KPMG

Cameroon Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
Cameroon's wealth of natural resources attracts significant foreign investment.	Cameroon is one of the most corrupt countries in the world, driving up business costs in the form of bribery.
Slow but steady expansion of financial markets, including the country's stock market, opens up Cameroon to credit.	Reliance on oil and agriculture exports leaves it vulnerable to external price shocks.
A strong presence of international banks provides greater access to credit for consumers.	An inefficient, weak and biased legal system creates uncertainty for businesses.
Cameroon's government has made efforts to simplify the process for registering a business.	The poor quality of roads causes delays and increase transport costs, while long trade lead times compared to the rest of the region make import and export times uncompetitive.
Opportunities	**Threats**
The implementation of the 2002 Investment Charter could facilitate foreign investment.	A lack of reform in the judicial system undermines investor rights and provides little intellectual property protection.
The country's coordination with the United Nations University on e-governance initiatives will improve government transparency and accountability and facilitate bureaucratic processes.	High graduate unemployment lowers consumer demand and drives discontent, leading to potentially unstable situations in the medium to long term.
The government's fight against corruption will significantly increase the attractiveness of Cameroon for foreign investors.	The continued immunity of politically influential individuals lowers the attractiveness of Cameroon as a foreign investment hub.
The recovery of the air transport market will open up new supply chain options.	Corruption, inefficiencies in the tax administration and the registering of property drive up costs for businesses.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector contributes a large component to domestic economic activity. Coffee, sugar and tobacco are important cash crops grown on the plateau in the south, with the climate at the coast allowing for the growing of export crops like cocoa, cotton, bananas, palm oil, rubber and tea. Cocoa is the industry's largest export commodity by value and Cameroon is the world's fifth-largest producer of the crop after Ivory Coast, Ghana, Indonesia and Nigeria. The secondary sector includes oil production and refining, food processing and the making of light consumer goods like textiles. Oil is the country's largest export earner (45% of exports during 2016) and Cameroon is Sub-Saharan Africa's (SSA) sixth-largest crude oil producer. The tertiary sector contributes almost half of gross domestic product (GDP), with retail and hospitality activity representing 20% of GDP. Grocery retailers are the largest component of the retail sector as strong household income growth and expansion in the population drives sales in an industry where formal retail still accounts for only 2% of overall retail sales.

Recent economic developments - Fitch Ratings and S&P Global Ratings affirmed their "B" ratings for Cameroon during May and October 2017, respectively. Over the past year, Cameroon made starting a business easier by reducing the minimum capital requirement, and improved access to credit information by launching a new credit registry. An Extended Credit Facility (ECF) signed with the International Monetary Fund (IMF) in June 2017 will help to reassure investors about the sustainability of the government's finances. Economic growth is expected to slow to 4% in 2017 due to the continued decline in oil production and delays in the start of operations of the new natural gas field. Consumer price inflation was most recently recorded at 0.6% y-o-y in June – the euro-pegged CFA franc is largely responsible for keeping Cameroon's inflation rate low by SSA standards.

Mega trends

Population	2017	Total: 24.51 million; female: 12.25 million; male: 12.26 million; age 0-14: 42.1% of total; age 15+: 57.9% of total; age 65+: 3.21% of total
Population growth rate	2015	2.61%
Life expectancy at birth	2015	Total: 57.56 years; female: 58.78 years; male: 56.4 years
HIV/AIDS	2016	Total number of people living with HIV: 0.56 million; total adult prevalence: 3.8%; HIV AIDS orphans (age 0-17): 0.31 million
Adult literacy rate	2015	Total population: 74.99%; female: 68.88%; male: 81.15%
Urbanisation	2016	Urban population: 54.94% of total; annual urban population growth: 3.63%; rural population: 45.06% of total
Population below $1.90/day poverty line	2014	23.98%
Unemployment rate	2017	Total: 4.6%; female: 5.4%; male: 3.9%; youth (15 - 24): 7.1%
Employment	2017	Agriculture: 61.8% of total; industry: 8.7% of total; services: 29.5% of total
Labour participation rate	2017	Total (ages 15+): 76.16% of total population
Business languages	n/a	English, French
Telephone & internet users	2006; 2016	Fixed telephone subscriptions: 1.05 million (2016); wired internet subscriptions: 0.03 million (2006); cell phone subscriptions: 16.33 million (2016)
Quality of infrastructure (1 = underdeveloped; 7 = developed)	2017	2.3

