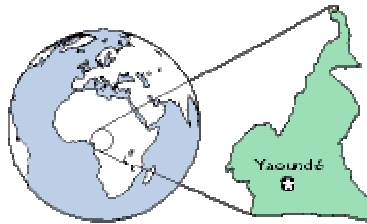


# COUNTRY REVIEW

## Cameroon



31 July 2009

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**EULER HERMES COUNTRY RISK GRADE: C**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## Strengths

- A degree of political stability has been recorded under the lengthy rule of the current leadership, although this may mask infringements in some political and social liberties
- Relatively good relations with donors and IFIs
- Extensive foreign debt relief under the HIPC Initiative considerably improved the external 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 Paul 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 the current regime's apparent dilatoriness or inability in improving living standards (low long-term growth in per capita incomes)
- Despite an international ruling on sovereignty over the Bakassi peninsula, relations with neighbouring Nigeria remain uneasy
- High dependence on the oil sector, with reserve depletion and reduced output suggesting emphasis needs to be on economic diversification
- Vulnerability to global developments through adverse terms of trade (oil, but also timber, cocoa and cotton demand and internationally-determined prices)
- Limited progress in economic reforms and reducing structural rigidities
- Underdeveloped infrastructure and weak institutions limit service provision

## Key Risks

- **If, for some reason, Biya cannot continue in office factional in-fighting could erupt within the ruling RDPC, thereby further limiting effective governance and potentially leading to reduced support from the IFIs at a time when external financial support is still needed**

## Country Risk Assessment

Ratings	Cameroon		Median Grade C	Ghana	Peers Libya	Botswana
	Latest	Previous				
<b>Systemic Political Risk:</b>	<b>P3-</b>	<b>P3-</b>	<b>P3+</b>	<b>P2+</b>	<b>P3-</b>	<b>P2+</b>
<b>Systemic Economic Risk:</b>	<b>E5</b>	<b>E5</b>	<b>E5</b>	<b>E5</b>	<b>E4</b>	<b>E4</b>
ME rating:	ME4	ME4	ME5	ME5	ME3	ME4
Structure	6.0	6.0	5.9	6.0	6.0	4.7
Policy	4.3	5.2	5.2	5.6	6.0	5.6
Solvency	2.0	1.6	2.8	3.0	1.0	1.6
External Liquidity	2.8	3.2	4.3	5.6	1.9	3.8
SBE rating:	SBE5	SBE5	SBE4	SBE4	SBE4	SBE2
<b>COUNTRY GRADE:</b>	<b>C</b>	<b>C</b>	<b>C</b>	<b>C</b>	<b>C</b>	<b>B</b>

Nomenclature:  
 Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).  
 Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).  
 ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).  
 The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).  
 SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).  
 Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

## ECONOMIC STRUCTURE

### Country Profile

Capital city:	Yaoundé
Population:	18.66 mn (2007)
GDP:	USD 20474 mn (2007)
Currency:	CFA Franc BEAC (XAF)
Form of state:	Republic
Head of government:	President Paul Biya
Next elections:	Presidential by October 2011; legislative by July 2012

Major Industries (% of GDP at market prices, 2008e)		Global Assumptions	2008	2009f
Agriculture	21.0%	Real GDP grth (% yr/yr) *	0.7	-3.0
Industry	32.0%	Inflation (% , av) *	3.4	1.0
(Manufacturing & oil)	(27.0%)	Dated Brent (USD/b)	98.0	55.0
Services	47.0%	*major economies		

Main Exports (% of total, 2008e)		Main Imports (% of total, 2008e)	
Crude oil	60.0%	Semi-manufactured goods	15.0%
Timber	11.0%	Minerals (including fuels)	14.0%
Cocoa	8.0%	Food, drink & tobacco	13.0%
Cotton	2.0%		
Lead Export Markets (% of total exports, 2007)		Lead Import Markets (% of total imports, 2007)	
Spain	19.8%	France	23.4%
Italy	15.7%	Nigeria	12.8%
France	11.7%	China	9.0%
South Korea	9.4%	Belgium	5.8%

