Euler Hermes Economic Research

Country Risk Analysis

Cameroon

CFA franc zone offers support and relative stability

General Information

GDP	USD25.2bn (World ranking 94, World Bank 2011)
Population	20.03 million (World ranking 57, World Bank 2011)
Form of state	Multiparty Presidential Republic
Head of government	Paul BIYA
Next elections	2013, legislative

Strengths

- A degree of political stability has been recorded under the lengthy rule of the current leadership, although this may mask infringements in some liberties.
- Relatively good relations with donors and IFIs.
- Extensive foreign debt relief under the HIPC initiative considerably improved the debt burden and associated ratios.
- Membership of the CFA franc zone provides a relatively stable background of monetary policy and it significantly reduces exchange rate and transfer risk.

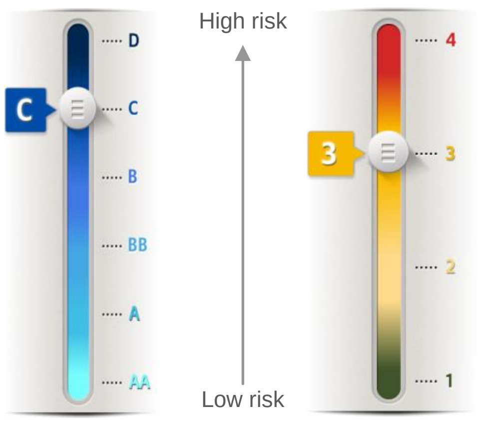
Weaknesses

- President Biya's health has been a concern and there are associated uncertainties over succession.
- Increasing potential of social unrest because of rising public frustration with perceptions of weak improvement in living standards.
- Despite an international ruling on sovereignty over the Bakassi peninsula, relations with Nigeria remain uneasy.
- High dependence on the oil sector.
- Reserve depletion and reduced output of oil suggest a need for further economic diversification.
- Underdeveloped infrastructure and weak institutions limit service provision.

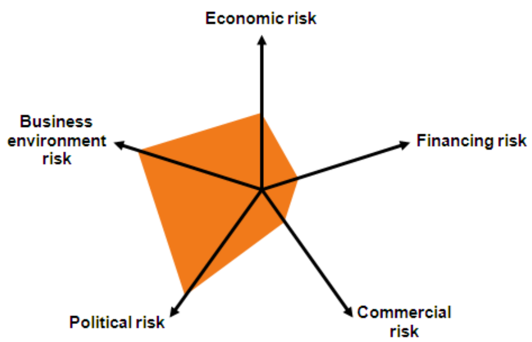
Country Rating

C3

Country Grade **Country Risk Level**



Risk Dimensions



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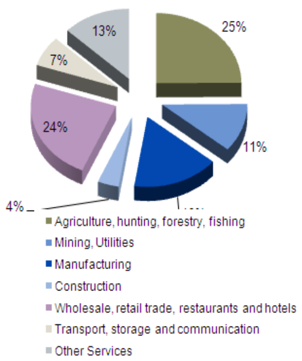
Economic Structure

GDP breakdown (% of total, 2010)



Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
Spain	17%	1	17%	France
LDCs in Africa	16%	2	17%	Nigeria
Netherlands	12%	3	10%	China
Italy	10%	4	6%	LDCs in Africa
China	9%	5	5%	BLEU

By product

Exports		Rank		Imports
Crude Oil	38%	1	23%	Crude Oil
Other Edible Agricultural Prod	20%	2	6%	Cereals
Non-Edible Agricultural Prod.	15%	3	4%	Commercial Vehicles
Refined Petroleum Products	15%	4	4%	Pharmaceuticals
Non Ferrous Metals	2%	5	3%	Meat

Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP grow th (% change)	3.7	1.9	2.9	4.2	4.7	4.5	5.0
Inflation (%, end-year)	2.5	0.9	2.6	2.7	3.3	3.8	3.8
Fiscal balance (% of GDP)	5.2	4.8	4.9	4.9	5.0	5.1	5.2
Public debt (% of GDP)	47.7	10.6	12.1	13.9	14.9	17.7	21.6
Current account (% of GDP)	-2.2	0.5	2.4	1.5	1.8	0.3	0.2
External debt (% of GDP)	58.7	13.9	13.8	12.0	11.7	12.0	9.0

Sources: IHS Global Insight, National sources, Euler Hermes

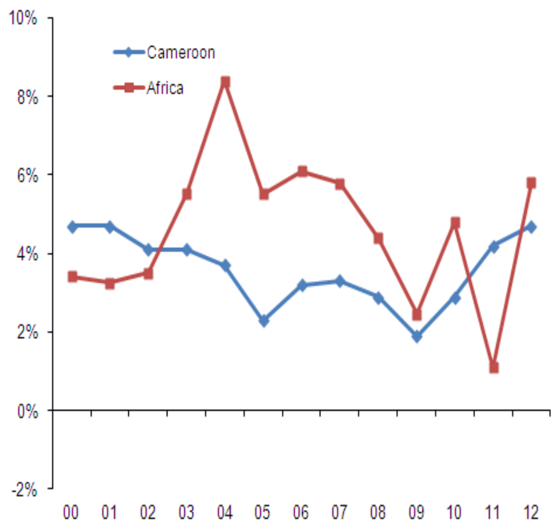
Economic Overview

Over a long-term perspective, the rate of economic growth in Cameroon has been below the average for Africa. This is partly a result of the long-term decline in oil output, although expansion in the non-oil sector enabled GDP to grow by over +4% in 2011 and 2012. Within an overall programme of economic diversification away from oil, the construction (mainly through infrastructure projects) and agriculture and forestry sectors are being promoted. The two main agriculture sub-sectors, cocoa and coffee, are receiving state support to increase production. EH expects GDP growth of +4.5% in 2013 and +5% in 2014.

Growth in consumer prices averaged only 1.3% in 2010 but inflationary pressures built up through the course of the year and into 2011 through increases in energy and food prices, in particular. In addition to high international energy prices, the government's programme of gradual liberalisation in its petroleum-product pricing mechanism (effectively subsidy reduction) also increased inflationary pressures. However, annual inflation ended 2012 at a still manageable 3.3% and is unlikely to be over 4% in 2013 and 2014.

EH does not expect a change in the CFA franc mechanism, with the fixed peg to the euro remaining XAF655.957:EUR1 through to end-2014.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Cameroon will remain a member of the regional economic bloc that has a single central bank and unified currency system (in effect, backed by the French treasury)—the CFA franc will remain the country's currency. Against that background, external liquidity has a degree of support, although existing current account surpluses negate the need to draw on regional resources. EH forecasts that current account surpluses will decline to below 0.5% of GDP in 2013 and 2014 but the existence of the regional support suggests a window of opportunity for Cameroon to restructure its external accounts. At current levels, FX reserves provide a healthy import cover of over seven months, suggesting that problems should not arise in relation to trade payments.

External debt stock and associated ratios, together with repayment obligations, are all now low, following substantial debt relief, particularly through the HIPC initiative. Debt/GDP and debt/export earnings are around 12% and 29% of GDP, respectively, and servicing of external debt obligations is equivalent to only 4% of annual foreign currency earnings. FX reserves are around 10 times larger than the country's short-term debt.

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