Country report

Cameroon

Summary

In the past, Cameroon benefited from being a small oil-exporting economy (10% of GDP, but 40% of exports and fiscal revenues in 2008). Oil exploitation created fluctuating trade and budget surpluses and attracted inward foreign investments. With crude oil reserves already showing signs of depletion, other important export commodities as timber, cocoa, cotton and coffee come to the fore. Soil and climate are potentially favourable for agriculture, but the country's physical infrastructure badly needs improvement, hampering private sector investment.

The authorities have repeatedly pronounced their intention to realise ambitious reforms aimed at increased budget discipline, privatisation and poverty reduction, but are likely to miss the social millennium targets. With president Biya in power since 1982, the political system is effectively a one party autocracy. Corruption is rife and regional and ethnic divisions plague the political scene. Elections are suspected to be manipulated. Overall: the country's governance indicators reflect the sorry state of the formal society.

Debt and liquidity indicators have improved as multi- and bilateral foreign debt relief was provided some years ago. In the very short term the ability to pay is acceptable, but suppressed social dissatisfaction and election fever is a cause of concern over future willingness.

Things to watch:

- Prices of oil and soft commodities (cocoa, coffee, cotton, timber)
- Social, ethnic and political unrest in light of the presidential elections in 2011

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Cameroon

National facts	
Type of government	autocratic republic
Capital	Yaoundé
Surface area (thousand sq km)	475
Population (millions)	19.1
Main languages	Indigenous (99%)
	French and English (1%)
Main religions	Indigenous (40%)
	Christian (40%)
	Muslim (20%)
Head of State (president)	Paul BIYA
Head of Govt. (prime-minister)	Philemon YANG
Monetary unit	CFA franc (XAF)

Economy	2009	
Economic size	*bn USD*	*% world total*
Nominal GDP	23	0.04
Nominal GDP at PPP	42	0.06
Export value of goods and services	4	0.03
IMF quotum (in mln SDR)	186	0.09
Economic structure	*1900*	*5-year av.*
Real GDP growth	-1.0	3.2
Agriculture (% of GDP)	20	20
Industry (% of GDP)	30	31
Services (% of GDP)	50	50
Standards of living	*USD*	*% world av.*
Nominal GDP per head	1166	13
Nominal GDP per head at PPP	2143	19
Real GDP per head	928	12

Social and governance indicators	rank / total
Human Development Index (rank)	153 / 182
Ease of doing business (rank)	171 / 183
Economic freedom index (rank)	132 / 179
Corruption perceptions index (rank)	146 / 180
Press freedom index (rank)	109 / 175
Gini index (income distribution)	44.6
Population below $1 per day (PPP)	33%

Foreign trade			2008
Main export partners (%)		*Main import partners (%)*	
Spain	19	France	21
Italy	13	Nigeria	14
US	10	Belgium	6
France	8	Germany	4
Main export products (%)			
Crude oil			46
Timber			9
Cocoa beans & products			7
Cotton			2
Main import products (%)			
Minerals & other raw materials			33
Semi-finished goods			15
Private companies			15
Food, drink & tobacco			13
Openness of the economy			
Export value of G&S (% of GDP)			31
Import value of G&S (% of GDP)			35
Inward FDI (% of GDP)			1.1

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

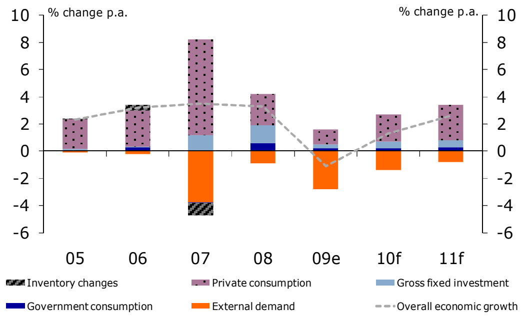
Cameroon is one of the best-endowed primary commodity economies in sub-Saharan Africa. It has modest oil resources and favourable agricultural conditions. Although oil production is in decline, it continues to play a key role in the country's economy, representing 10% of GDP and around 40% of both fiscal and export revenues (2008). The dependency on oil and soft commodity prices has also caused macroeconomic performance to be volatile and uneven.