## Basic indicators

Selected economic indicators	2005	2006	2007	2008	2009f
Nominal GDP (USD mn)	16,588	17,920	20,475	24,028	23,763
Population (mn)	17.82	18.24	18.66	19.09	19.53
GDP per capita (USD)	931	982	1,097	1,259	1,217
Real GDP growth (% yr/yr)	2.2	3.0	3.3	3.9	1.0
Inflation (% , ave)	2.0	5.1	1.0	5.3	3.0
Fiscal balance (% of GDP)	1.9	16.7	2.2	2.1	-0.4
Current account balance (% of GDP)	-4.7	-0.8	-2.7	0.2	-2.1
External debt/GDP (%)	44.4	18.8	15.4	13.3	14.3
External debt/Exports of goods & services (%)	170.0	66.0	56.4	47.9	65.4
Debt-service ratio (%)	17.8	9.7	9.0	6.7	8.2
Foreign exchange reserves (USD mn)	946	1,711	2,901	3,081	2,500
Import cover (months)	2.2	3.9	5.7	5.6	5.2
Exchange rate assumption, XAF:USD (av)	527.5	522.9	479.3	447.8	465.0
f: CRU central forecast					

Sources: BEAC, IMF, World Bank, Euler Hermes Country Risk Unit

## Political Stability

A form of multi-party democracy has existed since 1990, with legalised opposition parties and a head of state elected by popular vote for a seven-year term. However, throughout the intervening period, President Paul Biya and the Rassemblement démocratique du peuple camerounais (RDPC) have remained firmly in power. Indeed, Biya has been head of state since 1982 (and was prime minister from 1975) and **the ruling elite's tight control of the key levers of power—military, judiciary and media—has effectively stifled formal opposition**. In the last elections for seats in the legislature in July 2007, Biya and the ruling RDPC strengthened their control by winning 152 out of the 180 seats in parliament and thereby gained the necessary two-thirds majority that enables them to make constitutional amendments. Despite some domestic opposition and international protest, the constitution was altered in April 2008, including revision of the two-term presidential limitation. Accordingly, Biya can now seek re-election in 2011.

With a splintered and ineffective formal political opposition, **anti-government sentiment is expressed through industrial action and street demonstrations**, with some of the latter—as in February 2008—marked by violence and bloodshed. In turn, the regime responds to such demonstrations by tightening its security apparatus and implementing further restrictions on individual liberties. The government has been unable to improve significantly overall living standards and frustration with the lack of progress commensurate with a country richly endowed in resources, together with general perceptions of endemic corruption, has been the focus of anti-government feeling. Periods of rising food prices and increases in administered fuel prices further escalate social tension and provide a unifying element among the populace. Moreover, perceptions of instability have a detrimental impact on potential foreign investment inflows and thereby limit economic growth.

Biya reshuffled the cabinet in June 2009, appointing a new prime minister, Philemon Yang, who has wide ministerial and diplomatic experience and is seen as loyal to the president and, perhaps more significantly, he does not have a domestic power base and is unlikely to challenge Biya's authority or seek the presidency. Additionally, Yang comes from a largely anglophone area in the North West and, through his appointment, Biya may be seeking to address some regional, tribal and ethnic grievances. The current republic was formed through the merger of French and British areas of influence and these divisions still cause conflict and provide **claims that elements within the population are politically and economically marginalised**.

Although the International Court of Justice (ICJ) ruled in 2002 that Cameroon and not Nigeria has sovereignty over the Bakassi peninsula, regional relations remain uneasy over this dispute. The population of the peninsula is largely Nigerian and tensions periodically flare up, although the prospect of outright hostilities between the two countries has receded following the ICJ ruling. In addition, however, there are also regional tensions with Equatorial Guinea, particularly in relation to outstanding border disputes and the presence of a large number of Cameroonians living illegally in the neighbouring country to the south, some of whom have recently been expelled.

**In contrast to regional relations, wider international links are generally good**. Cameroon is a member of the CFA franc zone, thereby providing regional economic and technical support and a strong cultural, financial and trading tie with France. As a result of its natural resource base, relations with the United States and, latterly, with China have improved as economic superpowers seek additional supplier nations. Since 1990, Cameroon has **succeeded in maintaining support from the IMF and World Bank**, principally through programmes designed to reduce the country's debt burden, stabilise the macro-economic environment and reduce poverty. Under the Highly Indebted Poor Countries (HIPC) initiative, significant foreign debt relief was granted in May 2006 and, through the auspices of the IMF, a three-year Poverty Reduction and Growth Facility (PRGF) programme and now (July 2009) an Exogenous Shocks Facility (ESF) have provided international support.

## Economic Stability

Cameroon possesses a **wide natural resource base**, including crude oil, timber, cocoa and cotton. Agriculture contributes around 21% of overall GDP and is the most important sector in terms of employment (accounting for some 70% of the potential labour force). However, the oil industry is currently the principal sector in relation to fiscal revenues and export receipts (and therefore of external liquidity). **Dependence on oil and agriculture engenders considerable downside risks** and makes the economy vulnerable to external shocks through variable global commodity demand and internationally-determined prices. In addition, output of crude oil is in long-term decline as a result of net reserve depletion—oil exploration has not suggested that new large and commercially-viable oilfields exist. As a result, **Cameroon could become a net oil importer**, with associated negative

effects on government revenue generation and an increased import bill. Despite need for economic diversification, there is little evidence of meaningful progress in developing the non-oil sectors.

