Euler Hermes Economic Research

Country Report

Cameroon

Regional grouping provides support

General Information

GDP	USD24.984bn (World ranking 96, World Bank 2012)
Population	21.7 million (World ranking 54, World Bank 2012)
Form of state	Multiparty Presidential Republic
Head of government	Paul BIYA
Next elections	Presidential October 2018, legislative September 2018

Strengths

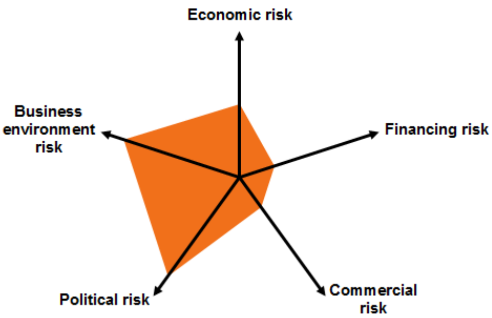
- A degree of political stability has been recorded under the lengthy rule of the current leadership, although this may mask infringements in some liberties.
- Relatively good relations with donors and IFIs.
- Extensive foreign debt relief under the HIPC initiative considerably improved the debt burden 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.
- Relations with Nigeria remain uneasy and have been exacerbated by regional actions of Boko Haram.
- 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



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
China	15%	1	17%	Nigeria
Spain	9%	2	15%	China
Netherlands	9%	3	13%	France
Portugal	8%	4	4%	Belgium
India	8%	5	4%	United States

By product (% of total)

Exports		Rank		Imports
Petroleum and related materials	50%	1	24%	Petroleum and related materials
Coffee, tea, cocoa, spices, and manufactures thereof	12%	2	9%	Cereals and cereal preparations
Cork and wood	12%	3	5%	Road vehicles
Vegetables and fruits	4%	4	5%	Specialised machinery
Textiles fibres and their wastes	3%	5	4%	Other industrial machinery and parts

Source: UNCTAD (2012)

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GDP growth will remain buoyant and the contributions from the oil and non-oil sectors will be better balanced

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 (now partially halted), although expansion in the non-oil sector enabled GDP to grow by over +4% in 2012 and 2013. 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 +5% in 2014 and a similar rate in 2015, spurred by the non-oil sector but also as new oil wells are developed and output from existing ones is enhanced by use of new technologies.

Inflationary pressures remain subdued and the exchange rate system is stable

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 and 2013 at below 3% and EH expects inflation will remain relatively stable around that level in 2014 and 2015.

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-2015.

Current account deficits are comfortably covered

The non-oil sectors are being boosted by large public investment programmes aimed at improving and extending infrastructure (transport networks, water supply, dams and electrification) that are partly driven by inward investment necessitating capital goods and other imports. As a result, the current account registers deficits. EH forecasts that the current account will record deficits of -4.3% and -4.6% of GDP in 2014 and 2015, respectively. These deficits will be covered comfortably by inflows of foreign direct investment and also by long-term borrowing. 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.

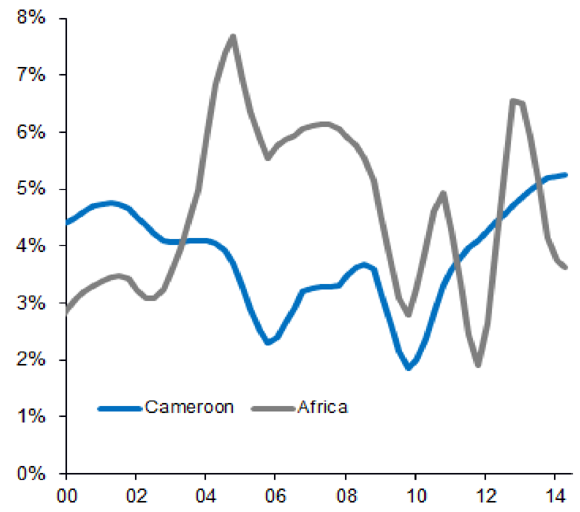
External debt stock and associated ratios, together with repayment obligations, are all now low (although increasing again), following substantial debt relief, particularly through the HIPC initiative. Debt/GDP and debt/export earnings are around 15% and 25% of GDP, respectively, and servicing of external debt obligations is equivalent to only 3.5% of annual foreign currency earnings. FX reserves are around 10 times larger than the country's short-term debt.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	4.7	4.6	5.0	5.0
Inflation (%, end-year)	2.8	2.6	2.5	2.7
Fiscal balance (% of GDP)	-2.9	-4.4	-6.1	-3.7
Public debt (% of GDP)	15.6	19.5	24.0	28.0
Current account (% of GDP)	-4.1	-4.4	-4.3	-4.6
External debt (% of GDP)	9.0	12.5	14.7	16.4