Agricultural (incl. forestry) output is the backbone of the economy, but most of its output is for subsistence and never reaches any market. Cocoa, coffee, timber and cotton are the main staple goods produced for export. Lower global demand and lower prices of commodities lead to lower growth and trade revenues for these sectors in 2009.

With exports falling sharply (13% in real terms and 40% in nominal USD terms), the economy contracted by over 1%, down from a positive 3.3% in 2008, against an anticipated growth of 2% for 2009. GDP growth prospects for 2010 and 2011 indicate a continuation of a slow pace of recovery relative to its peer group in Africa, where growth remained positive in 2009. With exports forecast to continue to decline, Cameroon will also continue to give a poor showing: per capita income growth will likely be flat for the coming years.

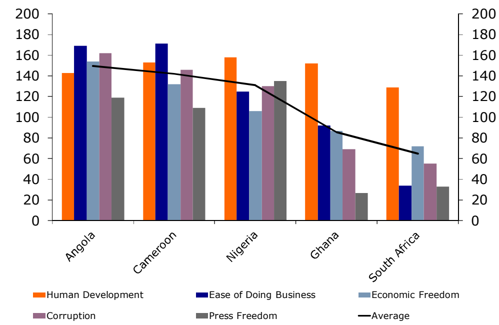
The financial sector is very underdeveloped, with private sector credit only at 10% of GDP. The private sector is constrained by the unwillingness of local banks, lumbered with non-performing loans on their books (12% of loans), to provide credit to firms and individuals. This is due to a lack of credit-scoring systems and the judicial system's inability to enforce contracts reliably. According to the IMF, less than 5% of the population has access to credit, one of the lowest rates of financial intermediation on the continent. However, the microfinance sector is reported to become increasingly important, but from a very low level.

Chart 1: Growth performance



Source: EIU

Chart 2: Social and governance indicators



Source: see fact sheet on previous page

Political and social situation

The current president Paul Biya (aged 76) is in power since 1982 and will most likely run again in 2011, although his health is reported to be frail. Rivals include some younger party members and opposition leaders. Formally a multiparty republic since 1992, the country's political system resembles a one-party autocracy, where the president exerts strong control over 'his' party (CPDM), 'his' government, the oil-based economy and the judiciary. Although there were also allegations of vote rigging, popular support has been strong: elections were generously won by Biya's party. The president is involved in serious fraud and corruption cases brought to court in France by diaspora oppositionists, but they failed to convince the French judges. The lifestyle of the political elite has provoked demands by some opposition figures on foreign donors to withhold all funding for Cameroon. As the opposition is not united, a regular and peaceful take-over of the power from the ruling CPDM in 2011 is unlikely.

Violent crime is rampant and non-political but still ethnically motivated violence flares up from time to time. Western foreigners are advised to take severe precautions, such as military escort, while travelling in the country.

Cameroon faces many of the serious problems facing other underdeveloped countries: stagnating per capita income, a inequitable distribution of income, a top-heavy civil service and an unfavourable climate for business enterprise. Chart 2 illustrates the country's position among other Sub-Saharan countries, its ranking on governance and social indicators are comparable to the 'worst in class' rankings of Angola and Nigeria, also in the lowest quartile of some 180 rated countries.

With an eye on the oil reserves in the area, secessionist groups in the small but oil-rich Bakassi Peninsula, bordering Nigeria's similarly violence ridden Niger delta area, demand sovereignty. Piracy targeted at international oil vessels is one of their means to exert pressure on the authorities. Nigeria is also a party on Bakassi as the peninsula was according to the international Court of Justice in The Hague under illegitimate Nigerian rule until 2002. After the handover to Cameroon, relations with Nigeria remain strained, with Nigeria accusing Cameroon of brutalities against Nigerian citizens.

