non-structured debt	52	none	52	33	68	none	68	72	met	78	82	93	93
Floor on payments to utility companies													
SNEC	2.0	none	2.0	2.0	4.0	none	4.0	4.0	met	6.0	6.0	8.0	8.0
AES SONEL	1.8	none	1.8	1.8	3.5	none	3.5	3.5	met	5.3	5.3	7.0	7.0
CAMTEL	3.3	none	3.3	3.3	6.5	none	6.5	6.6	met	9.8	9.8	13.0	13.0
CAMRAIL	1.0	none	1.0	1.0	2.0	none	2.0	2.3	met	3.0	3.0	4.0	4.0
SONARA	1.5	none	1.5	1.5	3.0	none	3.0	3.0	met	4.5	4.5	6.0	6.0

Sources: Cameroonian authorities; Bank of Central African States (BEAC); and staff estimates.

[1] Definitions included in the Technical Memorandum of Understanding (TMU).
[2] Applied on a continuous basis.
[3] Excluding reschedulable external payments arrears.
[4] Millions of U.S. dollars.
[5] Excluding normal, import-related credit.
[6] The following were quantitative benchmarks: floor on non-oil revenue; ceiling on goods and services spending; ceiling on SNH spending; and floors on utility payments. The other targets will be quantitative performance criteria.
[7] The following will be quantitative benchmarks: floor on non-oil revenue; ceiling on goods and services spending; ceiling on cash spending by SNH/other operating costs, and floors on utility payments. The other targets will be quantitative performance criteria.

Table 2. Cameroon: Structural Performance Criteria and Benchmarks for the Period July 2006 to June 2007		
Measure	Date	Status
Government finance		
Submission to Parliament of the 2007 Budget Law in accordance with the program and adoption by end-2006 **(performance criterion)**	December 31, 2006	Completed
Implementation of the Customs Management System in the customs sectors of Littoral Province. **(performance criterion)**	December 31, 2006	Completed
Consolidation of the online connection between the IT systems of the General Directorates of Budget and the Treasury and production of monthly summary reports on budget execution—from commitment through payment—on a functional basis for the January-April 2007 period. **(performance criterion)**	June 30, 2007	
Diagnostic study of the budget and treasury nomenclature to assess its consistency with GFS standards and preparation of an analytical report.	March 31, 2007	Completed
Preparation of actions to be taken during the transitional period of the new organic law on government finance and a timetable for their implementation.	April 30, 2007	Completed
Preparation of consistent monthly budget execution tables on cash and commitment bases, and a monthly expenditure table, broken down by economic function, to track spending for priority sectors.	Ongoing	Completed
Adjustment of retail prices of petroleum products and payment of budgetary transfers to SONARA as agreed with Fund staff.	Ongoing	Completed
Civil Service		
Completion of the census of civil servants conducted by the Ministry of Economy and Finance (MINEFI) and clean-up of the payroll records based on the data compiled.	December 31, 2006	Completed
Preparation of a diagnostic study on the civil service remuneration system (wages and benefits).	March 31, 2007	Not completed
Establishment of harmonized civil service personnel records based on the reconciliation of the censuses of the Ministry of Finance and the Ministry of the Civil Service in 14 ministries, and installation of the personnel management system in these ministries.	June 30, 2007	
Transparency and Governance		
Publication of the report of the EITI administrator on oil revenue for 2001 to 2004, on the government website www.spm.gov.cm.	December 31, 2006	Completed
Publication of the report of the EITI conciliator on oil revenue for 2005 on the website www.spm.gov.cm.	March 31, 2007	Completed

Publication of the quarterly report on execution of the government budget.	Two months after the end of the quarter	Completed
Publication on the website www.spm.gov.cm as part of the anti-corruption campaign of: (i) judicial decisions; and (ii) administrative sanctions against civil servants.	Ongoing basis	Completed
Financial Sector		
Completion by the government of the preparatory work for the establishment of a financial subsidiary for CAMPOST. **(performance criterion)**	June 30, 2007	
Public Enterprise Reform		
Launching the invitation for bids for the privatization of CAMTEL (**performance criterion**).	March 31, 2007	Completed
Launching the invitation for bids for the management contract of the public-private partnership for SNEC.	March 31, 2007	Completed

Table 3. Cameroon: Indicative quantitative targets for July, 2007–December, 2007[1]
(Billions of CFA francs; cumulative from January 1, 2007, unless otherwise indicated)

	End-Sep. 07	End-Dec. 07
Ceiling on the increase in net claims of the banking system on the central government	-51	-58
Floor on the non-oil primary budget balance	-15	-36
Ceiling on the accumulation of external payments arrears of the central government [2, 3, 4]	0	0
Ceiling on new medium- and long-term nonconcessional external debt contracted or guaranteed by the central government [2, 4]	0	0
Ceiling on the net disbursement of external debt contracted or guaranteed by the central government with a maturity of less than one year [2, 4, 5]	0	0
Floor on non-oil revenue of the central government	952	1270
Ceiling on spending on goods and services	320	425
Ceiling on cash spending by SNH		
Payments on account of the government (interventions directes)[2]	0	0
Other operating costs (autres charges)	14	18
Floor on reduction of domestic debts		
Structured debt	98	125
Non-structured debt	45	60
Floor on payments to utility companies		
SNEC	6.0	8.0
AES SONEL	5.3	7.0
CAMTEL	9.8	13.0
CAMRAIL	3.0	4.0
SONARA	4.5	6.0

Sources: Cameroonian authorities; Bank of Central African States (BEAC); and staff estimates.

[1] Definitions included in the Technical Memorandum of Understanding (TMU).
[2] Applied on a continuous basis.
[3] Excluding reschedulable external payments arrears.
[4] Millions of U.S. dollars.
[5] Excluding normal, import-related credit.

Table 4. Cameroon: Structural Indicative Benchmarks, July-December 2007

	Target Date
Government finance and civil service	
Completion of the work to connect the information system of the General Directorate of Taxes (MESURE) to that of the General Directorate of Customs (ASYCUDA)	November 30, 2007
Submission to the government of the summary report on the work and recommendations of the Review Commission of Domestic and Foreign Trade Taxation, in order to assist the government in formulating its medium-term tax policy	December 31, 2007
Reduction of the number of tax centers for small taxpayers with the establishment of initial experimental pilot sites in Yaoundé and Douala	December 31, 2007
Completion of the work related to streamlining taxpayer identification, reforming the single identification number, and safeguarding the single taxpayer file	October 31, 2007
Adoption of a formula for the revision of SONARA exit prices and a simplified structure of petroleum product prices to facilitate automatic adjustment	December 31, 2007
Adjustment of petroleum product retail prices and payment of the budgetary transfers to SONARA as agreed with Fund staff	Continuous
Installation of the Automated Integrated Management System (AIMS) covering civil servants and the payroll in 24 ministries	December 31, 2007
Transparency and governance	
Publication of the quarterly report on the execution of the government budget	Two months after the end of the quarter
Publication on the website www.spm.gov.cm of a summary of the reports of local committees responsible for monitoring the physical and financial implementation of investment projects funded from the government budget	Three months after the end of the quarter
Publication on the website www.spm.gov.cm, as part of the anti-corruption campaign in the context of action to combat corruption, of: (i) court judgments, and (ii) administrative sanctions imposed on civil servants	Continuous
Financial sector, commerce, and business environment	
Presentation to Parliament of the Law on Electronic Communications and Electronic Payments of Banks	November 30, 2007
Transfer of secondary-market transactions on zero-coupon treasury bonds to the financial market	October 31, 2007
Complete and implement the electronic one-stop shop to facilitate foreign trade	September 30, 2007

Table 5. Cameroon: Central Government Operations, 2007
(In billions of CFA francs, unless otherwise indicated)

	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Year	
	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Total revenue and grants	474	434	521	495	496	466	601	530	2,092	1,925
Total revenue	468	428	468	443	483	453	539	468	1,958	1,791
Oil sector revenue	126	86	165	140	176	146	221	150	688	521
Non-oil sector revenue	342	342	303	303	307	307	318	318	1,270	1,270
Direct taxes	110	109	73	72	65	64	64	64	311	309
Special tax on petroleum products	22	22	22	22	20	20	19	19	83	83
Other taxes on goods and services	125	127	126	129	132	135	140	143	523	533
of which: VAT, net	95	94	98	97	98	99	112	112	403	401
VAT refund	-17	-17	-14	-14	-16	-16	-16	-16	-62	-62
Centimes additionnels	3	3	3	3	3	3	3	3	12	12
Taxes on international trade	55	55	56	56	58	58	62	62	232	231
Other tax revenue	0	0	0	0	0	0	0	0	0	0
Non-tax revenue	31	30	26	24	32	30	33	31	122	115
of which: pipeline	4	4	4	4	4	4	4	4	17	17
Total grants	6	6	53	53	13	13	62	62	134	134
of which:										
Project	3	3	3	3	3	3	3	3	12	12
Budget	0	0	0	0	7	7	10	10	16	16
Total expenditure	391	391	433	433	412	412	459	459	1,695	1,695
Current expenditure	276	276	311	311	292	292	320	320	1,198	1,198
Wages and salaries	117	117	120	120	121	121	121	121	479	479
Goods and services	105	105	118	118	117	117	126	126	466	466
of which: debt-relief financed	8	8	8	8	11	11	31	31	59	59
Subsidies and transfers	49	49	54	54	49	49	53	53	205	205
Interest due	5	5	19	19	5	5	19	19	49	49
Capital expenditure	115	115	122	122	120	120	140	140	496	496
Foreign-financed investment	27	27	27	27	27	27	27	27	110	110
Domestic investment	70	70	79	79	79	79	99	99	327	327
of which: debt-relief financed	39	39	38	38	28	28	44	44	149	149
Restructuring and rehabilitation of public companies	17	17	16	16	14	14	13	13	60	60
Unclassified expenditure	0	0	0	0	0	0	0	0	0	0
Overall balance, excluding net change in arrears										
Excluding grants	78	37	35	10	71	41	80	8	264	97
Including grants	84	43	88	63	84	54	142	71	398	230
Net change in arrears	-10	-10	-15	-15	-20	-20	-15	-15	-60	-59
Overall balance, cash basis										
Excluding grants	68	27	20	-5	51	21	65	-6	204	37
Including grants	74	33	73	48	64	34	127	56	338	171
Financing	-74	-34	-73	-48	-64	-34	-127	-56	-338	-172
External financing, net	19	19	-12	-12	19	19	-12	-12	13	13
Amortization	-6	-5	-37	-37	-6	-5	-37	-37	-85	-84
Drawings	24	24	24	24	24	24	24	24	97	97
Project	24	24	24	24	24	24	24	24	97	97
Budget	0	0	0	0	0	0	0	0	0	0
Domestic financing, net	-93	-52	-61	-36	-83	-53	-114	-44	-351	-185
Banking system	-63	-23	-31	-6	-53	-23	-85	-14	-232	-66
Banking system, excluding HIPC and C2D	-81	-42	-1	24	-63	-33	-77	-7	-222	-58
Amortization	-27	-27	-27	-27	-27	-27	-27	-27	-110	-110
Non-bank financing	0	0	0	0	0	0	0	0	0	0
Reserves	-3	-3	-3	-3	-3	-3	-3	-3	-10	-10
Remaining financing needs	0	0	0	0	0	0	0	0	1	1
Possible debt relief	0	0	0	0	0	0	0	0	1	1
Memorandum items:										
Non-oil primary balance [1]	-16	-16	-83	-83	-72	-72	-94	-94	-266	-266
Non-oil primary balance (program definition) [2]	41	41	-29	-29	-28	-28	-20	-20	-36	-36

Sources: Cameroonian authorities and staff estimates and projections.

[1] Excludes grants, interest and foreign-financed capital expenditures.

[2] Excludes restructuring and debt relief-financed expenditures, in addition to grants, interest, and foreign-financed capital expenditures.

Technical Memorandum of Understanding on the Definitions of the Performance Criteria and Benchmarks of the PRGF-supported Program for January–December and the Modalities of Their Adjustment

A. Introduction

1. This memorandum sets out the understandings between the Cameroonian authorities and the International Monetary Fund (IMF) regarding the definitions of the performance criteria and benchmarks of the program and the contingency mechanisms related thereto. It also specifies the program's exchange rates and the data to be reported to the IMF by the authorities.

B. Definitions

Government

2. Government is defined as central government unless otherwise noted.

External debt

3. External debt shall have the meaning set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (IMF Executive Board Decision No. 12274–00/85, dated August 24, 2000). External debt is defined on the basis of residency.

Accumulation of external payments arrears

4. External payments arrears are considered to be the external nonreschedulable arrears of the government, including public enterprises whose debt is guaranteed by the government. External nonreschedulable arrears includes the servicing of debt which is due and not paid to all multilateral creditors and to bilateral official and commercial creditors with whom a debt rescheduling or restructuring agreement has been concluded. The nonpayment of debt service to bilateral official and commercial creditors with whom a rescheduling or restructuring agreement has not yet been signed is not considered to be an arrear for the purposes of the program, provided that Cameroon is engaged in best efforts to negotiate a rescheduling or restructuring agreement with bilateral official and commercial creditors.

Concessionality of external debt

5. Medium- and long-term debt is considered to be debt with an initial maturity of one year or more. Debt with a maturity of one year or more is considered to be concessional if it includes a grant element equivalent to 35 percent or more, calculated on the basis of the commercial interest reference rate (CIRR) published by the OECD and following the methodology set out in the IMF staff paper entitled "Limits on External Debt or Borrowing

in Fund Arrangement – Proposed Change in Implementation of the Revised Guidelines" (www.imf.org), approved by the IMF Executive Board on April 15, 1996. Thus, for debt maturing in 15 years or more, the OECD 10-year CIRR is used as the discount rate to assess concessionality. The following margins are added to the two CIRRs for the various repayment periods: 1 percent between 15 and 19 years; 1.15 percent between 20 and 29 years; and 1.25 percent when the repayment period is spread over 30 years or more. Debt rescheduling and restructuring as well as the use of IMF resources are not part of the performance criterion on the contracting or guaranteeing of nonconcessional debt.

Debt relief

6. For the purpose of the program, the only form of debt relief that will be subject to the contingency mechanism described below is the debt relief that leads to an effective reduction in programmed debt service. This includes, in particular, any relief in the form of rescheduling, forgiveness, restructuring, or a grant under the Heavily Indebted Poor Countries (HIPC) Debt Initiative, the Multilateral Debt Relief Initiative (MDRI), and bilateral initiatives (e.g., C2D). Programmed debt relief on debt that has been in drawn-out rescheduling/restructuring negotiations with non-Paris Club creditors, including commercial creditors is excluded from the contingency mechanism as it does not lead to an effective reduction in programmed debt service.