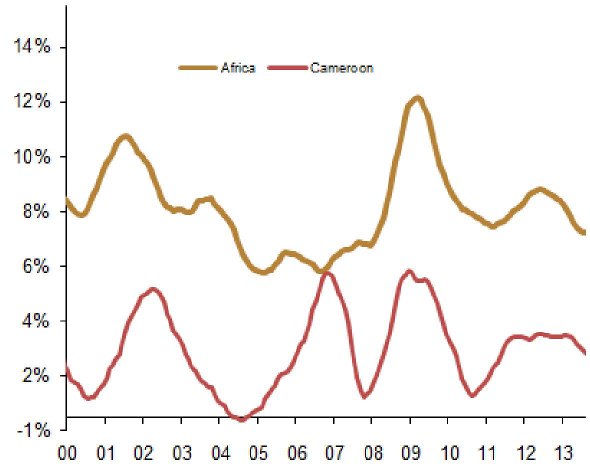
Sources: IHS Global Insight, Euler Hermes

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Inflation (%)



Sources: IHS Global Insight, Euler Hermes

Public finances

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 this background, external liquidity provides an additional degree of support, in need. EH expects fiscal deficits of -6.1% and -3.7% of GDP in 2014 and 2015, respectively. Deficits are partially a result of continuing extensive fuel subsidies provided by the state.

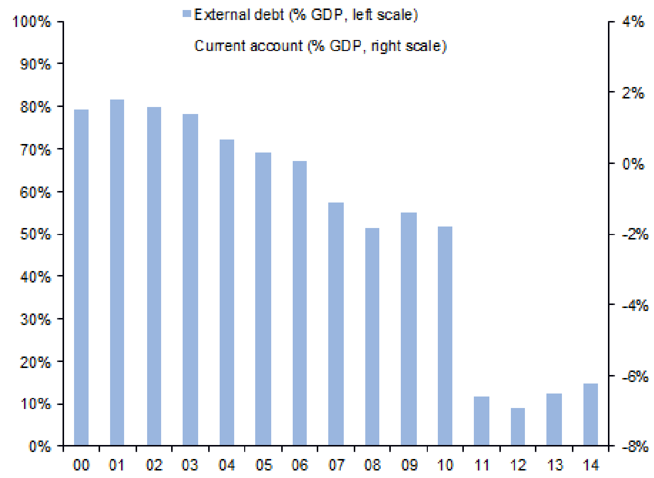
Reforms are yet to improve markedly perceptions of a generally weak business environment…

The government rationalised and reorganised the Investment Promotion Agency but the business environment remains challenging. Independent international agency assessments suggest that the overall regulatory environment is relatively weak, the judiciary is perceived as prone to political interference and protection of property rights is poor. The World Bank's Doing Business 2014 survey ranks Cameroon 168 out of 189 countries in relation to the overall ease of conducting business operations. The survey indicates that contract enforcement takes substantially more time than the regional average and the cost and recovery rate in insolvency resolution are markedly worse.

…but infrastructure improvements and extensions will spur activity

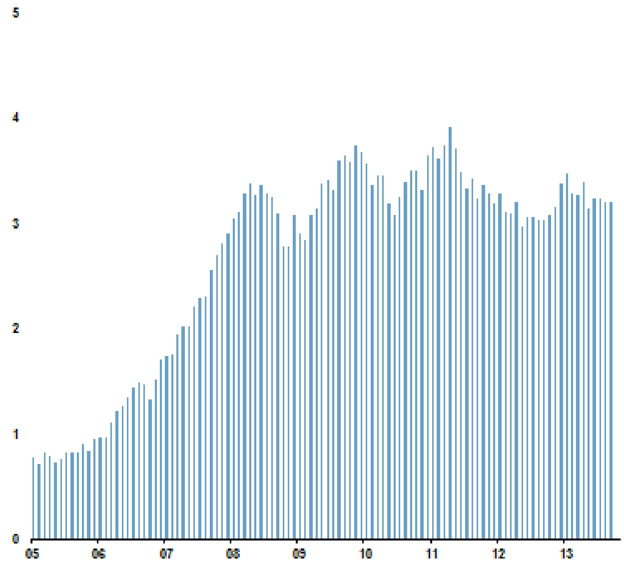
The government is actively seeking to boost economic development, increase job availability and spur overall growth through large projects to develop infrastructure. In a country larger than Sweden and almost the size of Spain, weak transport infrastructure, in particular, is a severe impediment to overall growth. Foreign investment, particularly from Asia, is now driving transport-related projects. One example is South Korea's investment in updating and extending the port facilities at Limbe, through which exports of oil, minerals and other resources are transported to export markets.

External debt and current account balance (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Foreign Exchange Reserves (USD bn (%)



Sources: IHS Global Insight, Euler Hermes

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