One of the two former colonial powers in Cameroon, France (the other is the UK), still maintains strong ties with the country. It is suspected to be a major ally of the dictator. Other donor countries have criticized the democratic process. China is a more recent friend of Biya and courting him to gain access to the country's oil, mining and forestry sectors.

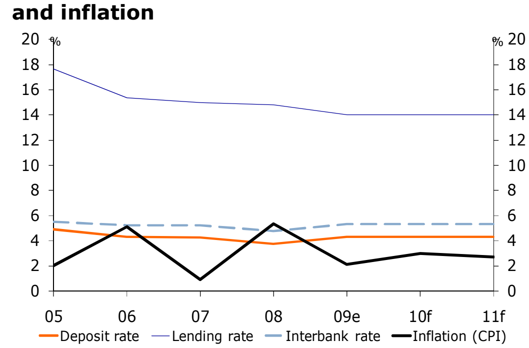
Economic policy

Over the past twenty years, the government has embarked on various traditional IMF and World Bank structural reform programs designed to help business investment, increase efficiency in agriculture, improve trade and strengthen the banks. In its recent communications with the IMF, the authorities expressed their intention to improve the business environment, currently by increasing public investment on infrastructure. The collaboration with local private industry, the World Bank and the African Development Bank could somewhat reduce the impact of corruption on public spending and debt creation. Trade liberalisation with neighbouring countries of the Central African Economic and Monetary Community (CEMAC) is encouraged, but given the low volume of regional trade (there is some transit trade though), little impact on the economy can be expected. The overall budget is generally in surplus helped by generous oil-based revenues (one third of all fiscal revenues) based on high oil prices and strong external demand. Fiscal surpluses were in the order of 4% p.a. over the past years and led to the reduction of government debt. However, with lower oil prices, very modest budget deficits (of less than 1% of GDP) are reported for 2009 and expected for 2010 and 2011. The main quantitative indicator of fiscal sustainability is not at risk: the current low and stable government debt to GDP ratio of approximately 14% will remain at that level. The ratio peaked at 74% of GDP in 2004, just before the (internationally sponsored HIPC) debt relief of 2005-2006 set in. However, as a qualitative warning, the IMF mentioned –albeit without any elaboration- that Cameroon's government debt management is among the weakest of indebted countries. To finance its current public deficits, Cameroon's draws on the foreign reserves it holds with the regional central bank, avoiding the need to mobilise other external or domestic sources, thus keeping public debt stable (see chart 3).
Macroeconomic stability is also helped by monetary policy that is almost fully geared to non-disruption of the fixed exchange rate of the regional currency (Communauté Financière Africaine Franc) shared with five other West-African countries pegged at approximately CFA 656 to the EUR. Cameroon has no separate legal tender. Credit, monetary and FX regulations are set by the French Treasury, which guarantees its convertibility, thus effectively and implicitly giving cover for old-fashioned transfer risk.

Chart 3: Public finances

Source: EIU

Chart 4: Interest rates and inflation



Source: Ecowin

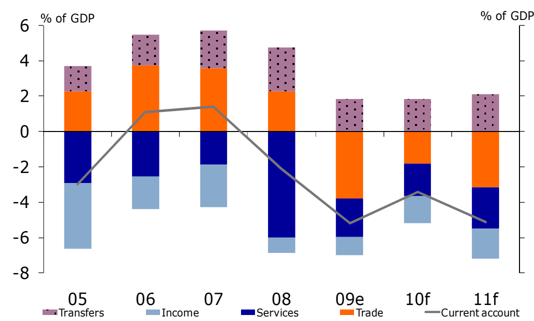
Inflation is low, but the domestic banks' gross margin for borrowers (covering costs, risk and profit margins) is such that real lending rates are very high at 10%, while interbank and deposit rates are just above the modest level of inflation of around 5% (see chart 4). Immediate systemic risk does not exist according to the latest (Nov 2009) IMF stability assessment. Some weaknesses, such as low bank profitability and capitalisation, high volume of nonperforming loans (NPLs) and vulnerability to potential credit shocks of the two largest domestic banks, persist. Consequently, credit access for small- and medium-sized enterprises (SMEs) is adversely affected.