Average annual real GDP growth was only 1.4% in 1991-2000 and 3.5% in 2001-2008, although this latter period included years (2004-08) of vibrant global expansion in which other oil producers gained large windfall earnings and generated strong overall economic growth. Moreover, with annual population growth of 2.3%, such rates of GDP growth indicate only limited increases in per capita incomes and suggest significant structural problems and/or economic mismanagement. With its vulnerability to external shocks, the current global recession, with concomitant decline in demand for commodities, has reduced Cameroon's growth potential. **We forecast that GDP growth will decline from 3.9% in 2008 to around 1% in 2009, at best, and will recover only to around 2% in 2010.**

The focus of monetary policy is membership of the Franc Zone. Within that overall grouping, Cameroon is part of an economic union, the Communauté économique et monétaire de l'Afrique centrale (CEMAC), with a joint central bank, Banque des états de l'Afrique centrale (BEAC). **All currencies of the Franc Zone, including the CFA franc of the BEAC are freely convertible into the euro at a fixed rate, through operations accounts with the French Treasury.** In effect, this removes transfer risk and thereby promotes trade flows. In addition, with monetary policy basically anchored within the Zone system, inflationary pressures tend to be more subdued. Even so, average inflation in Cameroon increased from 1% in 2007 to 5.3% in 2008. With subdued commodity (and therefore basic foodstuff) prices this year, we forecast that average inflation will be around 3% in 2009.

External debt obligations have improved significantly because of relief programmes, including the HIPC initiative. Total external debt was equivalent to over 44% of GDP and 170% of export earnings in 2005 but those ratios have been reduced and currently equate to around 13-14% and 45-70%, respectively. Moreover, over the same period, the external debt-service ratio fell from 18% to 6-8%. Debt relief also improved the current account balance, which moved from a deficit of 4.7% of GDP in 2005 to a small surplus equivalent to 0.2% of GDP in 2008. However, weaker prices for exported commodities in 2009 and continuing strong import demand will return the **current account to deficit, which we forecast at 2.1% of GDP in 2009.** FX reserves increased significantly from USD946mn at end-2005 to USD3.1bn by the end of 2008, covering over five months of imports in the latter year. Even with some reduction likely in the reserves this year, **we forecast that import cover will remain a comfortable five months.** Moreover, Cameroon has access to the pooled reserves of the BEAC and external liquidity is therefore unlikely to be a constraint in the medium term.

A three-year PRGF with the IMF expired in January 2009 and the government announced its intention to proceed without an extension of such a programme. However, the deteriorating global economy from Q4 2008 led the authorities to seek (and gain) **access to the Fund's Exogenous Shocks Facility (ESF) in July this year.** USD144mn was made available for immediate disbursement. The ESF indicates that Cameroon remains favourably perceived by the IFIs but it also signifies that the country will remain dependent on the wider donor community into the medium term.

### Structural Business Environment

The **business environment is well below average** of the countries we monitor, with serious impediments to strong, sustainable growth. The Heritage Foundation 2009 Index of Economic Freedom (IEF) categorises Cameroon as "Mostly Unfree" and ranks it 136 out of 179 countries assessed, above Ecuador, Argentina and Syria but below China, Nepal and Ethiopia. Under the IEF methodology, Cameroon records a good score in relation to size of government (low overall tax burden). However, the legal system is unreliable, corporate data transparency is weak and bureaucracy is inefficient. In addition, commercial regulations are extensive, the labour market relatively inflexible and foreign investment is restricted in some areas. Cameroon ranks 141= with Iran, Philippines and Yemen out of 180 in Transparency International's 2008 Corruption Perceptions Index (above Kazakhstan, Bangladesh and Kenya but below Liberia, Paraguay and Tonga). Infrastructure is generally weak and is a major impediment to commercial transactions outside the main urban centres, and thereby to stronger overall economic growth.

The commercial banking sector is rudimentary and the absence of a large and efficient credit market is a hindrance to a more vibrant rate of economic growth, particularly in relation to the contribution from rural areas. However, the latter are becoming increasingly served by a micro-finance sub-sector. **Banking is highly concentrated**, with two-thirds of the sector's total assets controlled by just three institutions. The stock exchange is small, even by regional standards.

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## Charts

