Cameroon Country Brief
November 2019

Introduction

The Republic of Cameroon is located in central Africa, bordered by Nigeria to the west and north, Chad to the northeast, the Central African Republic to the east, and Equatorial Guinea, Gabon, and Republic of the Congo to the south. Yaoundé is the capital and second largest city, while the largest city and commercial center is the port city of Douala.

Measuring 475,440 square kilometers, Cameroon is the 25th largest country in the continent by area. Its population of about 25.2 million makes Cameroon the 16th most populous nation in Africa. Like most countries in the region, several different languages are spoken. French and English are the two official ones, with approximately 250 other languages spoken by nearly 20 million Cameroonians, making it one of the most linguistically diverse countries in the world.

Cameroon's economy features production of oil and gas, timber, and aluminum, plus agriculture, mining, and services. Oil remains Cameroon's main source of foreign reserves accounting for nearly 40 percent of exports and 3 percent of GDP. Agriculture is also important, contributing around 15 percent to gross domestic product (GDP) and accounting for more than 46 percent of total employment. The principal export crops are cotton, coffee, wood, and cocoa. The services sector accounts for more than half of GDP, compared with 15 percent for manufacturing and 25 percent for other industries.

Political Environment

Cameroon is a unitary republic with an executive President elected every seven years with no term limit. The Prime Minister and council of ministers are appointed by the President, while the judiciary is subordinate to the executive branch's Ministry of Justice. The constitution took effect in 1972, with several amendments made under the 1996 Constitutional Reform.

The current President is Paul Biya, who has served since 1982 following the resignation of Ahmadou Ahidjo, the first President of the country. The last presidential elections which saw the victory of Mr. Biya were held in October 2018. The next general election is scheduled for 2025.

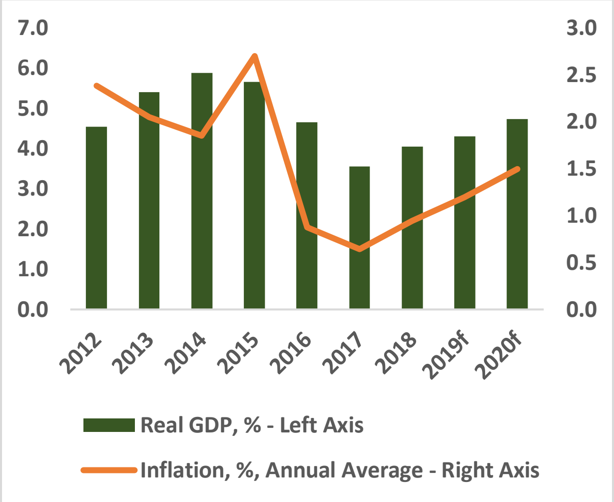
Economic Overview

GDP: Cameroon is the largest economy in the Central African Economic and Monetary Community (CEMAC), a region confronted with several challenges because of persistent insecurity, especially in Cameroon, Central African Republic, and Chad, as well as the lingering effect of lower oil prices experienced during the end of commodity super cycle. Along with other CEMAC countries, Cameroon put in place fiscal adjustment measures aimed at mitigating the potential impact of terms of trade shocks, with the goal of restoring macroeconomic stability and confidence in the common currency area. Nonetheless, the economic and financial environment have remained fragile in the region.

Despite the challenges, real GDP growth in Cameroon rebounded in 2018, growing by an estimated 4 percent, up from 3.5 percent in 2017 (Figure 1). The increase was driven mainly by domestic demand (consumption and investment), an increase in natural gas production (with a new liquefied natural gas offshore terminal coming onstream), and an uptick in agriculture, boosted by stronger demand from neighboring Chad, Central African Republic, and Nigeria.

Forecasts point to further strengthening of economic activity, with GDP projected to increase by 4.3 percent and 4.7 percent in 2019 and 2020, respectively. Projected output expansion is anchored in increasing investment in energy and transport, improving productive economic infrastructure, and rising oil prices.

Figure 1. Cameroon GDP Growth and Inflation



Source: International Monetary Fund World Economic Outlook (2019).