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment									
Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
153rd	out of 188 countries	150th	out of 180 countries	116th	out of 137 countries	163rd	out of 190 countries	145th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The Growth and Employment Strategy Paper (GESP) 2010-2020 is the reference framework of government policy and state actions. The scheme is aimed at achieving the country's Millennium Development Goals (MDGs), with evident successes so far: the country succeeded in achieving the first MDG - reducing the proportion of people afflicted by hunger - before the target of 2015. The GESP is built around national strategic guidelines that are centred on the country's long-term development vision towards 2035 – it covers the first ten years of the long-term vision. The paper will focus on accelerating economic growth, creating formal employment and reducing poverty. From a quantitative perspective, the GESP aims to 1) increase the average annual GDP growth rate to 5.5% during 2010-2020; 2) reduce the underemployment rate from 75% to less than 50% in 2020; and 3) reducing the income poverty rate from 40% to 28.7% in 2020. Specific strategies to achieve these targets include 1) a progressive increase from 20% to 30% by 2020 of the share of public investment in overall state expenditure; 2) massive allocations of resources to major projects in order to put an end to the widespread insignificant public investment projects; 3) measures to considerably streamline contract awarding procedures; and 5) broaden economic policy options by activating the usual monetary policy possibilities.

Sovereign Risk Ratings		
S&P Global Ratings	Fitch Ratings	Moody's Investors Service
B/Stable	B/Stable	B2/Stable

Source: Trading Economics

S&P Global Ratings affirmed their "B" long-term foreign sovereign credit rating for Cameroon in October 2017 with a continued stable outlook. The latter reflects expectations of strong economic growth – on the back of large investment project spending - and gradual fiscal consolidation over the ensuing 12 months. S&P warned it could lower its ratings for Cameroon if elevated political instability or other shocks occur. This could, in turn, result in pressures on the exchange rate and foreign exchange reserves. Political risk is associated with an untested presidential succession process within a highly centralised decision-making system. The current president has been in power since 1982 and is expected to remain in the job until elections in late-2018. The "B" rating could also come under pressure if public and external debt increase at a faster pace than factored into S&P's forecasts.

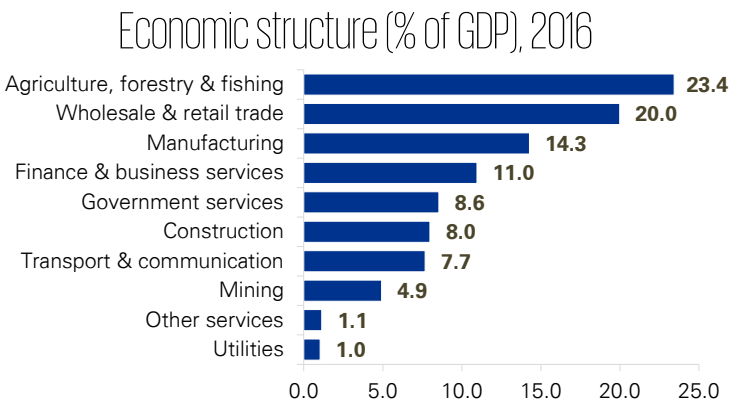
Fitch Ratings affirmed Cameroon's long-term foreign currency issuer default ratings at "B" with a stable outlook in May 2017. The country's rating is balanced by low GDP per capita and weak governance indicators, on the one hand, and sustained economic growth and macroeconomic stability, on the other hand. Also supportive is the membership of the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC) which ensures currency convertibility and reduces foreign exchange liquidity risks. Fitch indicated that recovering oil prices, improved non-oil fiscal receipts (due to a better performances in the country's non-oil sector) and a slower increase in capital expenditure will result in the moderate narrowing of the fiscal deficit in 2017. This followed a deteriorated fiscal position in the preceding year due to a sharp contraction in oil revenues. Public finance management is a key ratings weakness for Cameroon and is hampered by the weak quality and timeliness of data.