Domestic debt

Structured debt

7. Structured debt is defined as debt that has been subject to a formal agreement (*convention*) or securitization (*titrisation*). For the purposes of the PRGF program, structured debt is limited to the stock of structured debt at end-December 2004 that was included in the audit completed in October 2005 and that is specified in the multiyear settlement plan for public domestic debt as recorded by the National Amortization Fund. The stock of this debt (excluding BEAC's advances) at end-December 2004 amounted to CFAF 956 billion.

Nonstructured debt

8. Nonstructured debt is defined as debt not subject to a formal agreement (*convention*) or securitization (*titrisation*). For the purposes of the PRGF program, nonstructured debt is limited to the stock of nonstructured debt at end-December 2004 that was included in the audit completed in October 2005 and that is specified in the multiyear settlement plan for public domestic debt as recorded by the National Amortization Fund. The stock of this debt at end-December 2004 amounted to CFAF 496 billion.

Domestic debt repayments

9. For assessing the observance of the quantitative performance criteria on the reduction of domestic debt, only those repayments of domestic debt are counted that are made to repay the structured and nonstructured domestic debt defined above. These repayments are recorded "below the line" in the Fund's "Central Government Operations" table. In the case of structured debt, they are (i) the payments on account of the securitized debt to the BEAC and commercial banks, which are entered in the line "Domestic financing, net – Banking System - Banking system excl. HIPC and C2D"; and (ii) other repayments of principal, which are recorded in the line "Domestic financing, net – Amortization". In the case of nonstructured debt, they are the repayments of principal, which are recorded in the line "Net change in arrears – Domestic".

Government financial operations table (TOFE)

10. The Treasury balance (*balance des comptes du Trésor*) shows government revenue and expenditure posted in Class 6 accounts (current expenditure), Class 7 accounts (current revenue), and Class 2 accounts (investment operations). Debt-related operations are recorded in Class 1 accounts (debt operations) and partly in Class 5 (financial operations).The financial operations data must be consistent with the data in the Treasury account at the BEAC. Data on provisional revenue and expenditure operations and deposits of the correspondents of the Treasury are recorded in Class 4 accounts of the government's chart of accounts (plan comptable). Government operations that are not carried out through the Treasury need to be added to the data on operations that are carried out through the Treasury. Revenue and expenditure operations are recorded on a cash basis.

Nonoil revenue

11. Nonoil revenue comprises all government (tax and nontax) revenue, excluding revenue from oil companies (i.e. companies engaged in crude oil extraction in Cameroon) and oil royalties (*redevance pétrolière*). VAT is recorded net of VAT refunds. The pipeline fee paid by the Cameroon Oil Transportation Company (CTOCO) is recorded as part of nontax revenue.

Privatization proceeds

12. For the purposes of the program, privatization proceeds will be understood to mean all funds received by the government from the sale or concessioning of the operation of a public company or organization or publicly owned facility to one or more private company(ies) (including companies that are fully controlled by foreign government(s), private organization(s), or individual(s)). Privatization proceeds also include all funds received from the sale of shares owned by the government in private companies or public enterprises. All privatization proceeds should be recorded on a gross basis; if any costs are incurred in connection with the sale or concessioning, these must be recorded separately as expenditure.

Goods and services

13. All budgetary expenditures on account of the purchase of goods and services are recorded in the accounts 4000060, 4000090, 4011, 4010060, 48131, 4810 and 40001205 of the Treasury balance account and shown accordingly in the TABORD. HIPC and C2D spending is excluded.

Nonoil primary budget balance

14. The nonoil primary budget balance (on a cash basis) is calculated as government nonoil revenue, excluding external grants, less all expenditure other than interest payments, foreign-financed investment expenditure, HIPC-financed expenditure, C2D-financed expenditure, and restructuring expenditure.

Net claims of the banking sector on the central government

15. Net claims on the government by the banking system comprise the stock of all outstanding claims on the government by the banking system (loans, advances, and any other government debt instruments, such as long-term government securities), less all deposits held by the Treasury with the banking system, excluding the HIPC account, the C2D account, and the two accounts held by the CAA in a commercial bank to pay the government's domestic and external debt obligations.

Payments to utility companies

16. The floor relating to "payment to utility companies" will be considered observed if payments to the utility companies (water, electricity, fixed-line telephones, railway and refinery companies) are made in quarterly amounts, as indicated in Table 3 of the MEFP. These payments are to exclude fiscal compensation, and they are assessed on the basis of cash disbursements. They are to be registered as current expenditures in the TOFE.

Restructuring expenditure

17. Restructuring expenditures are defined as those expenditures that are made in the context of implementing a privatization strategy (CAMAIR, CAMTEL, CDC), a public-private partnership (SNEC) or a restructuring plan (CAMPOST, SONARA). The classification of an expenditure as "restructuring expenditure" should be made after consultation with the IMF.

Spending advances by SNH (*interventions directes)*

18. Spending advances (*interventions directes*) by SNH (*Société Nationale des Hydrocarbures*) are defined as advance payments by SNH on behalf of the government. They are deducted from the monthly cash revenue transferred by the SNH to the government. There will be no *interventions directes* in 2006 or later.

Quasi-fiscal spending by SNH (*autres charges*)

19. SNH spending to cover costs that are not shared with the other oil companies as part of the production-sharing agreements are called *autres charges* (other costs). Some of this is related to the SNH mission (e.g. decommissioning costs). Other elements of this spending are not related to SNH oil sector activities and are quasi-fiscal in nature (e.g. the cost of operating the Chad-Cameroon oil pipeline).

Subsidy to fuel consumers

20. The budgetary transfer to SONARA to cover the fuel subsidy to consumers will amount to the difference between the retail price applied and the price that would be needed to keep SONARA's net result on domestic operations at zero for the previous month, times the volumes sold by SONARA in the domestic market. It will be calculated jointly by SONARA and CSPH and will be paid during the month (t+1) subsequent to the reference month (t) for which it has been calculated. It will not exceed CFAF 7.0 billion in the first quarter of 2007, CFAF 7.0 billion in the second quarter of 2007, CFAF 7.0 billion in the third quarter of 2007, and CFAF 7.0 billion in the fourth quarter of 2007. If, based on this mechanism, the quarterly budget transfer does not suffice to cover in full the fuel price subsidy/SONARA's shortfall, the government will revise retail prices upward, on a monthly basis, so as to prevent losses on domestic operations at SONARA. If oil prices weaken on international markets, the government will first reduce transfers to SONARA and then eliminate them completely, before lowering the retail price.

C. Modalities of the Contingency Mechanism for the Adjustment of Targets

21. The floor on the nonoil primary balance will be adjusted:

- upward by the amount of lower-than-programmed receipt of budget support grants;
- upward by the amount of lower-than-programmed transfers made to SONARA.

22. The ceiling on net claims of the banking sector on the government will be adjusted:

- downward up to the amount of higher-than-programmed oil revenue and privatization proceeds that are not used to reduce domestic debt, buy back external debt owed to commercial lenders, or finance one-off investment projects (Country Report No 07/129, ¶15 of the MEFP);
- upward/downward by the amount of lower/higher-than-programmed external budget support (grants and loans) and by half of the amount of lower/higher than programmed debt relief (defined in paragraph 6 above); the revision upward will be capped to a cumulative amount of CFAF 15 billion; for the purposes of the adjustor,

budget support is defined as all nontargeted grants and loans, excluding C2D, HIPC Initiative, and MDRI grants;

- downward by the amount of lower-than-programmed restructuring expenditure;
- downward by the amount of lower-than-programmed payments of domestic debt (as defined above).

23. Higher-than-programmed oil revenue and all privatization proceeds will be allocated to repayments of domestic debt (as defined above), buyback of external debt owed to commercial creditors, or the financing of one-off investment projects (Country Report No. 07/129, ¶15 of the MEFP). The domestic debt repayments will be made within one month following the end of the quarter in which the surplus occurred.

24. In case the shortfall/excess in oil revenue, external budget support (including debt relief), privatization revenue, and/or adjustments in the ceiling on net bank credit to the government exceed a cumulative 0.2 percent of 2007 GDP, the government will consult with the staff of the IMF to formulate corrective policies.

D. Program Exchange Rates

25. Exchange rates to be applied for the conversion of amounts in SDR or U.S. dollars are US$1.5059 per SDR and CFAF 497.56 per U.S. dollar for the first quarter of 2007, US$1.5037 per SDR and CFAF 498.89 per U.S. dollar for the second quarter of 2007, US$1.5035 per SDR and CFAF 499.08 per U.S. dollar for the third quarter of 2007, and US$1.5054 per SDR and CFAF 498.14 per U.S. dollar for the fourth quarter of 2007. Liabilities to the IMF, which are included in the definition of net bank credit to the government, will be valued at the same exchange rates. Any deviation from the exchange rate will lead to a full upward or downward adjustment, as appropriate, of the value of the stock of IMF liabilities to the BEAC, and to a similar adjustment of the ceiling on net bank credit to the government.

E. Structural Performance Criteria

26. The performance criterion pertaining to the consolidation of the online connection between the IT systems of the General Directorates of Budget and the Treasury will be considered observed if, by June 30, 2007, monthly summary reports on budget execution—from commitment through to payment—are produced on a functional basis for the January-April 2007 period.

27. The performance criterion on completion of the preparatory work for the establishment of a financial subsidiary for CAMPOST will be considered observed if, by June 30, 2007, the decree establishing the subsidiary is published and the following tasks are accomplished and the results are adopted by the government: bye-laws of the subsidiary, list of shareholders

and managers, business plan including projected activities, network and structure of post offices and postal agencies, financial statements and accounts certified by the statutory auditors and validated by the competent entities, payment of capital or minimum available budgetary transfers.

F. Structural Benchmarks

28. The benchmark related to the establishment of harmonized civil service personnel records based on the reconciliation of the censuses of the Ministry of Finance and the Ministry of the Civil Service in 14 ministries, and installation of a personnel management computer system in these ministries will be considered observed if, by end-June 2007: (i) the equipment, the protocol for communication between the various personnel management software sites, and the personnel management software application are in place in each of these ministries; (ii) staff have been trained in their use; (iii) the personnel management software is operating effectively in the said ministries; and (iv) the personnel data of these ministries in the personnel management software are consistent with the data in the payroll management system. The 14 ministries scheduled for personnel management software installation are the following: (1) the Office of the Prime Minister, (2) the Ministry of Higher Education, (3) the Ministry of Public Works, (4) the Ministry of Communication, (5) the Ministry of Forests and Wildlife, (6) the Ministry of Employment and Vocational Training; (7) the Ministry of Labor and Social Security, (8) the Ministry of Justice, (9) the Ministry of Programming and Regional Development, (10) the Ministry of Environment and the Protection of Nature, (11) the Ministry of Agriculture and Rural Development, (12) the Ministry of Industry, Mines, and Technological Development, (13) the Ministry of Territorial Administration and Decentralization, and (14) the Ministry of Water and Energy.

29. The benchmark concerning the diagnostic study on the budget and treasury nomenclature to assess its consistency with GFS standards and the preparation of an analytical report will be considered met if the government submits to the IMF, by end-March 2007, an analytical report containing the following: (i) a description of the deficiencies of the current budget classification, particularly with regard to simplicity, interpretation, and consistency with international standards, and (ii) an action plan to improve the budget classification in the 2007-2009 period.

30. The benchmark regarding the preparation of actions to be taken during the transitional period of the new organic law on government finance and the timetable for their implementation will be considered met if, by end-April 2007: (i) a new draft law establishing the government financial system is prepared with the assistance of IMF staff and is presented to Parliament, along with the key objectives for the transitional period, and (ii) the government prepares an action plan covering this transition, forwards it to all concerned ministries and government entities, and holds a seminar for those ministries to present the plan and explain its implications.

31. The benchmark pertaining to the preparation of consistent monthly budget execution tables on a cash and a commitment basis and a monthly expenditure table broken down by economic function to track spending on priority sectors will be considered met if, by the 25th of the month following the reporting month, the following are sent to the IMF: (i) the TABORD, the treasury balances, expenditure tracking tables with a breakdown by chapter and account and a functional breakdown (up to payment authorization and for the central offices only), (ii) the TABORD contains an annex showing payment authorizations and payments broken down by economic function (for the central offices only), (iii) the TABORD is consistent with the Treasury balances and the expenditure tracking tables broken down by chapter and account and by function; and (iv) the expenditure tracking table broken down by chapter and account is consistent with the expenditure tracking table broken down by function.

32. The benchmark on adjustment of the retail prices of petroleum products and payment of budgetary transfers to SONARA as agreed with Fund staff will be considered met if the authorities raise the prices of the three main fuel products, i.e., premium gasoline, oil, and diesel fuel, and make transfer payments as indicated in paragraph 26 of the MEFP and paragraph 20 above. Fuel prices are to be raised on the first business day of the month.

33. The benchmark on the preparation of a diagnostic study of the civil service remuneration system (salaries and benefits) will be considered met if, by end-March 2007, the final report on the study, conducted in accordance with the terms of reference approved by the authorities and the IMF, has been submitted to the minister responsible for finance.

34. The benchmark concerning publication of the quarterly report on execution of the central government budget will be considered met if, two months after the end of the quarter, a report detailing and commenting on execution of the budget in terms of revenue, expenditure, and financing (based on a model similar to the TOFE) is available on the website www.spm.gov.cm.

35. The benchmark related to publication on the website www.spm.gov.cm of judicial decisions and administrative sanctions against civil servants will be deemed met if the government creates on its website a section devoted to the fight against corruption, where the following information is published on a continual basis: (i) all judicial decisions, including appealed decisions, with the necessary reservations; (ii) all administrative sanctions against civil servants. As understood in this Memorandum, administrative sanctions are punitive measures taken by the authorities against civil servants for failing to act with integrity and observe professional ethics. The sanctioned behaviors may involve indirect actions detrimental to sound financial management and good governance, such as misappropriation, corruption, favoritism, or influence-peddling. Without prejudice to criminal prosecution, persons guilty of such behaviors are, in particular, subject to being relieved of their responsibilities (if any) and liable for disciplinary sanctions ranging from a written warning to the revocation, suspension, or forfeiture of pension rights.

36. The benchmark related to completion of the work to connect the General Directorate of Taxes (MESURE) to the General Directorate of Customs (SYDONIA) will be considered met if before end-November 2007 one or more modules of the automated management system of the General Directorate of Customs is connected to one or more modules of the automated management system of the General Directorate of Taxes, and if any of these modules is able to share a specific dataset on the imports and exports of individuals and legal entities as well as on their commercial and industrial activities on the Cameroon market.

37. The benchmark related to presentation to the government of the report summarizing the proceedings and recommendations of the Commission for the revision of domestic and customs taxation with the aim of formulating the government's medium-term tax policy will be considered met if by end-December 2007: (1) a commission bringing together the government, economic operators, and civil society has been set up by the government; and (2) the general report on the proceedings and recommendations of this commission has been drafted and approved at a plenary session of the commission by December 31, 2007.