Although Cameroon's economy remains resilient, its exposure to fluctuations in commodity prices, a protracted armed conflict in its north involving the terrorist organization Boko Haram, and an armed conflict in its English-speaking regions, pose significant risks. Ongoing efforts to develop the agro-silvopastoral and fisheries sectors and to provide support for private sector development could mitigate these risks and further diversify the sources of growth to strengthen the country's economic resilience and improve its competitiveness.

Inflation: Cameroon's sturdy economic growth has been associated with demand-side inflationary pressures. Furthermore, instability in its anglophone and north regions have disrupted cross-border trade and contributed to higher consumer prices in some areas. Accordingly, inflation inched up to 0.9 percent in 2018, from 0.6 percent in 2017.

In the short term, inflation is expected to continue to rise, driven largely by a 2019 finance law that provides for an increase in prices on imports of a range of goods: tires, electronic or digital tablets, telephones and software, and commercial cars and vehicles, as well as a higher value-added tax (VAT) and increased excise duties on soft drinks, wines, spirits, whiskies, champagnes, cigarettes, perfumes, and cosmetics. Therefore, inflation is projected to increase by 1.2 percent and 1.5 percent in 2019 and 2020, respectively. It must be pointed out, however, that this projected rise remains below the 3 percent upper bound for countries within the Central African CFA franc zone.

In the near to medium term, tightening monetary policy within the CFA franc zone will further dampen demand-side inflationary pressures.

Exchange Rate: Cameroon is a member of the CFA franc arrangement, in which the CFA franc is pegged to the euro at the rate of CFA francs 655.96: €1, and therefore fluctuates in line with euro-dollar movements. As a result, ongoing economic challenges in the eurozone (particularly in Germany and Italy), along with interest rate cuts to negative territory by the European Central Bank (ECB) that weaken the euro against the dollar, also undermine the value of the CFA franc against the dollar. It is worth noting that XAF is the symbol of the CFA franc for Central African States, which comprises Cameroon, the Central African Republic, the Republic of Congo, Equatorial Guinea, Gabon, and Chad. Their central bank, the Bank of Central African States, is headquartered in Yaoundé, Cameroon.

Fiscal Balance: Cameroon's overall fiscal performance has been mixed over the last three years. The deficit narrowed from 6.2 percent of GDP in 2016 to 4 percent in 2017 because of higher revenue from both oil and non-oil receipts. The gap then widened slightly, to 4.1 percent in 2018, on the back of spending related to a presidential election and preparation for the 2019 African Cup of Nations football tournament, which was eventually hosted by Egypt.[1] In addition, Cameroon's increasing military spending in response to security concerns in the anglophone regions and to fight Boko Haram in the north will continue to adversely impact the fiscal performance in the near to short term.

The deficit is expected to deteriorate further to 4.4 percent in 2019 as a result of increasing security-related spending and as several efforts by the government to diversify its sources of revenue away from oil take time to materialize. Thereafter, the deficit is expected to narrow gradually to 4.1 percent of GDP in

[1] Cameroon was initially selected to host the 2019 Africa Cup of Nations. However, the country was stripped of hosting the tournament, mostly because of delays in the construction of stadiums and other relevant infrastructure.

2020 and 3 percent of GDP in 2021, as fiscal reforms, including new tax policy measures, improvements in tax and customs collection mechanisms and reductions in exemptions, bear fruit and the government rationalizes ongoing infrastructure-related investment spending. The deficit will be financed both by domestic debt issuance and by external borrowings on concessional terms.

Overview of trade, Reserves, and Financial Sector

Total Trade: Cameroon was the 111th largest export economy in the world and the 21st largest export economy in Africa in 2018. It exported USD 4.54 billion and imported USD 5.86 billion that year, resulting in a trade deficit of USD 1.32 billion (Figure 2). This large deficit is mainly due to a marked increase in imports of electrical equipment and mechanical machinery and equipment.