Moody's Investors Services assigned, for the first time, local and foreign Issuer Default Ratings (IDR) for Cameroon in August 2016. Moody's gave the country a long-term foreign sovereign credit rating of "B2" with a stable outlook. This rating was retained in an annual credit analysis that Moody's published in September 2017. The rating agency commented that Cameroon's credit profile is supported by a diversified economy. This has limited the impact of a recent oil price shock, thought the country "still faces challenges from its weak institutional environment and rising public sector debt." While "very low institutional strength" is reflective of a weak record for controlling corruption and managing the fiscus, the country's membership of CEMAC "provides a degree of monetary policy credibility and supports Cameroon's institutional strength.

Finance & Banking				
Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 000 adults
Banque des Etats de l'Afrique Centrale (BEAC)	14	1.95	3.64	65.59
Stock market	**Listed companies**	**Market capitalisation***	**Largest sectors**	**Weekly trading value***
Douala Stock Exchange	9	$205 million	N/A	N/A
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Low	12 weeks to 2 years	Yes	Yes

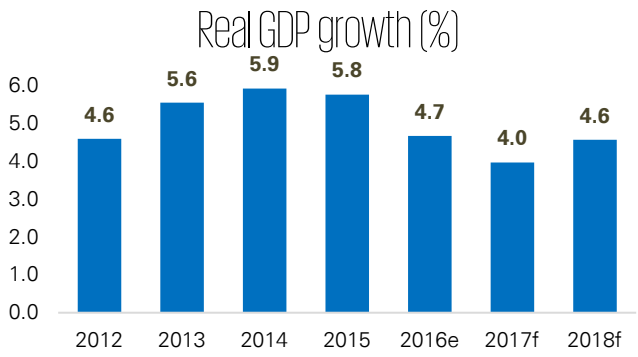
Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

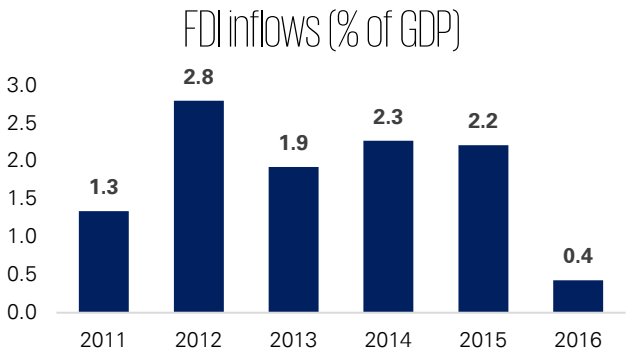
Macroeconomic overview



Source: African Economic Outlook (AEO)