Balance of Payments

The current account shows volatile results as a consequence of volatile oil prices and export volumes. Oil represents almost half of total export revenues (down from 66% in 2001). With proven oil reserves running out fast (at current production levels in three to six years), prospects for a new oil-driven boom are very slim, unless energy prices rise very sharply in the next few years. Agricultural including forestry commodities represent 20% of export. Prime destination is Europe, with little trade with neighbouring countries; some crude oil is imported from Nigeria for refinery in Cameroon and re-export. On the import side growth is and has been –over the years- much less volatile.

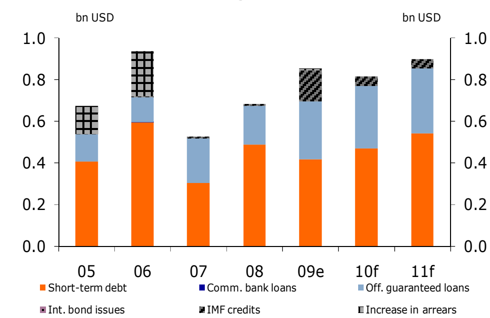
Services (tourism, financial and business services, transport) and income (profits, interest payments) balances are in deficit, but the positive transfer balance comprising worker remittances and aid flows partly compensates for this (see chart 5). The current account balance is forecast to remain in deficit for the coming years at around 4% of GDP. Attracting investment financing (foreign direct investment, portfolio investment) is increasingly difficult, given the country's depleting oil reserves and dismal governance. The external deficit will be financed by an increase of external financing (see chart 6; IMF support, short term debt and 'other' net inflows) from official creditors, without any mentionable risk-taking involvement of commercial banks.

Chart 5: Current account



Source: EIU

Chart 6: Debt-creating inflows



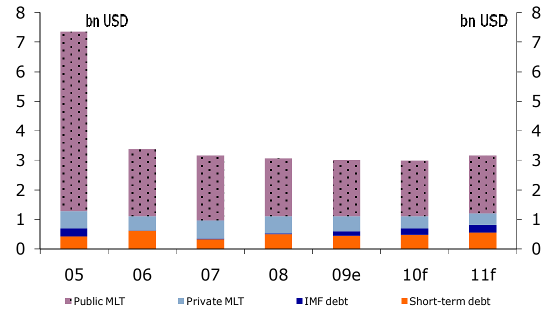
Source: EIU

External position

Total external debt (largely being sovereign debt) decreased substantially by about 60% in 2006 due to Cameroon's qualifying for and obtaining multilateral debt relief, and despite poor governance performance. With the current account on average being balanced since 2005, external debt stabilised at just over USD 3bn (see chart 7). Debt service is also less than half of what it could have been without this relief.

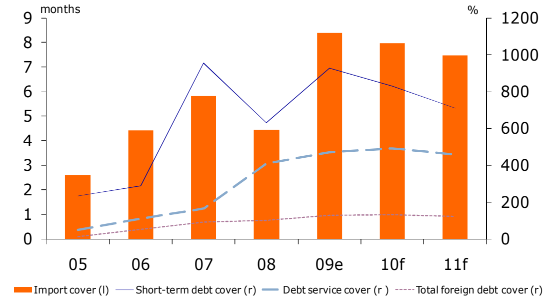
Medium and long term debt is between the sovereign debtor/guarantor and official bilateral and multilateral creditors. Effective average maturities of over 10 years are favourably long, but interest charges in 2009 at 3% to 4% of outstanding debt are higher than those of many other low income countries.

Chart 7: Foreign debt



Source: EIU

Chart 8: External liquidity



Source: Covers offered by official FX-reserves, EIU

Reserves have risen over the past five years from USD 1bn to almost USD 4bn by the end of 2009 after having overtaken Cameroon's total external debt in 2008. The net creditor position is also reflected in improving liquidity ratios as shown in chart 8. Small arrears are reported but part of a "sorting out" process, currently undertaken by the authorities with the official and private creditors involved. Thus, from a quantitative point of view, the country's and sovereign's payment capacity is rather favourable.