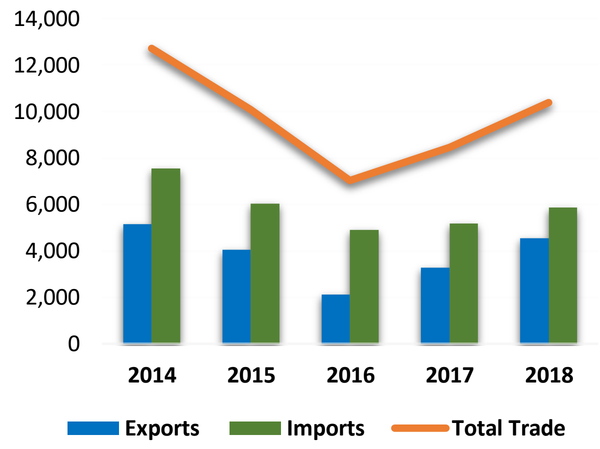
Cameroon mainly exports mineral fuels, wood, cocoa, and precious metals. Its top export destinations are China, Italy, France, the United Arab Emirates, and the Netherlands, which together accounted for around 63 percent of total exports in 2018. Cameroon's top imports include capital goods such as machinery, electrical equipment, and vehicles, but also refined petroleum, pharmaceuticals, and cereals. Its top import origins are China, France, Belgium, Nigeria, Italy, and the United States, which together accounted for more than 58 percent of total imports in 2018.

Intra-African Trade: Cameroon's total trade with other African countries amounted to approximately USD 693 million in 2018, accounting for around 6.7 percent of its total trade, significantly below the regional average of 16 percent. Sénégal, Côte d'Ivoire, Morocco, Nigeria, Mauritius, and South Africa are the top destinations for Cameroon's exports within the region, accounting for around 90 percent of its total exports to other African countries. The main export products include mineral fuels, soaps, wood, and edible items.

Cameroon's largest African import partners are Nigeria, Côte d'Ivoire, Morocco, South Africa, and Egypt, which together accounted for more than 86 percent of Cameroon's total imports from the rest of the continent in 2018.

It imports mainly mineral fuels, fish, vehicles, fertilizers, plastics, and pharmaceutical products.

Figure 2. Cameroon Trade (USD millions)



Source: ITC Trademap, Afreximbank Research.

Foreign Reserves: Cameroon's reserve position has been trending upward recently and stood at USD 3.46 billion in 2018, up from USD 3.2 billion in 2017 and USD 2.23 billion in 2016.

The steady improvement has put reserves at comfortable levels, with coverage exceeding 10.2 months of imports—well above the International Monetary Fund's (IMF's) threshold of three months. The improvement in reserves is largely a result of a gradual recovery in the prices of oil and other major export commodities, including cocoa beans, cotton, and palm oil. The improvement has also been supported by the inflow of aid in the form of grants, as part of international support in the fight against Boko Haram.

Looking ahead, an increase in liquefied natural gas production at the port of Kribi, and continued inflow of grants could help maintain Cameroon's reserve position at comfortable levels in 2019 and 2020. However, instability in anglophone regions (where export commodities such as cocoa and coffee are mainly produced), protracted Boko Haram activities in the northern part of the country, and global growth deceleration remain major downside risks to growth and trade.

Current and Capital Account Balances: Cameroon's current account deficit, which narrowed by 4.4 percent of GDP in 2018 from 4.9 percent in 2017, is expected to reverse, widening by 5.6 percent in 2019. The reversal of the current account deficit is in line with the country's widening trade deficit, which is driven by subdued oil exports as prices remain low by historical standards, and disruption of cocoa and coffee production and other economic activities in a context of protracted insecurity in the country's anglophone regions. Further undermining the trade and current account balances in the near term are strong imports of capital goods to support investment in infrastructure, and higher-than-expected imports of refined oil, because of a fire at a national refinery in June 2019.

In the medium term, the current account deficit should gradually narrow to 5.1 percent of GDP in 2020 and 4.1 percent of GDP in 2021, as oil and gas exports pick up and security concerns abate in anglophone regions. The current account deficit will be financed by concessional loans from official creditors and commercial banks.

While the capital account will benefit from foreign direct investment inflows to the liquefied natural gas sector and international grants, there will be remaining pressure as a result of high political tensions and security concerns that could undermine investment in other strategic sectors.

Financial Sector: Cameroon's financial system is not fully developed. It is characterized by banks, both domestic and foreign-owned, offering loans only to a few high-net-worth individuals and companies, and providing only a narrow range of financial products. As a result, the vast majority of the country's population does not have bank accounts. Private sector credit extension remains low despite excess bank liquidity. This can be explained by the high rate of non-performing loans and by difficulties in recovering loans through the courts.