38. The benchmark related to the reduction in the number of tax centers for small taxpayers with the establishment of initial experimental pilot sites in Yaoundé and Douala will be considered met if by end-December 2007 the following actions have been implemented: (1) each pilot center incorporates at least three tax centers based on the current model; and (2) the pilot tax centers will be modeled on the tax centers for medium-sized enterprises (customer management).

39. The benchmark related to completion of the work to streamline taxpayer identification, overhaul the taxpayer identification software, and make the single taxpayer database secure will be considered met if the following actions have been carried out by end-October 2007: (1) the taxpayer registration software is operational; (2) this software is the sole IT application for registering taxpayers (no other application may register or change taxpayer information, centrally or in the provinces); and (3) a direct connection is established between this software and the software for the management of taxes and fees at the General Directorate of Taxes (MESURE).

40. The benchmark related to adoption of a formula for revising the SONARA exit prices and a simplified price structure for petroleum products allowing automatic adjustment will be considered met if by December 2007 the new formula for petroleum prices after they exit SONARA reflects international prices, precludes the economic adjustment in favor of SONARA, and allows an automatic adjustment of prices. The simplified price structure should reduce or eliminate cross-subsidies between petroleum products (including liquefied gas) and the tax distortions of the current price system.

41. The benchmark related to installation of the automated system of integrated civil service personnel and payroll management (SIGIPES) in 24 ministries will be considered met if at end-December 2007: (i) the equipment, the protocol on communications among the various

SIGIPES sites, and the SIGIPES application are in place at each of the ministries; (ii) staff have been trained in their use; (iii) the SIGIPES has been actually brought into operation in the ministries; and (iv) the data on the staff of these ministries in the SIGIPES are consistent with the data contained in the payroll management system. The 24 ministries in which the SIGIPES will be installed include the 14 already identified above (see paragraph 28) and the following 10 ministries: (1) Civil Service, (2) Basic Education, (3) Health, (4) Finance and Economy, (5) Secondary Education (6) Foreign Affairs, (7) State Audit Office, (8) Urban Development and Housing, (9) Social Affairs, and (10) General Delegation for National Security.

42. The benchmark related to publication on the www.spm.gov.cm website of a summary of the reports of the local committees monitoring the physical and financial implementation of the investment projects in the central government budget will be considered met if three months after the end of a quarter that summary includes: (i) observations on the causes of delays in investment projects, (ii) statistics on the use of investment-related funds and the rate of progress of the individual projects, and (iii) recommendations to improve the physical and financial implementation of investment projects.

43. The benchmark related to finalization of the draft law on bank electronic communications and electronic payments will be considered met if by end-November 2007 the government presents to Parliament a law defining the regulatory framework for electronic communications and payments, in consultation with World Bank staff, including transactions between individuals and legal entities on the one hand and banks on the other.

44. The benchmark related to the transfer of secondary market transactions in zero-coupon treasury bonds to the financial market will be considered met if by end-October 2007 all transactions (purchases, sales, repurchases) involving such bonds between individuals and legal entities, or between the government and other entities (including public enterprises), take place in the financial market. By end-October 2007, the CAA will be capable of publishing each day the volume and prices of all transactions on the website: caa.gov.cm.

45. The benchmark related to completion and implementation of the electronic one-stop-shop to facilitate foreign trade will be considered met if from end-September 2007 all foreign trade transactions are being conducted through the electronic one-stop-shop. The government will send a letter to Fund staff confirming that the electronic one-stop-shop has began its operations. .

G. Reporting Requirements

46. The Cameroonian authorities will send data, as in the attached Tables 1 and 2, to the IMF within the established time limits. The authorities will supply the IMF, on a timely basis, with any additional information that the IMF may request for the purpose of monitoring the implementation of the program.

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey	Monthly	10th of the month for the previous month's data for the preliminary series 25th of the month for the previous month's data for the final series
	Net credit by the banking system to the central Government	Monthly	10th of the month for the previous month's data for the preliminary series 25th of the month for the previous month's data for the final series
	Interest rates	Irregular	One week after new rates announced
	Transactions through the HIPC Initiative and DRDC accounts opened at the BEAC, including credit and debit	Monthly	10th of the month for the previous month's data
	Status report on all Government deposits at the BEAC	Monthly	10th of the month for the previous month's data
	Changes to domestic and custom taxes (budget law and others)	Irregular	Two weeks after the change has been made
	Government financial operations table (TOFE) on a cash basis, including revenue, expenditure, financing, and domestic debt payments (including settlement of domestic arrears)	Monthly	Three weeks after the end of the month concerned for the preliminary series. Eight weeks after the end of the month for the final series
	Government financial operations table on a commitment basis (head office) consistent with the TOFE on a cash basis	Monthly	Three weeks after the end of the month concerned for the preliminary series Eight weeks after the end of the month
	Treasury balances of a given month, including table on expenditure paid but not yet committed (expenditure paid but not authorized) and the table reconciling the Treasury account at the BEAC and the Treasury balance.	Monthly	Three weeks after the end of the month Eight weeks after the end of the month

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	Report on the implementation of the domestic debt settlement plan	Monthly	25th of the month for the previous month's data
	Table on budgetary execution on a functional basis consistent with the table on Government financial operations on a commitment basis	Monthly	Eight weeks after the end of the month for the final series
	VAT refunds' balances (both refunds requested and refunds paid)	Monthly	25th of the month for the previous month's data
	Investment budget execution report	Quarterly	Two months after the end of month concerned
	HIPC and DRDC spending (commitments, authorizations, payments)	Monthly	25th of the month for the previous month's data
	SNH operations, including export volumes, exchange rates, prices, values, operating costs (including a detailed list of other costs, commitments, transferable balances, direct interventions, and balances transferred (cash basis), dividends received, and dividends transferred.	Monthly	25th of the month for the previous month's data
Public companies data	Payments of bills to public enterprises (SNEC, CAMTEL, AES SONEL, CAMRAIL, and SONARA)	Monthly	20th of the month for the previous month's data
	Payments made to or on account of CAMAIR (for bills, subsidies, loans, arrears …)	Monthly	20th of the month for the previous month's data
Fuel products pricing data	International oil prices, domestic fuel prices and their components, budgetary transfers to SONARA, and SONARA net financial result, using the format of Table 2 below.	Monthly	20th of the month for the previous month's data
Real sector data	Consumer price index, Yaoundé and Douala	Monthly	20th of the month for previous month's data
	National consumer price index	Quarterly	Six weeks after the end of the quarter concerned
	Index of industrial production	Quarterly	Two months after the end of the preceding quarter
	National accounts		
	• Flash series	Annual	Eight months after the end of the year

Table 1. Cameroon: Data-Reporting Requirements

Category of Data	Table/Report	Frequency	Target Date
	• Provisional series	Annual	Eighteen months after the end of the year
	• Final series	Annual	Twenty four months after the end of the year
Balance of payments data	Imports by use and major export products, trade balance	Monthly	25th of the month for the previous month
	Preliminary price and volume indices of imports and of exports	Quarterly	One month after the end of the quarter concerned
	Final price and volume indices of imports and exports	Quarterly	Three months after the end of the quarter concerned
	Balance of payments	Annual	Six months after the end of the year for the preliminary series Twelve months after the end of the year for the final series
External debt data	Stock of outstanding debt and arrears	At least annual	At the beginning of the year; updates as needed
	Debt service due before debt relief	Monthly	25th of the month for the previous month's data
	Debt service due after debt relief	Monthly	25th of the month for the previous quarter's data
	Debt service paid	Monthly	25th of the month for the previous quarter's data
	New grants and loans received, specified by creditor including their terms and conditions and project	Monthly	25th of the month for the previous quarter's data
	Grants and loans projected for the next eight quarters	Quarterly	25th of the month for the previous quarter's data
	Regular and additional bilateral HIPC assistance received and projected for the next eight quarters	Quarterly	25th of the month for the previous quarter's data

Table 2. Cameroon — Petroleum Product Prices (in FCFA per liter, unless otherwise indicated)		
Jul-05	-	Jun-08
Super Petroleum Diesel	Super Petroleum Diesel	Super Petroleum Diesel
1.Price structure that would be necessary for SONARA to break even on domestic operations in a given month (net outturn of 0)		
1a. Import parity/price of product (in USD per liter)		
1b. Exchange rate (CFAF/USD)		
1c. Import parity/price of product		
1d. Customs duties, incl. VAT		
1e. Economic adjustment		
1f. Coastal transportation, incl. VAT		
1g. Petroleum products excise		
1h. SONARA refinery-gate price (=1c=1d=1e=1f)		
1i. Port fees, depot, refitting Nsam depot, coloration, fight against fraud, incl. VAT		
1j. Transport equalization		
1k. Depot-gate price (=1h=1i=1j)		
1l. Overhead costs, financial costs, benefits, leakage, amortization and maintenance, town delivery, dealer's margin, incl. VAT 1m. Retail price (=1k+1l)		
2. Prices actually applied		
3. Volume sold (in million liters)		
4. SONARA net outturn before budgetary transfer (in CFAF billion)		
5. Budgetary transfer to SONARA (in CFAF billion)		
6. SONARA net outturn after budgetary transfer (in CFAF billion)		
Sources: Cameroon authorities		

INTERNATIONAL MONETARY FUND

CAMEROON

Staff Report for the 2007 Article IV Consultation, Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion, and Request for Modification of Performance Criterion—Informational Annex

Prepared by Staff Representatives for the 2007 Consultation with Cameroon

Approved by David Nellor and Adnan Mazarei

May 25, 2007

Annexes Contents Page

Cameroon: Relations with the Fund

(As of April 30, 2007)

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

II. **General Resources Account**:

	SDR million	%Quota
Quota	185.70	100.00
Fund holdings of currency	184.98	99.61
Reserve position in Fund	0.73	0.39

III. **SDR Department**:

	SDR million	%Allocation
Net cumulative allocation	24.46	100.00
Holdings	3.08	12.58

IV. **Outstanding Purchases and Loans**:

	SDR million	%Quota
PRGF arrangements	7.95	4.28

V. **Latest Financial Arrangements**:

Type	Date of Arrangement	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	10/24/2005	10/23/2008	18.57	7.95
PRGF	12/21/2000	12/20/2004	111.42	79.59
PRGF	08/20/1997	12/20/2000	162.12	162.12

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal					0.80
Charges/interest	0.72	0.95	0.95	0.95	0.94
Total	0.72	0.95	0.95	0.95	1.74

VII. **Implementation of HIPC Initiative**:

	Enhanced framework
I. Commitment of HIPC assistance	
Decision point date	Oct 2000
Assistance committed[1]	
By all creditors (US$ million)	1,267.00
Of which: Fund assistance (US$ million)	37.04
(SDR equivalent in millions)	28.62
Completion point date	Apr 2006
II. Delivery of Fund assistance (SDR million)	
Amount disbursed	28.62
Interim assistance	11.25
Completion point	17.37
Additional disbursement of interest income[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 can not 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.

VIII. **Implementation of MDRI Assistance**:

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**	**PRGF**	**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.

IX. **Safeguards Assessments**:

The Bank of the Central African States (BEAC) is the regional central bank of Central African States, of which Cameroon is a member. A safeguard assessment of the BEAC completed on August 30, 2004 found that BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas. A summary of the recommendations of the safeguards assesssment was reported in Country Report No. 06/231.

X. **Exchange Arrangements**:

Cameroon participates in a currency union with five other members of the CEMAC and has no separate legal tender. Cameroon's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.957 per euro. Local currency equivalent: CFAF 735.24 = SDR 1, as of May 3, 2007. Effective January 1, 2007, the exchange arrangement of the CEMAC countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

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

XI. **Article IV Consultation**:

The last Article IV consultation with Cameroon was concluded by the Executive Board on April 22, 2005.

XII. **FSAP Participation and ROSCs**:

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

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

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

XIII. **Technical Assistance**:

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

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

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

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

July 2005: FAD mission on tax policy.

May 2005: FAD mission on tax and customs administration.

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

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

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

June 2003: FAD mission on public expenditure management.

March 2003: FAD mission on public expenditure management.

November 2002: FAD mission on public expenditure management.

May 2002: FAD mission on public expenditure management.

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

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

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

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

June 2000: FAD mission on the modernization of customs.

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

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

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

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

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

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

October–November 1998: STA mission on metadata project.

September 1998: Placement of FAD advisor for the VAT.

July 1998: FAD mission on preparation of a VAT.

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

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

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

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

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

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

XIV. **Resident Representatives**:

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

Cameroon: Relations with the World Bank

(As of January 8, 2007)

Government's Strategy Supported by the World Bank

27. The government's strategy for economic growth and poverty reduction, as described in the poverty reduction strategy paper (PRSP) communicated to the World Bank and the IMF in April 2003, is articulated along seven pillars, as detailed in IDA/SecM2003–0434. The Government has begun revising the PRSP, with an expected completion date of early 2008.

World Bank Lending and Strategy

28. A joint IDA-IFC Interim Strategy Note (ISN) was presented to the Board on December 7, 2006. The strategy, which covers fiscal year (FY) 07–08, maintains the broad objectives of the previous Country Assistance Strategy but with enhanced emphasis on governance including combating corruption, managing for results, and strengthening partnerships, and alignment and harmonization of external assistance in line with the Paris Declaration for aid effectiveness. World Bank's support to the Government's strategy is integrated around six proposed outcomes:

29. *Strengthening PRSP implementation*: Planned activities include policy dialogue and technical assistance to support revision of the PRSP, with a focus on sharpened priorities and an explicit results framework, including monitoring and evaluation mechanisms, as well as Economic and Sector Work (ESW) to sharpen the PRSP gender focus.

30. *Strengthening governance, including anticorruption and public finance management*: Activities include planned financing of an operation to increase transparency and accountability as well as planned programmatic support to strengthen public financial management as part of a multi-donor platform; ongoing policy dialogue and technical assistance to support implementation of the Extractives Industries Transparency Initiative (EITI); and support to anticorruption efforts. Corruption assessments will be conducted in key sectors as part of a coordinated support effort by international partners initiated by the Bank and linked to OECD-DAC efforts to develop a common anticorruption policy.

31. *Fostering private sector development*: Activities include enhanced IFC support to small enterprises; stepped-up IFC/Bank policy dialogue and technical assistance to strengthen Cameroon's weak business climate, including through a jointly appointed senior IFC/Bank staff based in Cameroon; and support to tighter regional integration, through ongoing and planned financing of a regional payment systems operation and an operation to strengthen regional financial institutions.

32. *Supporting infrastructure and urban development*: Activities include ongoing financing of the Douala infrastructure, the railway concession, and the regional air transport safety and security operations; planned financing of an urban and water, an energy sector, and a regional transport and trade facilitation operation; as well as ongoing policy dialogue on energy and a planned multi-partner transport sector ESW.