Cameroon

Selection of economic indicators	2005	2006	2007	2008	2009e	2010f	2011f
Key country risk indicators							
GDP (% real change pa)	2.3	3.2	3.5	3.3	-1.1	1.3	2.6
Consumer prices (average % change pa)	2.0	5.1	0.9	5.3	2.1	3.0	2.7
Current account balance (% of GDP)	-3.0	1.1	1.4	-2.1	-5.2	-3.4	-5.1
Total foreign exchange reserves (mln USD)	949	1716	2907	3086	3867	3880	3840
Economic growth							
GDP (% real change pa)	2.3	3.2	3.5	3.3	-1.1	1.3	2.6
Gross fixed investment (% real change pa)	0.5	0.2	6.8	7.0	1.5	2.4	2.7
Private consumption (real % change pa)	3.1	3.7	9.8	3.0	1.5	2.6	3.3
Government consumption (% real change pa)	0.7	3.0	-0.8	7.2	2.0	2.4	3.0
Exports of G&S (% real change pa)	1.4	1.3	-12.1	0.3	-13.1	-5.5	-2.1
Imports of G&S (% real change pa)	1.9	2.3	6.2	4.5	2.5	2.7	2.3
Economic policy							
Budget balance (% of GDP)	3.6	5.9	4.5	2.9	-0.5	-1.2	-0.4
Public debt (% of GDP)	49	22	18	14	14	14	14
Money market interest rate (%)	5.5	5.3	5.3	4.8	5.3	5.3	5.3
M2 growth (% change pa)	5	10	15	14	5	10	12
Consumer prices (average % change pa)	2.0	5.1	0.9	5.3	2.1	3.0	2.7
Exchange rate LCU to USD (average)	527.5	522.9	479.3	447.8	472.2	480.6	471.1
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	-494	193	286	-510	-1180	-790	-1280
Trade balance	375	670	735	541	-863	-420	-790
Export value of goods and services	3265	3849	4956	5942	3587	4170	4080
Import value of goods and services	2890	3179	4221	5400	4449	4590	4870
Services balance	-485	-458	-394	-1436	-496	-430	-580
Income balance	-620	-331	-499	-205	-235	-360	-430
Transfer balance	236	313	444	590	413	420	520
Net direct investment flows	257	64	197	258	76	180	150
Net portfolio investment flows	-13	-5	-18	-14	-24	-30	-20
Net debt flows	-647	-65	-437	179	171	190	220
Other capital flows (negative is flight)	1019	583	1170	246	1740	470	900
Change in international reserves	122	771	1197	159	783	20	-40
External position (mln USD)							
Total foreign debt	7357	3364	3162	3092	3010	2980	3170
Short-term debt	407	596	305	489	417	470	540
Total debt service due, incl. short-term debt	1889	1573	1753	755	821	790	840
Total foreign exchange reserves	949	1716	2907	3086	3867	3880	3840
International investment position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	2.3	3.7	3.6	2.3	-3.8	-1.8	-3.2
Current account balance (% of GDP)	-3.0	1.1	1.4	-2.1	-5.2	-3.4	-5.1
Inward FDI (% of GDP)	1.4	0.1	0.9	1.1	0.4	0.8	0.6
Foreign debt (% of GDP)	44	19	15	13	13	13	13
Foreign debt (% of XGSIT)	160	62	45	37	63	53	58
International investment position (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	41	29	25	9	17	14	15
Interest service ratio incl. arrears (% of XGSIT)	13	12	10	3	3	3	3
FX-reserves import cover (months)	2.6	4.4	5.8	4.4	8.4	8.0	7.5
FX-reserves debt service cover (%)	50	109	166	409	471	494	459
Liquidity ratio	92	120	130	130	141	145	135

Source: EIU 100408