Overall, the banking sector remains strong, characterized by high liquidity and profitability and adequate capitalization, even though there are variations across banks, with some experiencing deteriorating asset quality. The average capital adequacy ratio was 11 percent at the end of March 2019, compared with a regulatory minimum of 8.5 percent, but lower than the CEMAC average of 17.4 percent. Three banks had negative capital and the third-largest bank had insufficient capital. The overall banking system liquidity ratio increased to 187 percent at the end of March 2019, compared with 160 percent at the end of 2018. However, the concentration remains heavily tilted toward foreign banks.

Similar to the situation in other CEMAC countries, overdue loans in Cameroon increased to 16 percent of total loans in the first quarter of 2019, up slightly from 15 percent at the end of 2018, largely because of weak economic activity and accumulation of arrears by government and state-owned enterprises. These developments have raised the average provisions for non-performing loans to around 90 percent.

Apart from direct financing, banks also participate in the Bank of Central African States securities market, where they act and are accredited as primary dealers. Banking institutions generally contribute 60 to 70 percent of bonds issued by Cameroon's Treasury on the Douala Stock Exchange (DSX). It should be noted that all the funds mobilized by these various mechanisms are raised under non-concessional terms, an option that could raise the risk of debt distress and has been discouraged by the IMF.

Financial sector reforms to enhance efficiency and promote confidence are ongoing. As part of these reforms, 20 commercial court judges have been trained and deployed in commercial chambers to offer timely adjudication on banking litigation cases. Cameroon officially launched a movable collateral register in May 2019 and banks faced a legally binding deadline to complete an online collateral registration by the end of July 2019.

The government is also expected to update its non-performing loan reduction plan, with the Banking Association and the Ministry of Justice expected to play a key role in the process. Furthermore, critical laws to improve the availability of credit, including the legal framework for commercial courts, are expected to be finalized by the end of 2019.

Debt Sustainability: Cameroon scores 3.3 on the 2019 World Bank Country Policy and Institutional Assessment (CPIA),—unchanged from 2018.[2] This is slightly above the IDA borrowers average of 3.1 and is indicative of medium quality in policy management for the country.[3] Among the four components that make up the CPIA, the public sector and institutional management is the weakest for Cameroon, with particularly weak performance recorded for policies and institutions, environmental sustainability, transparency, and accountability in the public sector, all of which perform below the peer average. In contrast, economic management is seen as strong, especially regarding the country's monetary and exchange rate policy, given that Cameroon is part of the CFA franc regime and therefore its currency is pegged to the euro.

The overall CPIA score of 3.3 is indicative of the following thresholds for debt sustainability: present value (PV) of external debt to GDP of 40; PV of external debt to exports of 180 percent; PV of external debt service to revenue of 18 percent; and PV of external debt service/exports of 15 percent. Cameroon's debt sustainability is assessed against the aforementioned benchmarks.

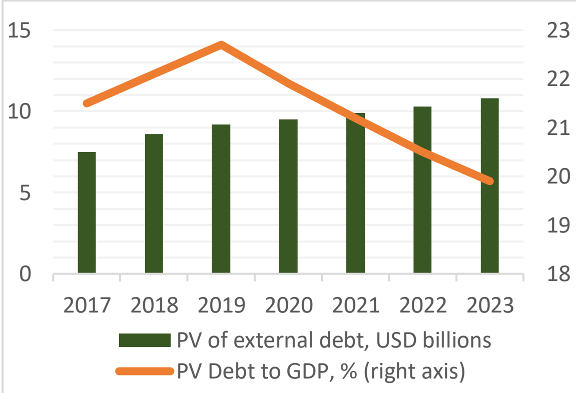
External public debt has risen from around USD 7.5 billion in 2017 to a projected USD 9.2 billion in 2019. This has been accompanied by an increase in external debt servicing costs. Notwithstanding China's announcement of USD 62 million in debt relief for Cameroon, current projections point to a continued increase in external liabilities in the medium term, largely driven by the need to complete key infrastructure projects.

(i) PV of external debt/GDP

Expressed as a share of GDP, the PV of public and publicly guaranteed external debt was 32.5 percent in 2017 and is forecast to moderately decline, reaching 27.1 percent in 2023. This is below the maximum threshold of 40 percent, partly reflecting an expected ceiling in contracting new non-concessional debt, as well as the rebasing of GDP that occurred in July 2017.

