

# Update Country report

## CAMEROON

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### Summary

Cameroon performs well on almost all macroeconomic indicators: inflation is low, the fiscal and current accounts are almost in balance and debt levels are sustainable. Nonetheless, GDP growth is low at 2.8% (2010). In addition, Cameroon performs poorly on almost all social development and governance indicators. Its president has been in office for over 28 years and the country suffers from high and persistent corruption rates. The fact that anti-government sentiments are increasing is worrisome as well. Especially considering that rising food prices may well fuel these sentiments, possibly resulting in (not unprecedented) riots.

### Things to watch:

- Political instability and anti-government sentiments
- Rising food prices may cause riots
- Europe's debt crisis (Cameroon's main export market)

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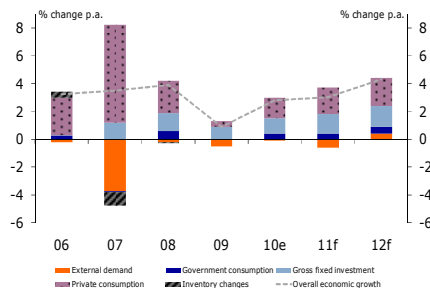
Cameroon					
<b>National facts</b>		<b>Social and governance indicators</b>			
Type of government	Republic	Human Development Index (rank)	131 / 169		
Capital	Yaoundé	Ease of doing business (rank)	168 / 183		
Surface area (thousand sq km)	475	Economic freedom index (rank)	136 / 179		
Population (millions)	19.5	Corruption perceptions index (rank)	146 / 178		
Main languages	French (official language) English (official language)	Press freedom index (rank)	129 / 178		
Main religions	Indigenous (99%)	Gini index (income distribution)	44.6		
	Indigenous (40%)	Population below \$1.25 a day	33%		
	Christian (40%)				
Head of State (president)	Paul Biya	<b>Foreign trade</b> 2009			
Head of Government (prime-minister)	Philemon Yang	<i>Main export partners (%)</i> <i>Main import partners (%)</i>			
Monetary unit	CFA franc (XAF)	Spain	14	France	21
		Italy	13	Nigeria	12
		US	12	Belgium	7
		France	9	Germany	4
<b>Economy</b> 2010		<b>Main export products (%)</b>			
<i>Economic size</i>		<i>Main import products (%)</i>			
Nominal GDP	bn USD      % world total	Crude oil	36		
Nominal GDP at PPP	44      0.06	Timber	13		
Export value of goods and services	6      0.03	Cocoa beans & products	11		
IMF quatum (in mln SDR)	186      0.09	Cotton	3		
<i>Economic structure</i> 2010      5-year av.		<i>Main import products (%)</i>			
Real GDP growth	2.8      2.8	Minerals & other raw materials	33		
Agriculture (% of GDP)	20      20	Semi-finished goods	15		
Industry (% of GDP)	31      31	Private companies	15		
Services (% of GDP)	49      50	Food, drink & tobacco	13		
<i>Standards of living</i> USD      % world av.		<i>Openness of the economy</i>			
Nominal GDP per head	1173      12	Export value of G&S (% of GDP)	23		
Nominal GDP per head at PPP	2215      19	Import value of G&S (% of GDP)	28		
Real GDP per head	956      12	Inward FDI (% of GDP)	1.4		

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

### Introduction and update

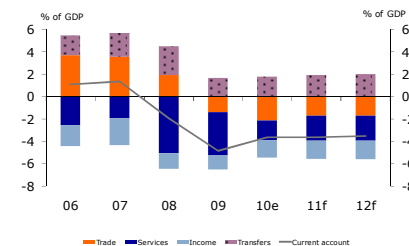
Cameroon generally performs well on all macroeconomic indicators. The country occasionally runs a surplus on its budget balance, records only small current account imbalances and its public debt stands at a low 15% of GDP (2010). In addition, external debt is low as well at 14% of GDP, while reserves cover a comfortable 6 months of imports (2010). Nonetheless, the small oil exporter was affected by the global turmoil. In 2009, reduced demand for Cameroonian exports in especially Spain, Italy and France, caused Cameroon’s exports to shrink by 5%. This resulted in a current account deficit of 4.8% of GDP. In addition, diminished global demand in combination with reduced oil production translated into a below average growth rate of 0.9%. Nonetheless, the government maintained a low budget deficit of 0.3% of GDP. In 2010, the situation improved and growth reached 2.8% on the back of increased activity in the mining sector.

Chart 1: Growth performance



Source: EIU

Chart 2: Current account balance



Source: EIU

However, higher growth rates are needed to improve the living conditions for the many Cameroonians that live below the poverty line. Seeing that oil production is declining, it is vital that the government allocates funds to other sectors in order to diversify its economy.

Despite the fact that short term economic risks are limited, Cameroon suffers a number of political and social risks. The country's political situation is unstable at best and anti-government sentiments are potentially explosive. Furthermore, depleting oil wells present a risk to the country's long term economic performance.

### **Large political and social risks**

It is hard to downplay the social and political risks attributed to Cameroon. For one, even though technically a multi-party democracy, the ruling Cameroonian People's Democratic Movement (CPDM) does not tolerate opposition parties or anti-government groups. Also, the country's president, Paul Biya, has been in power for over 28 years. During this time he dismantled the opposition and took full control over the media.

And while political freedom is hindered by Biya's authoritarian rule, both economic activity and social mobility are obstructed by persistent corruption. Cameroon only ranks 146<sup>th</sup> (out of 178) on the corruption perception index and 168<sup>th</sup> (out of 183) on the ease of doing business index. The country's performance on social indicators is not better. It ranks 131<sup>st</sup> out of 169 on the human development index, while 33% of its population earns less than USD 1.25 a day. These indicators reflect the government's failure to build health facilities and generate employment for around 30% of the population.