33. *Supporting the forestry and environment sectors and strengthening rural and agricultural development*: Activities include ongoing financing of the multi-partner-supported forestry and environment program, the community development program, and an operation to strengthen petroleum environment management capacity; an ongoing ESW on forestry reform; and a planned rural investment climate assessment with a gender focus as key input to the preparation of a Sector-wide approach (SWAp) in the agriculture sector.

34. *Promoting human development:* Activities include financing of an ongoing operation to increase capacity in the education sector, an ongoing and a planned follow-up multi-sectoral HIV/AIDS operation, and planned support of a SWAp in the health sector (FY08). Within the health SWAp, the Bank expects to provide financial support for capacity building, systems development, and delivery of basic health services: (i) strengthen the normative functions of the Ministry of Health; (ii) reinforce the capacity of provinces to manage, allocate, and plan resources, and to supervise, and monitor districts; and (iii) fund a basic package of services included in a consolidated health district plan which reflects sector priorities based on the updated Health Sector Strategy. The Bank is also undertaking a series of analytical work on the issues of governance, fiscal space and uses of debt relief in the health sector

35. As of January 8, 2007, the IDA portfolio (including GEF co-financing) comprises nine active projects with a total commitment of US$216.1 million, of which US$131.5 million are not disbursed yet. These projects cover a broad range of sectors, including infrastructure, education, transport, environment, forestry, HIV/AIDS, local development, and public-private partnerships.

Table 1: World Bank Portfolio in Cameroon
(at January 8, 2006, in US$ million)

IDA Total	**216.1**
Douala Infrastructure	55.6
Community development (IDA + GEF)	26.0
Public-private partnership	13.5
Environment capacity building	4.7
Forest and environment development (IDA+GEF)	35.0
HIV/AIDS multisector	34.5
Education	18.2
Railway Concession	14.1
Air Transport Safety and Security	14.5

36. In addition to its lending activities, the World Bank has been supporting the government with analysis and a policy dialogue in such areas as :

- Monitoring and assisting on the PRSP implementation (i) by providing assistance and formulating sector strategies, sector and global medium-term expenditure frameworks to align the national budget to the PRSP development objectives; (ii) carrying out an Investment Climate Assessment (ICA) in FY06 to sharpen PRSP policies for economic growth and diversification, and poverty reduction.

- Strengthening the dialogue and action on the governance agenda with an active role in (i) the Multidonor Platform on Public Finance that is working with the Government on improving public financial management, and (ii) working closely with other partners to support the government's efforts to combat corruption. To support these activities a Public Expenditure Management and Financial Accountability Review (PEMFAR) and a Country Procurement Assessment Review have been undertaken.

IMF–World Bank Collaboration in Specific Areas

37. The IMF and World Bank staffs collaborate on (i) the HIPC Initiative and the PRSP process and specifically worked jointly on the documents for the HIPC completion point and the JSAN of the PRSP progress report, which were presented to the Boards in April 2006; (ii) analyses and reforms in public financial management; and (iii) other governance reforms, including the customs systems. Table 2 briefly describes each area and the specific policy advice support provided by the two institutions.

Table 2: Cameroon: Bank/Fund Collaboration

Area	Description	Specialized Advice/ Reforms Supported by Fund	Specialized Advice/ Reforms Supported by Bank
Public financial management	Bank and Fund missions analyzing aspects of fiscal management	Tax analysis and policies, strengthening of control agencies; expenditure management, including expenditure classification treasury management; transparency and reporting in budget operations; budget execution, monitoring and evaluation	Expenditure policy and budget allocation; budget planning and programming, including preparation of global and sector MTEFs; budget execution evaluation Public procurement reform Budget tracking in key sectors
Other governance reforms	Coordination of Bank/Fund staff work with UNDP on developing implementation plans	Customs and tax reform	Anticorruption agenda; Decentralization EITI
Structural reforms	Continuation of the structural reforms initiated under SACIII	Trade policies; financial sector reform	Reforms in education, health, transport, energy, rural infrastructure, and urban development Restructuring and privatization of public enterprises, including CAMAIR, CAMTEL, SNEC, and CAMPOST Institutional and human capacity building, including the reform of the civil service Private sector development and trade and transit policies
HIPC completion point and PRSP related activities	Joint tracking of HIPC- related spending and the preparation of the HIPC completion point documents and JSAN of PRSP progress reports		

38. The Fund takes the lead on policy advice and reforms related to (i) macroeconomic policy and short- and medium-term financial programming; (ii) tax policy and administration; (iii) information and financial management systems for government revenue; (iv) budget accounting; (v) treasury procedures; and (vi) expenditure classification and tracking. Bank staffs participate in the meetings of Fund missions with the authorities in these areas.

39. The World Bank takes the lead on (i) institutional and human capacity building for public sector management; (ii) budget planning and programming including formulation of sectoral strategies and medium-term expenditure frameworks; (iii) analysis of poverty and sources of growth to support the PRSP process, (iv) advice on sector development particularly the social sectors, infrastructure, agriculture, and forestry; and (iv) the design, implementation and monitoring of the structural reform program including the privatization of public enterprises.

40. Both the Bank and Fund have responsibility for policy advice on (i) budgetary procedures, government expenditure management systems, and expenditure execution, including tracking of poverty-reducing expenditures; (ii) the functioning of internal and external budget control institutions; (iii) customs reform; (iv) trade policy; (v) financial system reform; and (vi) governance. The two institutions also jointly support and monitor the HIPC Initiative and PRSP process. Finally, the Bank and the Fund have jointly conducted a FSAP for the CEMAC region, and are presently conducting a joint FSAP for Cameroon.

Questions may be addressed to Abdoulaye Seck (Tel. 237-220-3815) or Katrina Sharkey (Tel. 473-6288).

Cameroon: Statistical Issues

Data provision to the Fund remains adequate for surveillance purposes, but there is scope for improvement in quality, coverage, and timeliness in most macroeconomic datasets. In recent years, the authorities have taken the initiative to improve the macroeconomic database, particularly the national accounts and balance of payments statistics

Cameroon has participated in the General Data Dissemination System (GDDS) since December 2000. Metadata and descriptions of current statistical practices and plans for improvement are available on the IMF's Dissemination Standards Bulletin Board (DSBB). GDDS participants are encouraged to review and certify the accuracy of their metadata at least once a year; Cameroon's metadata were last updated and certified in November 2001.

The National Institute of Statistics (INS), an autonomous institution under the aegis of the Ministry of Planning, Programming, and Regional Development, is the most important macroeconomic data production agency. Unfortunately, lack of clarity concerning the role and coordinating function of the INS has hampered the implementation of statistical standards and classifications across government departments and agencies. In this regard, it is encouraging that under the leadership of the Minister of Economy and Finance, the authorities have formed a coordinating committee to take up publication of the tables of the Statistical Appendix (accompanying the Article IV staff report) in the future.

National accounts statistics

In recent years, the INS has compiled a revised and updated set of national accounts estimates based on the *1993 System of National Accounts (1993 SNA)*.

STA missions visited Cameroon in October 2003 and December 2004 to assist the authorities with work on the national accounts. Both missions found the general methodology, analytical tools, and adjustments to be generally appropriate and in accordance with the *1993 SNA* methodology. However, the STA expert and the recent article IV mission have identified certain weaknesses in the national accounting for oil GDP.

STA review of source data resulted in recommendations in the areas of coverage and timeliness. In particular, the framework for the collection and production of business enterprise statistics was found to be weak, creating difficulties for gauging the structure of the economy and current industrial activity. Particularly serious difficulties affect data on the following key sectors: agriculture, manufacturing, retail and wholesale trade, local government, and services. Stemming from the above-mentioned difficulties, the production index should be overhauled and integrated with the corresponding components of the annual national accounts. Other areas for concern include a limited selection of price indices for deflation of national accounts concepts and the lack of information on employment. In light of these shortcomings, technical assistance will remain essential in the coming years.

Consumer prices

The authorities intend to revise the monthly consumer price index (CPI) by extending the underlying survey to rural areas. Currently, the CPI is compiled on the basis of surveys carried out in the five principal cities: Yaoundé, Douala, Bafoussam, Bamenda and Garoua. In addition, the authorities intend to contribute to the production of a regional CPI in the CEMAC area. The consumption basket for the regional index will be larger than that of the national CPI with coverage for the two largest cities: Yaoundé and Douala.

Socio-demographic indicators

Recently, progress has been made in the production of socio-demographic statistics. The most recent household survey (ECAM II) carried out in 2001 provided comprehensive data used to update Cameroon's poverty profile. Work is ongoing with World Bank assistance to update the household survey. The authorities have begun an update of two main social indicators, the education map (*carte scolaire*) and the healthcare map (*carte sanitaire*), previously prepared in 2000 and 2001, respectively.

Public finance statistics

Considerable progress has been made in the transparency and reporting of public finance statistics of the central government, including the preparation of consistent monthly budget execution tables on a payment order and cash basis and a table of expenditure by economic function to track spending for priority sectors. Quarterly reports on the overall budget execution, and the investment budget execution have been produced on a continuous basis. Despite this progress, data on the public finances are still in need of improvements in quality, coverage, and timeliness. 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 information of local governments; (iii) poor monitoring of cross-liabilities in the public sector and of public enterprise debt; and (iv) lack of information on the financial information of public enterprises more generally.

Key reforms have been introduced in 2003-04 to address some of these shortcomings, but have not yet been drawn upon fully. The introduction of a new accounting system should permit the identification of expenditures by function (i.e., not only by spending ministries), and to evaluate the "float" (i.e., spending committed but not yet paid). The integrated financial management system (SIGEFI) should substantially improve the accuracy and timeliness of fiscal data both on a commitment and on a cash basis.

In January 2005, the authorities began to prepare, based on the SIGEFI, preliminary fiscal accounts 3 weeks after the end of the reported month (for 2004 final data were prepared with a 2 month delay). They plan to elaborate comprehensive fiscal accounts on a commitment basis and will strive to monitor the float. Moreover, the ongoing audit of government domestic debt, which will cover cross-liabilities in the public sector and public enterprise external debt, is expected to strengthen debt data. Efforts to enhance transparency of financial operations in the oil sector should also improve overall fiscal reporting. Also, efforts are underway to collect data on the operations of the largest 20 public enterprises.

Cameroon does not report data for publication in the IMF *Government Finance Statistics Yearbook* or the government finance statistics section in *International Financial Statistics*.

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, with delays of up to two months. Although the institutional coverage is comprehensive, the quality of the data may be affected by large cross-border movements of currency among member countries in the CEMAC. About 72 percent of the currency circulating in Cameroon is issued nationally, with the rest originating for the most part from Chad (12 percent) and Gabon (6 percent). About 93 percent of the currency issued in Cameroon remains within the national territory, while most of the remaining currency issued circulate in Chad (4 percent).

The mission that visited BEAC headquarters in May 2001 provided technical assistance for addressing the main shortcomings pertaining to coverage, methodology, compilation procedures, and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for CEMAC, publication of which started with the January 2003 issue of *IFS.*

A regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in CEMAC countries. Priorities for Cameroon include the need to adapt the bridge table linking bank data with the monetary statistics to the new format for monthly reporting by the banks. Other outstanding issues concern the accrual recording of interest, the treatment of nonperforming loans, and proper sectorization of public entities. Also, a comprehensive financial survey is still to be compiled. Actions remain to be taken by the BEAC to implement the *MFSM* methodology in producing its member countries' monetary statistics.

Balance of payments statistics

Data reporting for publication in the Fund's Balance of Payments Statistic publications has encountered delays. On the basis of STA technical assistance in March 2006, annual balance of payments statistics for 1995-2003 were reported to STA in late 2006 and the authorities are now expected to begin producing higher quality data within a reasonable time period.

Cameroon: Table of Common Indicators Required for Surveillance
(at May 8, 2007)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Mar 2007	Apr 2007	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct. 2006	Jan. 2007	M	M	M
Reserve/Base Money	Jan, 2007	Apr. 2007	M	M	M
Broad Money	Jan. 2007	Apr. 2007	M	M	M
Central Bank Balance Sheet	Jan., 2007	Apr. 2007	M	M	M
Consolidated Balance Sheet of the Banking System	Jan. 2007	Apr. 2007	M	M	M
Interest Rates[2]	Jan. 2007	Apr. 2007	M	M	M
Consumer Price Index	Oct. 2006	Nov. 2006	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec, 2006	Feb, 2007	M	M	Partial data published monthly.
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 31, 2006	Feb, 2007	M	M	M
External Current Account Balance	2003	Oct 10, 2006	A	A	NA
Exports and Imports of Goods and Services[6]	June 30, 2006	Sept 11, 2006	M	M	NA
GDP/GNP	Dec 31, 2005	Sept 11, 2006	A	A	NA
Gross External Debt	NA	NA	NA	NA	NA

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Goods only, data on trade in services are not available.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

CAMEROON

Joint IMF/World Bank Debt Sustainability Analysis[12]

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

May 30, 2007

Introduction

1. **This report updates the debt sustainability analysis (DSA) for low-income countries (LIC)**[13] **prepared in April 2006 (Country Report No. 06/190, Appendix I).** Three key differences underpin the results of this update relative to the previous DSA: (i) This DSA uses an updated debt database on the existing debt, assuming the full delivery of HIPC and MDRI debt relief; (ii) it includes debt service to France under the C2D initiative in the debt service payments on a net basis; and (iii) the 2007 projections of GDP and exports have been revised based on new information.

2. **The debt stock at end-2006 has been revised downward.** Compared with the estimates in Country Report No. 06/190, the end-2006 stock of external debt was smaller reflecting front-loaded relief and additional bilateral cancellations. Repayments of domestic debt in 2006 were also higher than envisaged in the 2006 arrears repayment plan.

Cameroon: Debt Outstanding, 2006
(Millions of US dollars)

	Country Report No. 06/55.	Actual	Difference
External debt	2,369	2,094	-275
Domestic debt	2,444	1,710	-734
Total	4,813	3,804	-1,009

Sources: Cameroonian authorities and Bank-Fund staff estimates.

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[12] This debt sustainability analysis has been prepared jointly by the staffs of the World Bank and IMF, using the low income country DSA template.

[13] *Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief* www.imf.org and *Review of Low-Income Country Debt Sustainability Framework and Implications of the Multilateral Debt Relief Initiative (MDRI)*) www.imf.org.