Figu

re 3. Evolution of Cameroon's External Debt Composition



Sources: World Bank, Afreximbank Research.

(ii) PV of external debt/exports

The estimate for PV of external debt to exports is 115.3 percent for 2017, but it is forecast to grow gradually through 2023, reaching 139.4 percent. Although this is still below the threshold of 180 percent, the country remains vulnerable to debt distress, which could be exacerbated by a commodity price shock, given Cameroon's commodity dependence. Overall, the dynamics in external debt-to-exports ratio are consistent with a low but rising risk of debt distress.

(iii) PV of external debt service/ revenue

The PV of debt service to revenue is estimated at 19.9 percent for 2018, up from 15.6 percent in 2017 and in breach of the 18 percent threshold for countries that are assigned a medium CPIA score. Cameroon is expected to remain in breach of this indicator in 2019, before falling back below the threshold in the medium to longer term. Under current conditions, this ratio is indicative of a high but improving risk of debt distress.

(iv) PV of debt service/exports

The PV of debt service to exports is estimated at 18.9 percent for 2018, up from 14.1 percent in 2017 and in breach of the threshold of 15 percent. After peaking in 2019, the ratio will remain in breach through 2023, peaking in

[2] (1=lowest, 6=highest); Debt thresholds corresponding to strong performers are highest, indicating that countries with good macroeconomic performance and policies can generally handle greater debt accumulation.

[3] There are 75 borrowing IDA countries spread across Africa, Asia, Latin America, and the Middle East

2019. However, the ratio is projected to improve markedly by 2028, in part reflecting the repayment of a USD 750 million Eurobond in 2025. At current levels, the ratio of debt service to exports is indicative of a high risk of debt distress. Overall, the assessment of Cameroon's risk of debt distress is considered high but improving, even though infrastructure investment for the anticipated hosting of the African Cup of Nations in 2021 remains a major downside risk.

Opportunities for Bank Support

Cameroon's economy has been resilient to global headwinds over the last five years, with an average growth rate exceeding 4.7 percent. Growth resilience has largely been driven by an increase in liquified natural gas production in Kribi, improvement in agricultural and manufacturing supported by improved electricity supply, and an improved timber subsector that is boosted by efforts to increase wood processing.

The Cameroonian government has designed a strategy, dubbed "Vision 2035," which is driven by the ambition to make Cameroon an industrialized and upper-middle-income country by 2035. The success of the new development strategy is anchored on two key pillars: strong economic growth and a high employment rate in the formal sector of the economy. Growth is expected to be driven by the development of key infrastructure related to energy and transportation, including construction of ports in Limbe and Kribi, construction of railways, and the establishment of processing facilities for mineral resources.

Regarding the second pillar, one of the key drivers of job creation is the development of small businesses across strategic sectors, including the services sector. These offer tremendous opportunities for the Bank to enhance its presence in Cameroon and actively participate in implementation of the country strategy. The government's aspirations to accelerate the country's process of industrialization is also fully aligned with the Bank's Fifth Strategic Plan- Impact 2021-Africa Transformed and should provide further opportunities for growth. There are also opportunities for the Bank in the areas of agro-processing, commodities, and other manufacturing/industrial facilities, in which increased value addition could accelerate the diversification of sources of growth and trade and ultimately set the country on a path of fiscal and debt sustainability.

Table 1. Cameroon: Selected Macroeconomic and Financial Indicators

	2012	2013	2014	2015	2016	2017	2018	2019(f)	2020(f)
Real GDP, percent	4.5	5.4	5.9	5.7	4.6	3.5	4.0	4.3	4.7
Inflation (%, annual average)	2.4	2.1	1.9	2.7	0.9	0.6	0.9	1.2	1.5
Exports of Goods and Services (% year/year)	-4.24	14.51	15.09	12.62	1.11	3.25	0.003	5.57	6.19
Current Account (percent of GDP)	-4.4	-5.9	-4.6	-5.3	-5	-4.9	-4.4	-5.6	-5.1
Total Reserves (USD billion)	3.43	3.51	3.12	2.71	2.3	3.2	3.46	3.51	3.72
Gross Reserves (months of imports)	6.83	6.99	6.21	5.4	5.62	7.38	10.2	10.4	10.4

Sources: World Bank, IMF.