The social and political risks present a very real threat to the medium and long term stability of the country. Over the last years, increasing discontent with the government has resulted in protests. In 2007, public outrage over increased food prices turned into large riots. Now that food prices are once again rising, we fear similar instability. Especially with events in the Middle East enhancing anti-government sentiments and encouraging protesters.

In addition to increasing food prices, the upcoming elections present a further threat to the social stability in the country. Recently, a new presidential candidate, Kah Walla, entered the political arena. Kah Walla will run as an independent candidate. Although she does not have a real chance to win, her presence could inspire increased protests and riots during the campaign period as well as after the results are announced.

But even if the government remains successful in beating down protests, Cameroon's political situation is not sustainable. This follows from the fact that president Biya is in his seventies and thus will not be around for long. Such a potential power shift implies a high level of uncertainty. Especially considering that Cameroon's political institutions are undeveloped and the country lacks an intellectual elite.

### **The need for (further) diversification**

The importance of Cameroon's oil industry is fading as oil sources are slowly depleted. Even though the government will continue to explore (other) smaller wells, the effects will be felt. In order to arrive at a healthy growth rate and maintain sustainable budget and current account balances, the government should invest in other sectors so as to diversify its economy as well as its export base. It has already formulated plans to do so, including planned investments in forestry, infrastructure and alternative energy sources. And planned investments in agriculture should help raise cocoa and coffee exports. However, even though these plans may seem promising, we fear that the government lacks administrative capacity to execute them. In fact, the government often fails to invest its entire budget for capital spending, while part of the actual investment falls in the hands of corrupt public officials.

Cameroon							
Selection of economic indicators	2006	2007	2008	2009	2010e	2011f	2012f
<i>Key country risk indicators</i>							
GDP (% real change pa)	3.2	3.5	3.9	0.9	2.8	3.0	4.3
Consumer prices (average % change pa)	5.1	0.9	5.3	3.0	1.3	3.4	3.0
Current account balance (% of GDP)	1.1	1.4	-1.9	-4.8	-3.6	-3.6	-3.5
Total foreign exchange reserves (mln USD)	1716	2907	3086	3676	3500	3240	3660
<i>Economic growth</i>							
GDP (% real change pa)	3.2	3.5	3.9	0.9	2.8	3.0	4.3
Gross fixed investment (% real change pa)	0.2	6.8	7.0	5.0	5.5	7.0	7.0
Private consumption (real % change pa)	3.7	9.8	3.0	0.5	2.0	2.5	2.7
Government consumption (% real change pa)	3.0	-0.8	7.2	0.5	4.0	4.0	5.0
Exports of G&S (% real change pa)	1.3	-12.1	4.7	-5.0	3.0	2.5	6.0
Imports of G&S (% real change pa)	2.3	6.2	5.1	-2.0	3.0	5.0	3.0
<i>Economic policy</i>							
Budget balance (% of GDP)	5.9	4.5	2.9	-0.3	-2.4	-1.9	-0.1
Public debt (% of GDP)	22	17	15	14	15	16	16
Money market interest rate (%)	5.3	5.3	4.8	4.3	5.3	5.3	5.8
M2 growth (% change pa)	10	15	14	6	10	13	14
Consumer prices (average % change pa)	5.1	0.9	5.3	3.0	1.3	3.4	3.0
Exchange rate LCU to USD (average)	522.9	479.3	447.8	472.2	494.6	524.8	546.6
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Balance of payments (mln USD)</i>							
Current account balance	193	286	-450	-1137	-847	-840	-850
Trade balance	670	735	459	-326	-501	-400	-410
Export value of goods	3849	4956	5890	4079	4480	4840	4980
Import value of goods	3179	4221	5431	4405	4981	5240	5400
Services balance	-458	-394	-1178	-901	-415	-520	-540
Income balance	-331	-499	-329	-303	-352	-380	-400
Transfer balance	313	444	598	393	420	460	500
Net direct investment flows	64	197	-62	336	386	450	600
Net portfolio investment flows	-5	-18	-40	7	-19	-10	0
Net debt flows	-88	-485	-62	246	83	180	190
Other capital flows (negative is flight)	605	1218	773	1132	222	-30	500
Change in international reserves	770	1197	159	585	-176	-260	420
<i>External position (mln USD)</i>							
Total foreign debt	3229	2946	2984	3232	3259	3420	3600
Short-term debt	502	200	195	281	295	340	310
Total debt service due, incl. short-term debt	1378	1542	602	493	607	670	700
Total foreign exchange reserves	1716	2907	3086	3676	3500	3240	3660
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.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	3.7	3.6	2.0	-1.4	-2.1	-1.7	-1.7
Current account balance (% of GDP)	1.1	1.4	-1.9	-4.8	-3.6	-3.6	-3.5
Inward FDI (% of GDP)	0.1	0.9	-0.3	1.4	1.7	1.9	2.5
Foreign debt (% of GDP)	18	14	13	14	14	15	15
Foreign debt (% of XGSIT)	59	42	36	55	48	47	47
International investment position (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	25	22	7	8	9	9	9
Interest service ratio incl. arrears (% of XGSIT)	11	8	2	2	2	2	2
FX-reserves import cover (months)	4.4	5.8	4.6	6.7	6.0	5.2	5.6
FX-reserves debt service cover (%)	125	189	513	745	577	486	525
Liquidity ratio	123	133	133	142	139	133	136

Source: EIU

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