Debt indicators post-HIPC and MDRI debt relief

3. **In staff's view, Cameroon faces a low risk of debt distress**. Cameroon's external debt levels are expected to remain well below their indicative thresholds for debt distress both under the baseline scenario and under various stress tests throughout the projection period. Following debt relief under HIPC and MDRI on *external debt,* Cameroon's debt-related indicators at end-2006 fell substantially below its policy-dependent thresholds. Nominal external debt declined from US$ 6.5 billion in 2005 to US$2.1 billion in 2006, or from 39 to 11 percent of GDP. Following substantial repayments, Cameroon's *domestic debt* declined from US$ 2.3 billion in 2005 to US$ 1.7 billion by end-2006, or from 14 to 9 percent of GDP. As a result, public debt—external and domestic— declined from US$ 8.9 billion to US$ 3.8 billion, or from 53 to 21 percent of GDP in the past two years.

4. **The NPV of external debt-to-exports ratio at end 2006 has changed insignificantly relative to the Completion Point document.** Compared with the projections prepared for the HIPC Completion Point in April 2006, the estimate of the NPV of debt-to-exports ratio for end 2006 increased by 0.7 percentage points owing mainly to the changes in the exchange rates, higher than anticipated disbursements, and the use of annual exports instead of a three-year backward looking moving average.

Cameroon: Evolution of the NPV of Debt-to-Export Ratio, from HIPC Completion Point to end-2006

	Percentage points
NPV of debt-to-exports ratio (as projected in Country Report No. 06/190)	12.8
Total change in ratio	2.9
1. Due to changes in the parameters	0.7
Of which: due to changes in the discount rates	-0.8
due to changes in the exchange rates	1.5
2. Due to unanticipated new borrowing	-1.4
Of which: due to higher-than-expected disbursements	-1.8
due to lower concessionality of the loans	0.4
3. Due to unanticipated change in exports	0.1
4. Other factors	3.6
NPV of debt-to-exports ratio	15.7
5. Using annual exports	2.2
NPV of debt-to-annual exports ratio	13.5

Sources: Bank-Fund staff estimates.

5. **The authorities are in the process of finalizing bilateral agreements on debt cancellation with Paris Club creditors.** As of March 1, 2007, eight such agreements had already been signed. Agreements with France, Germany, Sweden, Switzerland were pending at that point but were expected to be signed in the near future. The authorities are still, expecting the official proposal from the United Kingdom. Because of the delays in finalizing the bilateral agreements, the Paris Club creditors agreed to postpone the deadline for signing of such agreements from December 31, 2006 to June 30, 2007.

Cameroon: Stock of Public Debt, 2005-2006						
	In millions of US$		In percent of total		In percent of GDP	
	2005	2006	2005	2006	2005	2006
Total	8,880	3,804	100.0	100.0	52.6	20.6
External debt	6,531	2,094	73.6	55.0	38.7	11.3
Multilateral	1,946	394	21.9	10.4	11.5	2.1
IMF	287	7	3.2	0.2	1.7	0.0
IDA	1,083	157	12.2	4.1	6.4	0.9
AfDF	221	38	2.5	1.0	1.3	0.2
EU	103	38	1.2	1.0	0.6	0.2
Other	252	153	2.8	4.0	1.5	0.8
Bilateral	4,190	1,545	47.2	40.6	24.8	8.4
Paris Club	4,123	1,505	46.4	39.6	24.4	8.1
Of which: France [1]	1,634	1,324	18.4	34.8	9.7	7.2
Non Paris Club	66	40	0.7	1.1	0.4	0.2
Commercial	396	155	4.5	4.1	2.3	0.8
Domestic debt	2,348	1,710	26.4	45.0	13.9	9.2

Sources: Cameroonian authorities and Bank-Fund staff estimates.

[1] The C2D debt relief is disbursed in semiannual installments; debt service on this debt category is paid by Cameroon as scheduled and is offset by an equivalent grant from the creditor.

6. **The DSA is based on data provided by Cameroon's main multilateral creditors and by the authorities on the remaining creditors.** The quality of data on Cameroon's public debt has improved but remains uneven, in particular on private sector and public enterprise debt, and the structure of debt is complex (Figure 1).

Macroeconomic assumptions

7. **Key macroeconomic assumptions underlying this DSA are broadly the same as in Country Report No. 06/190.** Real GDP growth is expected to accelerate to 6 percent in 2011 reflecting economic stimulus from increased capital spending, the implementation of structural reforms under the PRGF-supported program, and investment in infrastructure and energy with support of the World Bank. Over the long-term, growth in the non-oil economy is expected to stabilize at about 5.5 percent, while oil GDP will gradually decline. On average, the projected growth rate is about 1 percentage point higher than the historical average on the account of higher investment financed by debt relief. Oil production is assumed to increase slightly in 2007, and then decline by 5 percent in 2008, 2-3 percent thereafter. Inflation is assumed to hold steady at 2 percent over the long-term, in line with recent historical experience. Fiscal policy would be supportive of economic growth and poverty reduction. Nonoil revenues are expected to rise from 12 percent of GDP in 2006 to 15 percent at the end of the projection period, reflecting tax and customs administration measures. Government expenditure is expected to rise steadily before declining to the more sustainable level of 17 percent of GDP in the outer years. Exports of goods and services are projected to gradually decline over time reflecting the decline in petroleum

exports. As a result, the current account deficit, including grants, is expected to increase to about 7 percent of GDP over the medium-term, and gradually improve thereafter. The deterioration in the current account is larger than was earlier envisaged reflecting lower oil prices. The deficit is expected to be financed through foreign direct investment, private capital flows, and loans, a mixture of which will be from IDA and the rest from other creditors on less concessional terms.

8. **Assumptions related to new borrowing and debt relief have been updated.** New public borrowing is assumed to increase gradually over the medium term to help finance new investment. External borrowing is expected to rise gradually to 1.8 percent of GDP in 2015 and then to gradually decline to about 1 percent by 2027. IDA borrowing is assumed to constitute 47 percent of new borrowing, with the remainder loans originating from other multilateral and bilateral creditors on less concessional terms. Cameroon is projected to graduate from IDA in 2010. Starting from that year, new lending on concessional IDA terms will be gradually phased out. Other providers of concessional assistance are assumed to take similar action. Debt relief under the Debt Settlement and Development Contract (C2D), a bilateral debt relief initiative by France, will be provided in 2007-2011 under the terms and conditions of the Convention signed between France and Cameroon in April 2006, and thereafter on comparable terms and conditions. Under the Convention, Cameroon has to repay the amounts falling due, which are then reimbursed by France within the same quarter. The DSA assumes full delivery of assistance under the CD2 and additional bilateral debt relief provided by end-2006.

External debt sustainability

9. **External debt is sustainable over the long run.** Cameroon ranks as a "medium performer" in terms of the quality of its policies and institutions as measured by the three-year backward looking average World Bank’s Country Policy and Institutional Assessment (CPIA) index. [14] As is common for all DSA, for the post-completion point period, the relevant sustainability thresholds[15] have been used only as guideposts for informing debt sustainability assessment and not as ceilings. Although debt indicators increase over the longer term, reflecting additional borrowing to meet the country’s development needs and reduced concessionality from 2010 onwards, the sustainability thresholds on external debt are not breached under the baseline nor under any of the alternative scenarios throughout the projection period. . Therefore, the risk of debt distress will remain low assuming that GDP and export growth in the nonoil sector remain robust in the long run, and the authorities maintain a prudent fiscal and borrowing policies. The residual captures mainly private capital flows .

[14] Preliminary findings of the 2006 CPIA round suggest that its CPIA could decline from 3.3 to 3.2, thus bringing Cameroon in the group of the weak performer. Nevertheless, Cameroon would still remain in a low risk of debt distress in the baseline scenario and at least until 2017 for most indicators in stress tests.

[15] The following indicative thresholds for external debt sustainability applied to external debt burden indicators for countries that are medium performers in terms of quality of policies and institutions: the NPV of debt-to-exports ratio of 150 percent, the NPV of debt-to-GDP ratio of 40 percent, the NPV of debt-to-revenue ration of 250 percent, he debt service-to-exports ratio of 20 percent, and the debt service-to- revenue ratio of 30 percent.

10. **Debt sustainability could worsen as a result of adverse exogenous shocks and unfavorable policy scenarios.** The scenario of lower GDP growth assumes that real growth in 2007-08 is one standard deviation below its historical average. As lower growth has a negative net effect on public finances, the government closes the ensuing financing need through borrowing. Hence, the NPV of debt-to-GDP ratio rises steadily over time and eventually levels off. The scenario of lower export growth assumes that export growth in 2007-08 is one standard deviation below its historical average. As a result, the NPV of debt-to-exports and the debt service-to-exports ratios rise above the baseline leveling off towards the end of the projection period. This scenario of new borrowing on less concessional terms assumes that the interest rate on new borrowing in 2007-2027 is two percentage points higher than in the baseline. As a result, all debt ratios will start deteriorating, but none of them will exceed the indicative thresholds. In the case of Cameroon, the historical average scenario reflects past current account surpluses that are not foreseen throughout the projection period. As a consequence, the country's external debt burden indicators would seem more optimistic, under the historical average scenario than under the baseline scenario.

11. **Possible litigation by private nonparticipating creditors remains a risk to the credibility of the authorities' debt policies** Twenty-two commercial creditors, holding about 20 percent (US$240 million in claims, including US$78 million principal) of the total debt to commercial creditors in August 2003, did not accept the buy-back deal, and some sold claims in the secondary market. Five commercial creditors (Winslow Bank, Del Favero SPA, Sconset Ltd., Antwerp, and Grace Church Capital) have pursued legal recourse through litigation and seizure of Cameroonian assets abroad. The authorities are in contact with other creditors. In early 2005, Winslow sued, and under a court ruling seized US$50 million from Cameroon's state oil company's deposits in France, while Del Favero froze the account of the Cameroonian embassy in London.. The negotiations with Sconset and Antwerp continue. These creditors have already accepted to drop their claim of accumulated interest but insist on the full repayment of the principal and of all representation charges and court fees. Grace Church Capital has agreed to start negotiations with a view to reach an out-of-court settlement. As the absolute amount of claims by private creditors is less than 1 percent of Cameroon's GDP, most likely they can not have a significant impact of debt sustainability.

Public debt sustainability

12. **Cameroon's public debt has declined considerably.** The decrease is driven by large cancellations of external debt (see above) and frontloaded domestic debt repayments. Building on the results of comprehensive audit for the end-2004 stock of domestic debt, the government repaid substantial amounts, which helped reduce domestic debt from 17 percent of GDP in 2004 to 9 percent of GDP by end-2006. The debt repayment plan prepared by the authorities implies substantial additional repayments of domestic debt in the next several years.

13. **The long-term fiscal strategy is anchored on preserving the overall public debt sustainability.** Consistent with this objective, the nonoil primary deficit is expected to gradually

decline over the longer term to about 1 percent owing to additional nonoil revenue mobilization. New borrowing will amount to 1.5 percent of GDP annually during 2007-16, consistent with the country's absorption capacity and then declining to about 1 percent. Under these assumptions, the NPV of public debt in percent of revenues is expected to remain broadly stable over time with some reduction in the outer years. Debt service is expected to be reduced considerably over time.

14. **Alternative scenarios and stress tests yield a significant deterioration of the public debt outlook.** Any scenario implying new annual borrowing in excess of 3 percent of GDP would result in an explosive and unsustainable path. Terms of new borrowing are assumed the same as in the baseline scenario. Historical experience suggests that the government has been unable to use scaled up foreign financed investment exceeding 2 percent annually. If compounded with lower than projected GDP, exports, and fiscal revenue growth aggressive upfront borrowing, even on concessional terms, will lead to an unsustainable debt buildup.

15. **Weak domestic debt management may pose program risks**. Nonresident investors may increasingly be involved in trading in Cameroon's domestic debt on the secondary market, although so far such transactions have not been significant..

Conclusion

16. **After the full delivery of debt relief Cameroon faces a low risk of debt distress.** All external debt indicators remain below the relevant country-specific debt burden thresholds. Alternative scenarios and stress tests reveal an upward trend for the debt indicators but do not result in a breach of the thresholds during the projection period. Therefore, the authorities should monitor closely debt indicators and avoid excessive borrowing on nonconcessional terms over the medium term.