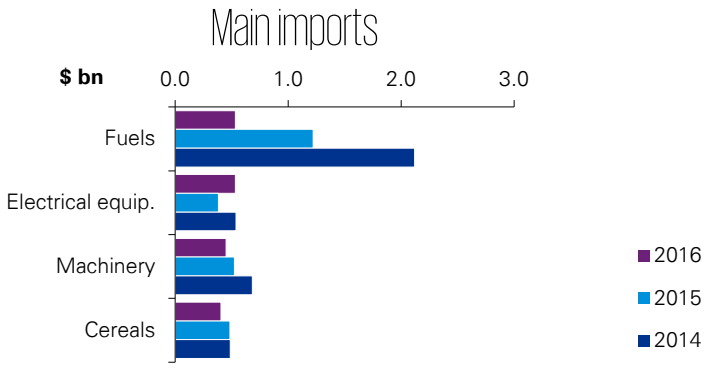
Economic growth – The IMF estimates that economic growth declined in 2016 due to lower oil sector activity. While strong industrial production (due to improved energy supply and a good performance of the primary sector) supported non-oil growth, other indicators such as private sector credit and tax revenue indicate weaker activity. Growth slowed further in 2017 due to the continued decline in oil production and delays in the start of operations of the new natural gas field. A slowdown in the wholesale & retail sector associated with subdued farmer incomes also contributed to a tempered growth rate. However, increased hydrocarbon production and infrastructure investment will support higher economic growth in 2018 and thereafter.

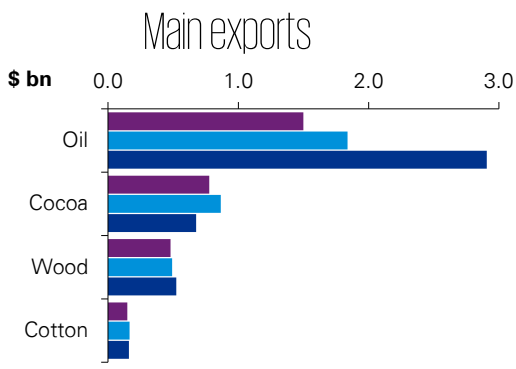




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – The main risks to foreign investors in Cameroon stem from the prevalence of corruption, high levels of political risk and the country's inefficient bureaucracy, making setting up operations in the country costly and highly time-consuming. However, over the past year, Cameroon made starting a business easier by reducing the minimum capital requirement, and improved access to credit information by launching a new credit registry. A newly signed ECF with the IMF (agreed in June 2017) will help to reassure investors about the sustainability of the government's finances, consolidating its strong public-private partnership practice and drive further investment in infrastructure development. Going forward we expect that Cameroon's gas production plans, combined with steadily increasing support to logistical upgrades and investment openness, will continue to attract investment.

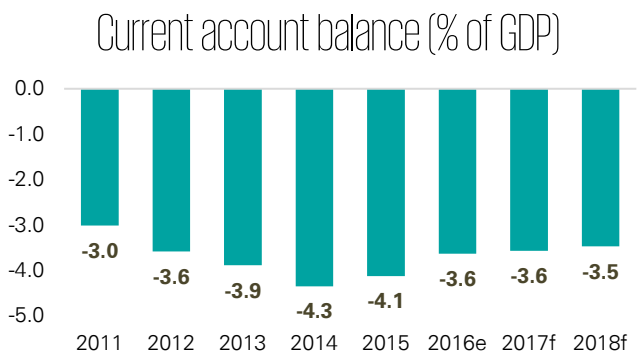


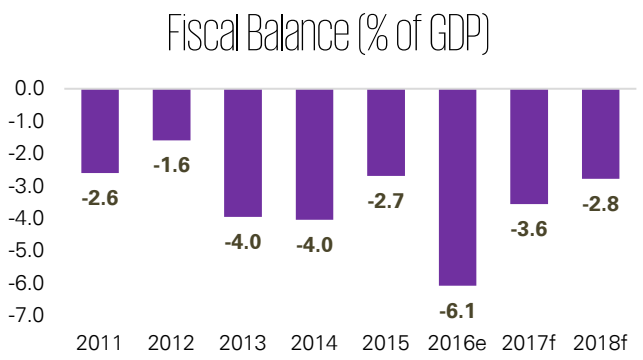


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Fuels	28.0%	20.2%	10.9%	Oil	56.3%	45.4%	43.3%
Electrical equipment	7.1%	6.4%	10.9%	Cocoa	13.1%	21.3%	22.4%
Machinery	9.0%	8.7%	9.2%	Wood	10.2%	12.1%	13.9%
Cereals	6.5%	8.0%	8.3%	Cotton	3.1%	4.1%	4.3%