Figure 1. Cameroon: Simplified Debt Structure

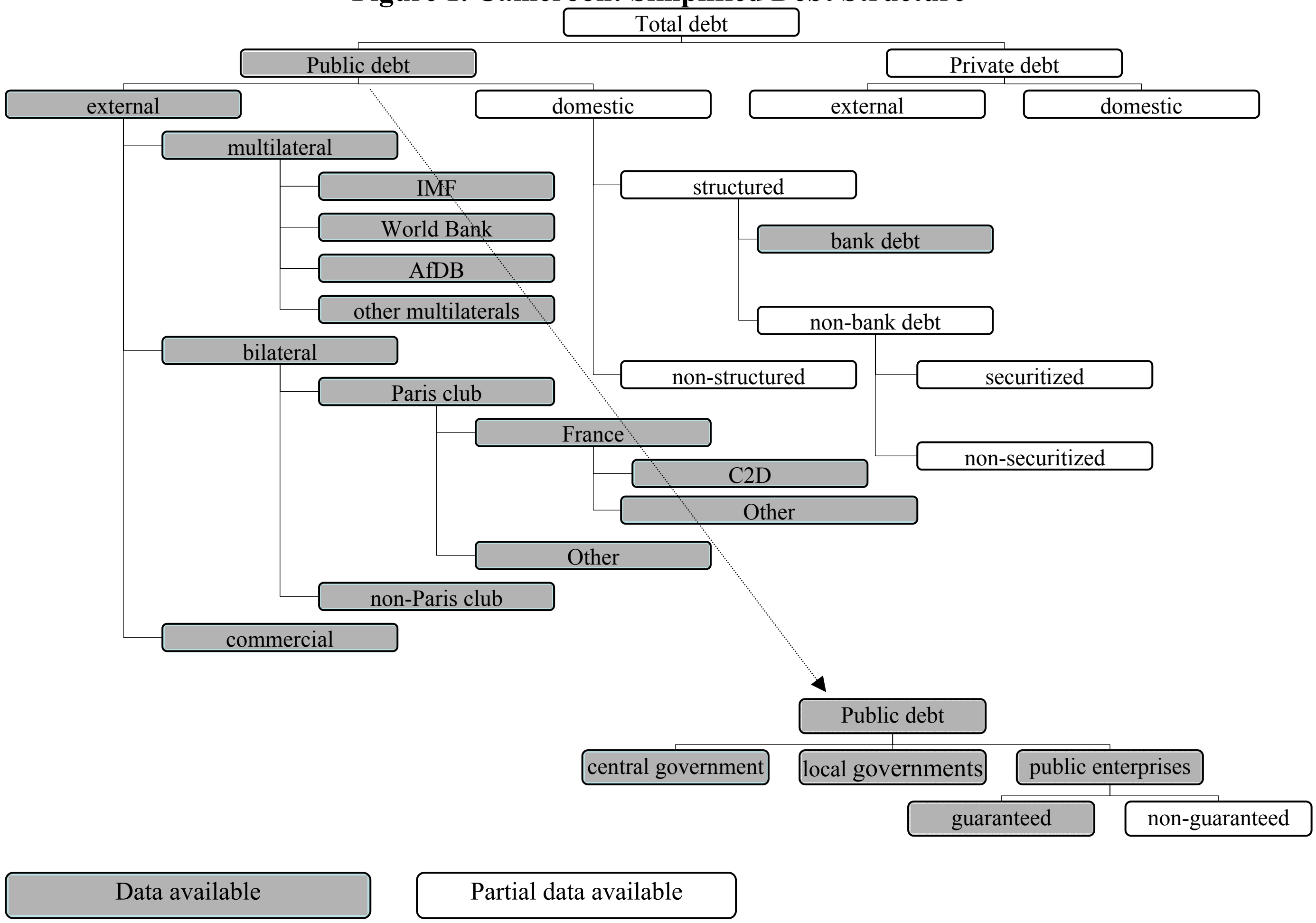
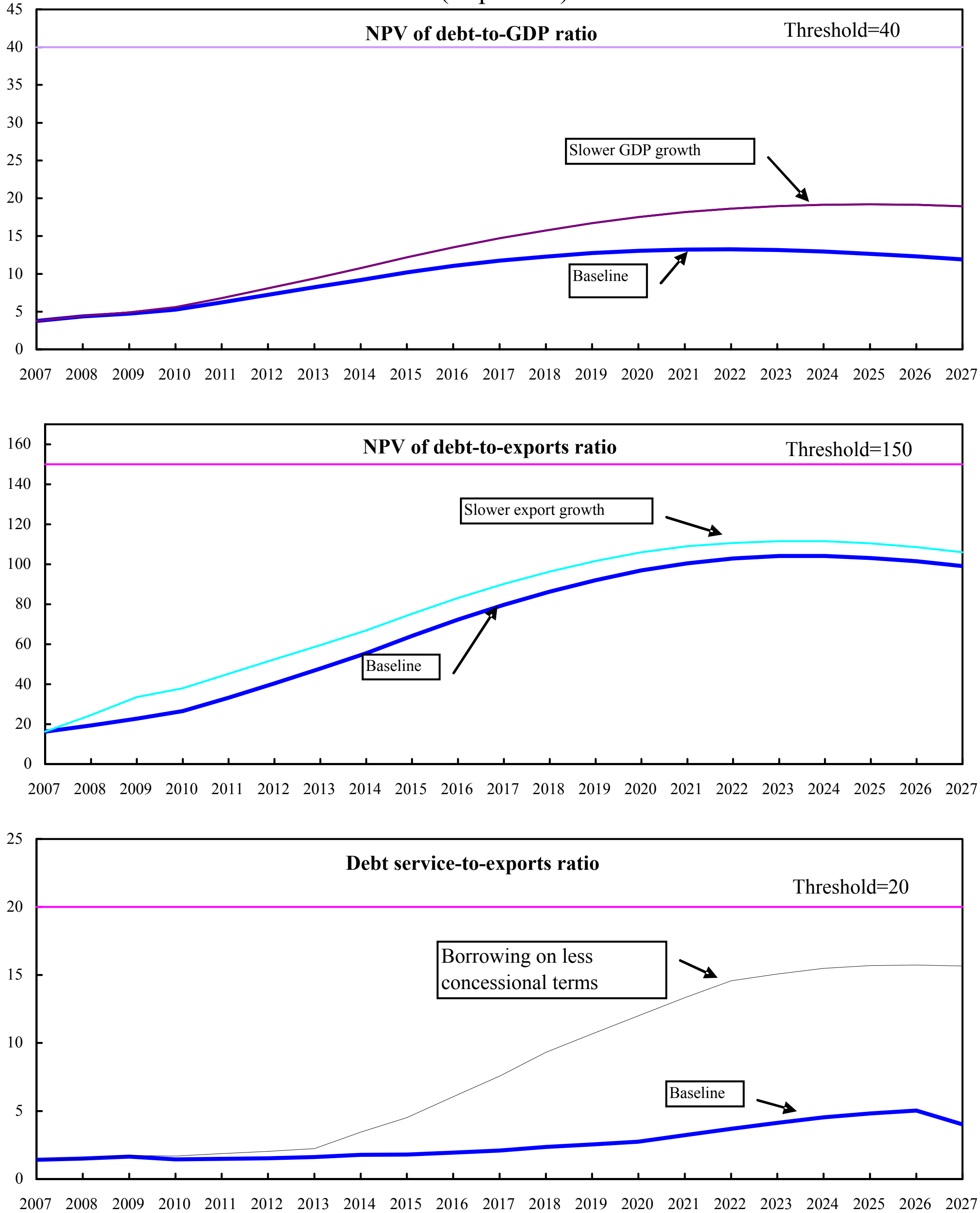


Figure 2. Cameroon: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007-27
(In percent)



Source: Staff projections and simulations.

Table 1. Cameroon: External Debt Sustainability Framework, Baseline Scenario, 2007-27 1/
(In percent of GDP, unless otherwise indicated)

	Actual	Historical	Standard	Projections									
		Average 6/	Deviation 6/							2007-12			2012-26
	2006			2007	2008	2009	2010	2011	2012	Average	2017	2027	Average
External debt (nominal) 1/	**5.0**			**5.6**	**6.7**	**7.4**	**8.3**	**9.2**	**10.0**		**13.7**	**11.3**	
o/w public and publicly guaranteed (PPG)	4.9			5.5	6.6	7.3	8.2	9.1	10.0		13.7	11.3	
Change in external debt	-31.8			0.6	1.1	0.7	0.9	0.9	0.9		0.5	-0.6	
Identified net debt-creating flows	-2.8			2.2	3.3	4.3	5.0	5.6	6.2		7.0	4.4	
Non-interest current account deficit	**0.6**	**1.3**	**1.9**	**2.4**	**3.5**	**4.6**	**5.4**	**6.0**	**6.6**		**7.5**	**5.0**	6.7
Deficit in balance of goods and services	2.5			4.9	5.8	6.8	7.3	7.8	8.2		8.9	5.7	
Exports	26.0			23.3	22.5	20.8	19.8	18.8	17.9		14.7	12.0	
Imports	28.4			28.2	28.3	27.6	27.1	26.6	26.1		23.6	17.7	
Net current transfers (negative = inflow)	-1.4	-1.3	0.4	-2.1	-1.8	-1.7	-1.5	-1.3	-1.2		-0.9	-0.5	-0.8
Other current account flows (negative = net inflow)	-0.5			-0.4	-0.4	-0.4	-0.4	-0.4	-0.4		-0.4	-0.2	
Net FDI (negative = inflow)	**-0.7**	**-0.2**	**0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**		**-0.1**	**0.0**	-0.1
Endogenous debt dynamics 2/	**-2.7**			**-0.1**	**-0.1**	**-0.2**	**-0.3**	**-0.3**	**-0.3**		**-0.5**	**-0.6**	
Contribution from nominal interest rate	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.0	
Contribution from real GDP growth	-1.3			-0.2	-0.2	-0.3	-0.4	-0.4	-0.4		-0.6	-0.6	
Contribution from price and exchange rate changes	-1.6			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-28.9**			**-1.6**	**-2.2**	**-3.6**	**-4.1**	**-4.7**	**-5.3**		**-6.5**	**-5.0**	
o/w exceptional financing	-1.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	3.6			3.8	4.4	4.8	5.3	6.3	7.3		11.8	11.9	
In percent of exports	13.7			16.4	19.5	22.9	26.8	33.4	40.5		80.0	99.3	
NPV of PPG external debt	**3.5**			**3.8**	**4.4**	**4.7**	**5.3**	**6.2**	**7.2**		**11.7**	**11.9**	
In percent of exports	13.5			16.2	19.4	22.7	26.6	33.2	40.3		79.7	99.1	
Debt service-to-exports ratio (in percent)	2.8			1.7	1.7	1.9	1.7	1.7	1.8		2.4	4.2	
PPG debt service-to-exports ratio (in percent)	2.4			1.4	1.5	1.7	1.4	1.5	1.5		2.1	4.0	
Total gross financing need (billions of U.S. dollars)	0.1			0.5	0.8	1.1	1.4	1.7	2.0		3.2	4.7	
Non-interest current account deficit that stabilizes debt ratio	32.3			1.8	2.4	3.9	4.5	5.1	5.7		7.1	5.7	
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	3.9	1.1	4.5	4.5	4.8	5.5	5.4	5.3	5.0	5.2	5.4	5.3
GDP deflator in US dollar terms (change in percent)	4.6	3.7	9.0	5.0	2.2	2.0	2.4	2.7	2.6	2.8	2.0	2.0	2.0
Effective interest rate (percent) 5/	0.5	4.1	2.3	2.6	2.4	2.1	1.8	1.7	1.6	2.0	1.5	0.0	1.4
Growth of exports of G&S (US dollar terms, in percent)	20.2	7.8	10.0	-1.6	3.2	-1.0	2.5	2.9	3.1	1.5	3.5	6.4	4.6
Growth of imports of G&S (US dollar terms, in percent)	8.6	7.0	4.7	8.8	7.1	4.4	6.0	6.3	6.2	6.5	4.6	4.4	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	41.0	41.1	41.4	41.4	14.7	14.7	32.4	14.7	14.7	14.7
Memorandym item:													
Nominal GDP (billions of US dollars)	18.3			20.1	21.5	23.0	24.8	26.9	29.0		41.5	84.9	

Source: Staff simulations.

1/ Includes both public and private sector external debt, excludes C2D
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

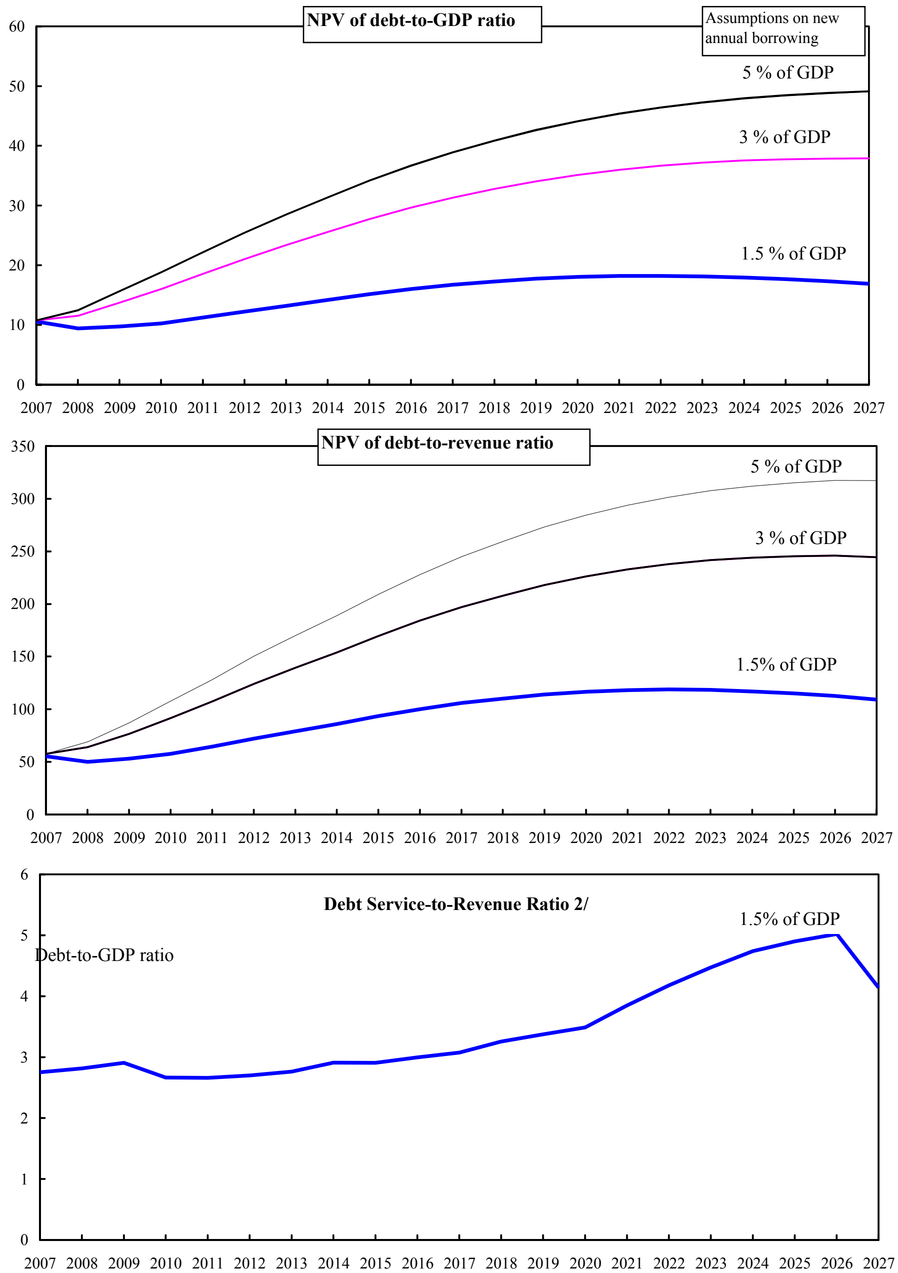
Table 2.Cameroon: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-2027
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	3.8	4.4	4.7	5.3	6.2	7.2	11.7	11.9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-27 1/	3.8	2.4	0.0	0.0	0.0	0.0	0.0	0.0
A2. New public sector loans on less favorable terms in 2007-27 2/	3.8	4.7	5.4	6.3	7.4	8.4	12.9	12.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	3.8	4.4	4.9	5.6	6.8	8.1	14.7	19.0
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	3.8	5.2	6.6	7.0	7.9	8.8	12.4	11.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	3.8	4.7	5.5	6.1	7.3	8.4	13.7	13.8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	3.8	5.1	6.1	6.6	7.5	8.4	12.2	11.9
B5. Combination of B1-B4 using one-half standard deviation shocks	3.8	5.1	5.7	6.3	7.3	8.3	13.0	12.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	3.8	6.2	6.7	7.4	8.8	10.2	16.6	16.8
NPV of debt-to-exports ratio								
Baseline	16.2	19.4	22.7	26.6	33.2	40.3	79.7	99.1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-27 1/	16.2	10.5	0.0	0.0	0.0	0.0	0.0	0.0
A2. New public sector loans on less favorable terms in 2007-27 2/	16.2	21.1	26.2	32.1	39.1	46.7	87.5	101.5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-27	16.2	19.4	22.7	26.6	33.2	40.3	79.7	99.1
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	16.2	24.5	33.6	37.9	45.1	52.4	90.1	106.0
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	16.2	19.4	22.7	26.6	33.2	40.3	79.7	99.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	16.2	22.6	29.2	33.2	39.9	46.8	83.2	99.2
B5. Combination of B1-B4 using one-half standard deviation shocks	16.2	22.0	24.4	28.2	34.6	41.2	78.2	95.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	16.2	19.4	22.7	26.6	33.2	40.3	79.7	99.1
Debt service ratio								
Baseline	1.4	1.5	1.7	1.4	1.5	1.5	2.1	4.0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-27 1/	1.4	1.5	1.5	1.1	0.9	0.0	0.0	0.0
A2. New public sector loans on less favorable terms in 2007-27 2/	1.4	1.5	1.7	1.7	1.9	2.0	7.6	15.7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	1.4	1.5	1.7	1.5	1.5	1.6	2.8	6.9
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	1.4	1.5	1.8	1.7	1.8	2.3	4.0	7.4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	1.4	1.5	1.7	1.5	1.5	1.6	2.8	6.9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08	1.4	1.5	1.7	1.6	1.6	2.1	3.5	7.0
B5. Combination of B1-B4 using one-half standard deviation shocks	1.4	1.5	1.7	1.5	1.5	1.9	2.9	6.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	1.4	1.5	1.7	1.5	1.5	1.6	2.8	6.9

Source: Staff projections and simulations.

1/ The historical average scenario reflects past current account surpluses, which makes external debt burden indicators unreasonably optimistic.
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 (im assuming 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.

Figure 3. Cameroon: Indicators of Public Debt Under Alternative Scenarios, 2007-27 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2017.
2/ Revenue including grants.

Table 3. Cameroon: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-27
(In percent of GDP, unless otherwise indicated)

	Actual			Estimate							Projections		
	2006	Historical Average 5/	Standard Deviation 5/	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt 1/	14.3			12.4	11.7	12.4	13.3	14.2	15.0		18.7	16.3	
o/w foreign-currency denominated	5.0			5.6	6.7	7.4	8.3	9.2	10.0		13.7	11.3	
Change in public sector debt	-36.4			-1.9	-0.6	0.6	0.9	0.9	0.9		0.5	-0.6	
Identified debt-creating flows	-10.1			-5.8	-4.7	-2.6	-1.5	-1.0	-0.3		0.4	0.1	
Primary deficit	-5.2	-3.7	1.7	-2.8	-2.3	-0.5	0.4	0.8	1.3	-0.5	2.0	1.2	1.7
Revenue and grants	19.1			19.3	18.8	18.4	17.8	17.4	16.9		15.8	15.5	
of which : grants	0.3			1.3	1.1	1.0	0.7	0.6	0.4		0.2	0.0	
Primary (noninterest) expenditure	13.9			16.5	16.6	17.8	18.1	18.2	18.2		17.8	16.7	
Automatic debt dynamics	-3.6			-0.7	-0.5	-0.5	-0.6	-0.7	-0.7		-0.9	-1.0	
Contribution from interest rate/growth differential	-2.7			-0.6	-0.5	-0.5	-0.6	-0.7	-0.7		-0.9	-1.0	
of which : contribution from average real interest rate	-0.9			0.0	0.0	0.1	0.0	0.0	0.0		0.0	-0.2	
of which : contribution from real GDP growth	-1.8			-0.6	-0.5	-0.5	-0.6	-0.7	-0.7		-0.9	-0.9	
Contribution from real exchange rate depreciation	-0.9			-0.1	0.0	0.0	0.0	-0.1	0.0		...	...	
Other identified debt-creating flows	-1.3			-2.2	-2.0	-1.6	-1.3	-1.0	-0.8		-0.6	-0.1	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.3			-2.2	-2.0	-1.6	-1.3	-1.0	-0.8		-0.6	-0.1	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-26.2			3.8	4.1	3.3	2.4	1.9	1.2		0.1	-0.7	
NPV of public sector debt	12.8			10.6	9.4	9.7	10.3	11.2	12.2		16.7	16.9	
o/w foreign-currency denominated	3.5			3.8	4.4	4.7	5.3	6.2	7.2		11.7	11.9	
o/w external	3.5			3.8	4.4	4.7	5.3	6.2	7.2		11.7	11.9	
NPV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-4.1			-1.0	-0.7	1.0	1.6	1.8	2.1		2.6	1.9	
NPV of public sector debt-to-revenue ratio (in percent) 3/	67.0			54.9	50.1	53.0	57.8	64.5	72.2		105.9	109.3	
o/w external	18.3			19.6	23.1	25.8	29.6	35.8	42.7		74.2	76.9	
Debt service-to-revenue ratio (in percent) 3/ 4/	4.5			2.7	2.8	2.9	2.7	2.7	2.7		3.1	4.1	
Primary deficit that stabilizes the debt-to-GDP ratio	31.1			-0.9	-1.6	-1.2	-0.5	-0.1	0.4		1.5	1.9	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	3.9	1.1	4.5	4.5	4.8	5.5	5.4	5.3	5.0	5.2	5.4	5.3
Average nominal interest rate on forex debt (in percent)	0.5	4.2	2.5	2.5	2.4	2.1	1.8	1.7	1.6	2.0	1.5	0.0	1.4
Average real interest rate on domestic currency debt (in percent)	-2.5	-0.8	1.6	0.3	0.3	1.0	1.0	1.0	1.2	0.8	0.9	0.9	0.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.5	-0.7	9.0	-2.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.7	2.6	1.3	1.3	1.8	1.8	2.0	2.0	1.7	1.8	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	5.6	8.1	12.9	23.7	5.3	12.8	7.1	5.7	5.6	10.0	4.5	5.7	4.7
Grant element of new external borrowing (in percent)	0.0	...	...	41.0	41.1	41.4	41.4	14.7	14.7	32.4	14.7	14.7	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ Central government, excludes C2D
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 including 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 2007-27

		Projections						
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	11	9	10	10	11	12	17	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	8	6	3	0	0	0	0
A2. Primary balance is unchanged from 2007	11	9	7	5	3	0	0	0
A3. Permanently lower GDP growth 1/	11	10	10	11	12	13	18	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	11	10	11	12	14	15	21	24
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	11	10	9	9	10	11	15	15
B3. Combination of B1-B2 using one half standard deviation shocks	11	9	7	8	9	10	14	14
B4. One-time 30 percent real depreciation in 2008	11	11	11	11	12	12	16	17
B5.5 percent of GDP increase in other debt-creating flows from 2008	11	12	16	19	22	25	39	49
NPV of Debt-to-Revenue Ratio 2/								
Baseline	55	50	53	58	64	72	106	109
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	55	44	32	16	0	0	0	0
A2. Primary balance is unchanged from 2007	55	48	39	27	15	0	0	0
A3. Permanently lower GDP growth 1/	55	51	54	60	67	75	114	141
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	55	53	60	68	78	88	133	153
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	55	52	48	52	59	66	95	94
B3. Combination of B1-B2 using one half standard deviation shocks	55	49	41	45	52	59	88	88
B4. One-time 30 percent real depreciation in 2008	55	56	58	61	67	74	104	108
B5. 5 percent of GDP increase in other debt-creating flows from 2008	55	66	85	105	127	150	245	317

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative
June 15, 2007

This statement provides an update on recent economic developments based on information received after the staff report was issued. This information does not alter the thrust of the staff appraisal.

1. **Inflation declined, reflecting the impact of lower fuel prices.** Consumer price inflation fell to 1.4 percent in the first quarter of 2007 (compared with 4.5 percent in the same period last year).

2. **Fiscal performance in the first quarter of 2007 was broadly satisfactory, though revenues and investment spending were lower than expected.** Based on very preliminary data, the overall fiscal surplus was significantly higher than projected as lower-than-programmed spending more than compensated for lower revenues. The underperformance in nonoil revenues stems mostly from lower-than-projected nontax revenues reflecting delays in the payment of dividends. Performance on investment execution was mixed: while domestically-financed investment was close to the program target, foreign- and debt relief-financed investments were significantly lower than expected. The end-March 2007 quantitative benchmark on the nonoil primary balance,[16] was missed by a small margin (0.03 percent of GDP). The authorities are taking steps, in line with program commitments, to strengthen nonoil revenue collection and monitor spending closely.

3. **The authorities have relaunched the privatization process for the national airline.** As a first step, they announced in May a bidding process for the recruitment of an international bank to advise the government during the privatization process.

4. **The authorities are in the process of finalizing bilateral agreements on debt cancellation with Paris Club creditors.** As of May 2007, eleven such agreements had been signed and three remain to be finalized. The Paris Club agreed to extend the deadline for signing bilateral agreements from December 31, 2006 to June 30, 2007.

[16] Nonoil revenues (excluding grants) minus domestically-financed spending (excluding debt relief-financed investment and restructuring spending).

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 07/76
FOR IMMEDIATE RELEASE
June 29, 2007

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

IMF Executive Board Concludes 2007 Article IV Consultation with Cameroon

On June 18, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cameroon.[17]

Background

Cameroon's economy has grown steadily over the past two decades, aided by the devaluation of the CFA franc in 1994, and the accompanying macroeconomic and structural reforms. The resulting growth, however, has not been strong enough to make a significant dent on poverty. A number of factors have constrained Cameroon's growth potential relative to the group of lower-middle-income economies, including lower investment rate, shallower financial depth, less open trade; weaker infrastructure and human capital base; and weaker business environment. On the current trajectory, the MDGs, including the target on halving the percentage of population living below the poverty line, are likely to be missed.

During recent years, the authorities made progress in restoring conditions for macroeconomic stability and strengthening governance. This allowed Cameroon to reach the completion point under the enhanced HIPC Initiative and receive additional debt relief under the MDRI. Its challenges now are to preserve fiscal sustainability, while expanding priority spending, and make the business climate more attractive for private sector-led growth.

Economic developments were encouraging in 2006. Growth picked up somewhat, following a rebound in construction activities, oil output, and forestry production. Although inflation rose,

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[17] 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. 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.

reflecting higher fuel prices, it was contained at about 5 percent. Higher oil prices and production improved the external current account and resulted in a considerable improvement of the overall fiscal balance. However, in the fourth quarter of 2006, emergency-related extrabudgetary spending financed directly by the national oil company raised concerns about budget transparency.

The PRGF-supported program was implemented satisfactorily in July–December 2006. Most fiscal and financial targets were met. However, because of extrabudgetary spending in late 2006, the quantitative performance criterion on bank financing was narrowly missed. Structural reforms monitored under the program were instituted as planned. Efforts to strengthen transparency and improve budget management culminated in the publication of two EITI reports covering the period 2001-05. However, the privatization process of the national airline was declared unsuccessful as the revised offer by the winning bidder was considered unsatisfactory. The authorities remain committed to the preparation of a new reform strategy for the airline which will eliminate subsidies while improving air services. Anti-corruption efforts were continued and the government appointed in early 2007 the members of the anti-corruption commission set up a year ago.

The outlook for 2007 and the medium term is encouraging. Economic activity is expected to pick up further in 2007, reflecting stronger performance in the forestry, construction and tertiary sectors. Because of lower projected oil prices, inflation is expected to decelerate considerably while the external current account deficit will widen over the medium term. Fiscal policies will remain prudent. While the overall fiscal surplus will decline on average during 2007-08, largely as a result of lower oil prices, fiscal consolidation efforts—as reflected in the nonoil fiscal balance—will continue. The main risks to this outlook relate to slower progress in mobilizing nonoil revenue and improving the business climate, and public spending overruns linked to the parliamentary elections in 2007.

Executive Board Assessment

Directors commended the Cameroonian authorities' commitment to sound policies and reforms, which have supported improved macroeconomic performance. Directors noted, in particular, that progress made over the past two years in the areas of fiscal policy and public finance management contributed to macroeconomic stability. While encouraged by the pick up in output growth in 2006, they stressed the importance of consolidating the recent fiscal gains, preserving fiscal sustainability, and strengthening the business climate, in order to accelerate growth, especially given the recent decelerating trend in productivity. Maintaining a strong momentum in the implementation of structural and governance reforms will be critical to the realization of growth and poverty reduction objectives.

Directors underscored the importance of setting non-oil revenues on a steady upward path, especially in the context of declining oil reserves and the expected trade liberalization. They urged the authorities to stay vigilant about meeting their non-oil revenue objectives, including through administrative measures to expand the tax base, and to be ready to accelerate their implementation and to adopt tax policy measures if tax receipts fall below expectations.

Directors encouraged the authorities to monitor closely spending levels while enhancing the quality of public spending. They urged the authorities to follow budgetary procedures and refrain from undertaking extrabudgetary spending. Growth and poverty reduction objectives would be better served by enhancing capital budget execution and reorienting spending toward priority areas. Subsidies to public enterprises should be contained, first, and then eliminated over time, to create more fiscal space for priority spending. More generally, Directors welcomed the authorities' intention to prepare a medium-term action plan to improve budget management further. Directors urged the authorities to continue improving public expenditure management by better monitoring budgets and tracking expenditures, including those related to poverty reduction. Improved transparency in the use of budget resources, including oil, remains a priority.

Directors underscored the importance of pursuing a prudent debt management strategy in the post-debt relief period. Borrowing over the medium term should continue to be on concessional terms, and the related resources should be put to effective use to safeguard debt sustainability. The authorities and non-Paris Club creditors are encouraged to continue good faith efforts to reach agreements on debt relief.

Directors urged the authorities to take decisive actions to strengthen the business environment. In addition to infrastructure improvements, this objective would require policies to improve financial intermediation, liberalize trade, reform public enterprises and strengthen governance. They underscored the importance of deepening financial intermediation, while preserving the soundness of the banking system. In this regard, they welcomed the authorities' commitment to build on the recommendations of the national Financial Sector Assessment Program mission. Directors commended the authorities for pursuing the trade reform agenda within the Central African Economic and Monetary Community, including a lowering of the common external tariffs. They encouraged the authorities to accelerate the reform of public enterprises in a timely and transparent manner in order to reduce the burden on public finances, allow the use of the freed-up resources in more productive areas, and improve services. Directors urged the authorities to step up anticorruption efforts aimed at lowering uncertainty in the regulatory and judicial environment.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Cameroon: Selected Economic and Financial Indicators, 2004–06

	200	200 Est	200 Est
	(Annual percentage		
National income and prices			
GDP at constant prices	3.7	2.0	3.8
Oil	-9.3	-9.7	6.9
Non-oil	4.9	2.9	3.5
Consumer prices (12-month average)	0.3	2.0	5.1
External trade			
Export volume	-0.7	-8.4	3.4
Of which: Non-oil sector	2.9	-8.5	2.4
Import volume	11.2	4.6	6.8
Terms of trade	-2.2	18.0	14.0
Money and credit (end of period)			
Net domestic assets [1]	0.3	-5.3	-24.8
Net credit to the public sector [1]	0.1	-8.7	-21.7
Credit to the private sector	1.4	10.9	3.2
Broad money (M2)	7.3	4.2	9.3
	(Percent of GDP)		
Central government operations			
Total revenue (excluding grants)	15.2	17.3	18.9
Non-oil revenue (percent of non-oil GDP)	12.1	13.5	13.5
Total expenditure	16.0	14.4	14.2
Fiscal balance (excluding net changes in			
Excluding grants	-0.8	3.0	4.6
Non-oil primary balance (percent of non-oil GDP) [2]	-2.1	0.0	-0.6
External sector			
Current account balance (including grants)	-3.8	-3.4	-0.8
Stock of external debt [3]	44.2	36.7	5.0
Stock of public debt	61.3	52.7	14.3

Sources: Cameroonian authorities and IMF staff estimates and projections.