Source: Trade Map

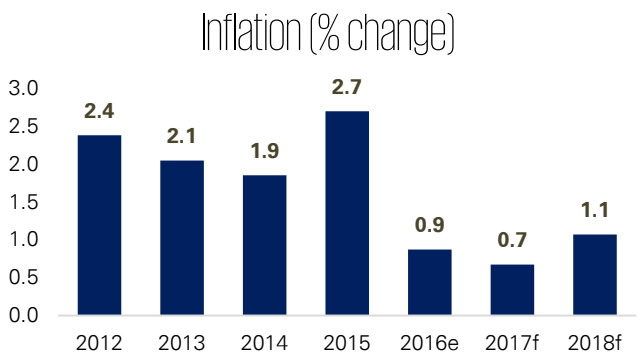
External trade – Capital spending in Cameroon will keep the import bill elevated over the next years, meaning the current account will remain in a deficit over the foreseeable future. However, this shortfall will be sustainable due to strong foreign direct investment (FDI) inflows and increasing export proceeds from incoming gas production. These export revenues, coupled with the fact that the CFA franc is pegged to the euro, protects Cameroon from global fluctuations such as changes in commodity prices. However, the CFA franc could well fall against the US dollar if euro weakness continues, in which case consumer import demand will be limited in the short- to medium-term. The IMF expects the current account deficit to marginally narrow to 3.5% of GDP in 2018. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to reach five months in 2018, compared to a global benchmark of at least three months.

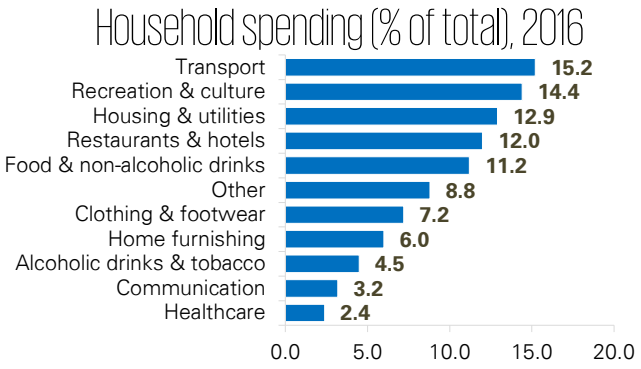




Source: IMF

Fiscal policy – Higher oil prices and rising gas production will strengthen government revenue in 2017-2018, leading to a gradual decrease in the fiscal deficit. Narrowing borrowing requirements and accelerating economic growth suggests the country's debt-to-GDP ratio will peak in 2020 and limit risk to debt-sustainability. While Cameroon has a large proportion of foreign debt, the currency peg decreases associated risk. The fact that income tax collection from individuals and businesses is at a very low base contributes to the positive medium-term outlook regarding revenue, with significant scope for improved collections in the next few years. The IMF expects Cameroon's fiscal deficit to decrease from 6.1% in 2016 to 2.8% in 2018.





Source: IMF, BMI, country statistics agencies

Monetary policy - Inflation declined in 2016 and remains low, most recently recorded at 0.6% y-o-y in June. The euro-pegged CFA franc is largely responsible for keeping Cameroon's inflation rate low by SSA standards. The regional central bank determines monetary policy across the CEMAC region. It has a primary objective of price stability across this region and has set a convergence level of 3% y-o-y for inflation. Since 2011, Cameroon's inflation rate has not crossed the 3% y-o-y barrier, allowing for high real wage growth and private consumption growth. Cameroon's inflation levels are slightly higher than that of other countries in the CEMAC, but remains well below other African countries outside of the franc zone. The IMF projects that inflation will increase from an average of 0.7% in 2017 to 1.1% in 2018 – i.e. remaining below the 3% y-o-y convergence ceiling set by the BEAC.

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