[1] In percent of broad money at the beginning of the period.
[2] Excluding external grants and foreign-financed investment.
[3] Assumes cancellation of C2D debt in 2006.

Press Release No. 07/134
FOR IMMEDIATE RELEASE
June 18, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the PRGF Arrangement with Cameroon and Approves US$4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Cameroon's economic performance and the review of financing assurances under a three-year Poverty Reduction and Growth Facility (PRGF)[1] arrangement. In completing the third review, the Executive Board also approved Cameroon's request for a waiver of the non-observance of a performance criterion pertaining to net claims of the banking sector on the central government, on the basis of a minor deviation and corrective action taken. The completion of these reviews enables the release of an amount equivalent to SDR 2.65 million (about US$4 million), bringing total disbursements under the arrangement to SDR 10.6 million (about US$16 million).

The three-year PRGF arrangement for Cameroon was approved by the Executive Board in October 24, 2005 (see Press Release No 05/236) in an amount equivalent to SDR 18.57 million (about US$27.9 million).

At the conclusion of the Executive Board's discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, stated:

"The Cameroonian authorities are to be commended for implementing policies and reforms that led to improvements in macroeconomic performance over the past decade. The satisfactory implementation of the PRGF-supported program, notably in the areas of fiscal policy and public finance management, contributed to the strengthening of macroeconomic conditions in recent years. The challenge going forward is to build on recent gains in order to resume the path to sustained growth and poverty reduction. This will require continued efforts to preserve fiscal sustainability and improve the business environment.

"The authorities' ability to mobilize nonoil revenues in the context of declining oil reserves and the expected trade liberalization will be critical to the maintenance of fiscal

[1] The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

sustainability. Given this, efforts to expand the tax base should be accelerated, including, if necessary, additional measures at the level of tax policy to safeguard fiscal objectives.

"The authorities should monitor closely spending levels while enhancing the quality of public spending. Growth and poverty reduction objectives would be better served by strengthening the execution of capital expenditure and reorienting spending toward priority areas. The authorities should refrain from undertaking any extrabudgetary spending and continue efforts to strengthen public expenditure management and transparency, notably by better monitoring budgets and tracking expenditures. Improved transparency in the use of budget resources, including oil and debt relief, remains a priority.

"Prudent debt management should remain a priority in the post-debt relief period. Borrowing over the medium term should continue to be on concessional terms, and the related resources should be put into effective use.

"Strengthening the business environment requires decisive action to improve infrastructure, deepen financial intermediation, liberalize trade, reform public enterprises, and enhance governance. In the period ahead, the authorities should build on the recommendations of the national Financial Sector Assessment Program mission to prepare a financial sector strategy, pursue the reform agenda within Central African Economic and Monetary Community, including a lowering of the common external tariff, and accelerate the reform of public enterprises in a timely and transparent manner to reduce the burden on public finances and improve services. Anticorruption efforts should be pursued with the goal of lowering uncertainty in the regulatory and judicial environment," Mr. Lipsky said.

Statement by Laurean W. Rutayisire, Executive Director for Cameroon
June 15, 2007

On behalf of my Cameroonian authorities, I would like to thank Executive Directors and Management for their continued support to Cameroon's efforts towards sustained growth and economic development. I would also like to thank staff for the constructive policy dialogue and fruitful exchanges during their recent visit to Yaoundé.

Cameroon continues to exhibit good overall macroeconomic performance. Economic growth picked up in 2006, close to 4 percent, and external development were favorable owing to higher prices and production and increased nonoil export volume. The contribution of nonoil activity to this outlook is encouraging, particularly in the construction and forestry sectors. The nonoil activity, which grew by 3.5 percent in 2006, has made a solid contribution to the rebound in economic growth last year. Despite the erosion of preferential treatment granted by the European Union to the country's agricultural exports, and the increased competition faced by local production from finished products from lower cost producing countries, the external balance has improved owing to oil prices and production.

Efforts by the Cameroonian authorities on **fiscal policy** continue to bear fruits. Good outturn in both oil revenue and nonoil revenue collection, combined with reduced current spending. Bottlenecks in aid disbursement under the debt relief initiative, coupled with difficulties in procurement procedures, have led to lower-than-planned capital expenditure. At a time when grants and concessional borrowing should be made more available to low-income countries, it should also be noted that concessional resources have been scarce to Cameroon, making even more difficult for the country to meet its daunting infrastructure and social needs. While efforts are underway to improve the use of resources freed by HIPC and MDRI debt relief, additional resources are needed to address the energy issue.

As for **debt management**, Cameroon has committed to the Paris Club to offer comparable treatment to creditors that did not participate in the 2003 debt buy-back operation. Negotiations with private creditors are ongoing, and some of the creditors have already agreed to forgo accumulated interest and penalties.

On the **monetary** front, my authorities have reduced government liabilities to the banking system, whose health has strengthened overall. The reduction in net bank credit to the government contributed to containing money supply growth and inflation amid higher prices for petroleum products.

Regarding **structural reforms**, my Cameroonian authorities have, in line with the program target, submitted a draft 2007 Budget Law which was adopted by end-2006. The authorities have started to implement the customs information system in the Littoral province, which is aimed at curbing customs fraud and boosting revenue. In addition, tax centers for mediumsized enterprises have been established in the two main cities, Yaoundé and Douala, with the view to improve the efficiency of tax monitoring. On the expenditure side, the tracking summary tables, which also covers pro-poor spending, are produced on a regular basis. As part of efforts to streamline the size of civil service, the government completed its census of civil servants and used results to clean up the payroll.

Regarding *public enterprises reforms,* the authorities are pursuing their agenda with assistance from the World Bank and the IFC. International invitation for bids for the privatization of the national telephone company (CAMTEL) and the public-private management contract of the national water company (SNEC), respectively, were launched. As for the airline company, CAMAIR, the government has already issued a new tender for its privatization. In the meantime, agreement has been reached with Fund staff on subsidies to the company.

In the *financial sector*, a management team for CAMPOST was recruited and assumed operations in February 2007. The government took actions to ensure the reconstitution of the assets of the company, including depositing at the central bank the transfer it made to CAMPOST as part of its domestic debt settlement and ensuring a quarterly supervision report on the company by the unit within the Ministry of Finance in charge of the oversight of nonbank financial institutions.

Further efforts have been made to enhance **governance and transparency** in the management of public resources, notably in the oil, public enterprises and anti-corruption areas. My authorities have continued to implement the *Extractive Industries Transparency Initiative (EITI)* principles and publish the quarterly budget-execution reports, the operating reports of the national oil company, the financial aggregates of the main public enterprises, statistical data, debt analysis, and judicial decisions and administrative penalties against corrupt government employees. Members of the *National Anti-Corruption Commission* (CONAC) were appointed and the Commission is now operational. As for the functioning of the Commission planned as part of the implementation of *asset disclosure by senior government officials*, the implementing regulations under the related law have been adopted, and my authorities are currently visiting other countries for comparison purposes. On a different front, my authorities are working, in collaboration with the World Bank, to put in place an appropriate *procurement system*.

My authorities' sustained efforts have allowed them to meet most of the program's quantitative criteria and benchmarks at end-December 2006. The missed performance criterion on the increase in net claims of the banking system on the central government is due to exceptional circumstances, notably contingent obligation related to the provision of economic and social (education, health, clean water) infrastructure in the Bakassi peninsula. This was in accordance with the conditions laid down by the United Nations international arbitration ruling on the peninsula. As my Cameroonian authorities had no revenue provisions, they were compelled to use windfall revenue from the oil company. My Cameroonian authorities have however committed to ensure that such extrabudgetary expenditure does not occur again. They request a waiver for the nonobservance of this criterion and the modification into a performance criterion of the structural benchmark on cash payments by the national oil company on account of the government.

In view of overall satisfactory program performance and the commitments made in the Prime Minister's Letter of Intent and the government's Memorandum of Economic and Financial Policies for the period ahead, I request, on behalf of my Cameroonian authorities, the Board to approve the requested waiver, the completion of the third review and the completion of the financing assurances review.

ECONOMIC POLICIES AND STRUCTURAL REFORMS GOING FORWARD

Going forward, my authorities will continue to act within the medium-term macroeconomic framework. In this framework, annual GDP growth should remain above 4 percent, inflation contained below 2 percent, fiscal position favorable notably with nonoil primary deficit stabilized around 2.2 percent and overall budget balance (commitment basis, excluding grants) in surplus, and the current account current account weaken due to lower oil prices. This positive outlook owes to the beneficial impact of debt relief under the HIPC Initiative and the MDRI and better prospects for forestry, construction and tertiary sectors. Nonoil activity is also expected to grow at levels above 4 percent.

Fiscal policy

It is my authorities' intention to meet the fiscal objectives of the 2007 program. Based on their determination and recent results, they feel confident that the nonoil revenue objective, set at 12.5 percent of GDP will materialize. On the expenditure side, two-thirds of noninterest spending in 2007 will be allocated to capital expenditures on which the authorities will put much focus. They will invite donors and lenders in discussions at budget conferences in order to improve the execution of poverty reduction expenditure while accelerating the latter. In the same vein, the government will prepare a road map toward executing a multiyear investment budget. Furthermore, starting next year, my authorities will enter as priority items in the budget for the following year all expenditure items that have been committed but for which payment has not been authorized by the end of the fiscal year.

My authorities commit to continue using any windfall in oil revenue to accelerate payments on domestic debt and arrears, repurchase debt held by external commercial creditors who did not take part in the commercial debt repurchase initiative within the London Club, and finance investment projects in priority sectors of infrastructure development, education, health, and rural and urban development. The financing of these projects will be made after consultation with IMF staff.

Structural reforms

As underscored above, my authorities commit to maintaining budget transparency and make further efforts to enhance budgetary procedures and continuing the *fiscal reforms* envisaged in the context of the PRGF-supported program. These include measures to boost tax and customs revenue and broaden the tax base within this year, notably by: (i) connecting online the IT systems of the tax and customs directorates; (ii) establishing the electronic one-stop window to facilitate foreign trade; (iii) eliminating the minimum administrative values for all imported products while taxing imported goods in accordance with CEMAC rules; (iv) pursuing efforts to control and reduce duty exemptions and improve ex-post controls; (v) mproving the implementation and control of customs and economic regimes; (vi) increasing the number of taxpayers covered by the tax centers for medium-sized enterprises in Yaoundé and Douala; (vii) streamlining taxpayer identification; (viii) completing the implementation of a tax-related information management software (AREN); (ix) creating a commission in charge of reviewing domestic tax and foreign trade taxation, which will make recommendations aimed at boosting revenues from these taxes. The authorities also intend to increase forestry revenue by restoring the capacity to monitor sectoral data and control the tax base. On the expenditure side, they remain committed to strengthen the monitoring of public expenditure through consistent monthly budget execution tables on a cash basis and on a payment order basis, as well as monthly expenditure table broken down by economic function to track spending in priority sectors. Finally, the government will also pursue its public procurement reforms by periodically assessing the public procurement system and systematically publishing the penalties imposed on offenders.

Reforms will also be pursued in the *civil service*. The government's objectives in this area is to establish a solid basis for determining staffing levels and the payroll, secure and harmonize the related data and increase the efficiency of the civil service. As regard the payroll, it plans to give priority to adjusting the salaries for promotions using the savings from the census and clean-up of the payroll.

Concerning *fuel pricing*, the policy began in 2005 which transfers resources to the national refinery, SONARA, will be pursued this year. Regarding SONARA, measures to bolster its financial position will be pursued. No further investments will be made unless their economic viability is proven and their financing maintains a fiscal sustainability.

Turning to the *public enterprise reform*, it is my authorities' firm intention to continue implementation of its public enterprise privatization and restructuring programs, including for CAMTEL, SNEC and CAMAIR. Specific timetables have been set in this regard, as specified in their new Memorandum of Economic and Financial Policies.

On the *financial sector*, initiatives to facilitate credit access will be encourage, notably by improving financial reporting, simplifying the procedures for calling in collateral, and establishing a commercial court. As alternative source of financing, its is envisaged to develop the securities market with the issuance of new stocks and bonds and the transfer of secondary market transactions on treasury bonds to the financial market. As for the financial sector assessment, the authorities of Cameroon fully support the BEAC in implementing the recommendations made by the regional FSAP.

External debt management

My authorities will pursue a prudent debt policy going forward, one that will be consistent with the medium-term macroeconomic framework and fiscal objectives. My authorities will ensure that loans are contracted on concessional terms. Moreover, bilateral agreements with the various Paris Club member creditors will be signed while good-faith negotiations to clear arrears with private creditors will proceed with continued concern for comparable treatment.

Business environment

My authorities remain committed to their efforts to enhance *transparency and good governance* and combat corruption, with the view to improve the business environment. The initial results obtained reinforce their resolve in this area. With the assistance of the World Bank and the IFC, they intend to put in place a Business Forum—modeled on the example of Vietnam— to coordinate public-private partnerships (PPPs).

Trade liberalization and boosting the volume of foreign trade remains important objectives for Cameroon. In this vein, *subregional integration* within the CEMAC is an important component of their strategy. My Cameroonian authorities intend to use their central position within the Community to advance reforms aimed at removing barriers to intracommunity trade, lowering the maximum common external tariff (CET), revising the CET exemptions, and reducing nontariff obstacles to the development of intraregional trade.

CONCLUSION

My authorities have once again demonstrated their commitment to policies and reforms defined in the PRGF-supported program. Since the HIPC completion point, there have been significant achievements in putting in place needed policy measures. Their ownership of the needed measures remain intact. In view of the satisfactory macroeconomic policies since the last review under the PRGF-supported program, the broadly smooth implementation of the structural reform agenda, the overall satisfactory program performance as reconfirmed in the most recent staff update, and the renewed commitments made by the Cameroonian authorities on policy and reform implementation for the period ahead, I will appreciate the Board's support for the completion of the third review under the PRGF for Cameroon. In addition, in light of the appropriate debt policies pursued by my authorities, including prudent borrowing policies and their good-faith efforts to reach agreements with the private holders of the country’s debt, I also request the Board’s support for the completion of the financing assurances review.