Seventy Fourth Sovereign Debt News Update: The International Monetary Fund approves US$73 million disbursement to Cameroon despite the Country's public debt increasing by over 489%

By:

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On 8 March 2023, the Executive Board of the International Monetary Fund (IMF) concluded the third review of the three-year arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility, (EFF), with Cameroon. On 29 July 2021, the IMF had approved SDR 483 million (approx. US$689.5 million or 175 per cent of quota). The completion of the third review will allow disbursement of SDR 55.2 million, (approx. US$73 million), bringing total disbursements under the arrangements to SDR 317.4 million (around US$420 million). In completing the reviews, the Executive Board approved waivers of

non-observance by Cameroon for two performance criteria:

1. The floor on the non-oil primary balance at end-December 2022 was missed due to higher oil prices and currency depreciation leading to higher spending on the fuel subsidy; and
2. The continuous zero ceiling on the accumulation of new external payments arrears was missed following delayed debt service payments due to end-year cash management issues, which have already been cleared.

These waivers of non-observance were approved due to the corrective actions taken by the authorities, and the temporary nature of the non-observance, respectively. In addition, the Executive Board approved a waiver of applicability for three end-December 2022 performance criteria, for which data are not yet available, and there is no evidence that they were not observed.

The approval and consequent disbursement were made despite Cameroon's public debt exploding by 489% from CFA 1,904 billion in 2009 to CFA 11,216 billion in 2022, according to the Autonomous Amortization Fund (CAA). According to CAA, several reasons explain the exponential increase in Cameroon's external debt. These include "*disbursements related to the implementation of various projects included in the DSCE (Strategic Document for Growth and Employment) and the SND30 (National Development Strategy 2020-2030); withdrawal from budget support obtained under the Economic and Financial Programs with the IMF; drawings on IMF Special Drawing Rights (SDRs); the structuring of certain domestic debts to public and private companies, through cross-debt agreements and transfers of receivables*". *Other reasons include "the use of public securities issues to finance the State budget and exchange rate fluctuations, considering the currency breakdown of the external debt portfolio, where about 46.3% is subject to exchange rate fluctuations (22.1% of which is subject to fluctuations in the US dollar)*".

In 2022 alone, Cameroon received a loan of CFA114.6 billion from the IMF through the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). As part of a deal with France, the country also received a loan of CFA45.9 billion, in addition to multiple medium- and long-term government securities issues and fund injections in various projects and programs. The devaluation of the local currency -the CFAF- has also had an impact on the country's debt. In

detail, the public sector debt is made of 92.3% direct central government debt valued at CFA11,426 billion (or 42.3% of GDP), of which CFA8,204 billion is external debt and CFA3,222 billion is domestic debt.

Risk of Default, Debt Relief and the Place of China in Cameroon's Debt

In April 2021, the Cameroonian government announced that it was in talks with Rothschild and Co. to obtain advice on a Eurobond sale that would be used to repay a portion of the $750 million in debt that it sold in 2015. The announcement that Cameroon would again need to enter the Eurobond market to obtain credit came after the International Monetary Fund (IMF) classified the central African country as being at high risk of debt distress, both to internal and external lenders. The classification of Cameroon as facing a high risk of debt distress was made in January 2020, before the economic downturn caused by the COVID-19 pandemic, which has undoubtedly worsened the fiscal and monetary standing of the country.

Cameroon finding itself at risk of debt distress is not a new occurrence and is a result of the country's borrowing habits over several decades. In 2007, Cameroon's public debt was only 12 percent of its GDP, and by September of 2020 the figure had increased to over 45 percent of the country's GDP. While much of the recent attention has focused on Cameroon's Eurobond holdings and multilateral debt, over two-thirds of the country's debt is external. Out of Cameroon's external debt, 61 percent is owed to China, making Beijing the country's largest creditor.

The likelihood of Cameroon not being able to repay its debts to China became evident when Yaoundé was not able to fulfil some terms of its debt, which resulted in tougher financial conditions that began in 2017. In 2018, on the sidelines of the Forum on China-Africa Cooperation (FOCAC) held in Beijing, the Cameroonian government formally requested that its debt to China be restructured. Almost a year later, the severity of the situation and the real probability that Cameroon may not be able to repay its debts was underscored in January 2019 when Cameroon unilaterally withheld debt service payments to China, to which the Export-Import Bank of China responded by freezing payments for projects in Cameroon.

Seven months later in July 2019, Cameroon and China reached an agreement to restructure the payment of debts during the visit of Yang Jiechi, the director of the Central Foreign Affairs Commission, to Yaoundé. The restructuring of the debt saw a total of US$250 million of payments deferred over the following three years, although Cameroon would still be required to pay back the total amount of each loan by its original due date. In short, the relief would only be temporary, and Cameroon would still have to repay the total amount that it owed to the Export-Import Bank of China. A total of US$78 million of Cameroon's debt to China was cancelled, although the debt was composed of payments that were supposed to be made to China the previous year but were not. In short, while the debt restructuring agreed to in 2019 provided temporary relief to the Cameroonian government, it did not tangibly change the difficulties that Yaoundé would face in paying its debts to Beijing.

In May 2020, Cameroon again delayed its debt payments to China through the debt service suspension initiative (DSSI). The suspension greatly benefitted Cameroon, as over half of its bilateral debts are owed to China. Specifically, in 2020 China deferred a payment from Cameroon worth over $55 million, and in 2021 Beijing deferred a further payment worth nearly $20 million. Cameroon started making the payments in 2022 and will continue to do so till 2025. This is in addition to the payments that were already scheduled for those years. With the country being in high risk of external distress due to low export and fiscal revenues, it is likely that Cameroon will face increased difficulties paying its debts.

This situation regarding Cameroon's debt to China in addition to other creditors raises serious questions about the Central African country's ability to service its debts. This is not only due to the quantity of the debt, but the continued poor economic figures in the country as a result of political instability and the COVID-19 pandemic. In the unfortunate event the country is not able to service its debt, it risks defaulting just like Zambia and Mali, and may as well cede temporary ownership of facilities funded by external creditors, as it was the case in Sri Lanka. Even so, despite the country's heavy indebtedness, the CAA explains that the results of the sustainability analysis updated in H2 2022 show that Cameroon's public debt remains sustainable (below the 70% of GDP allowed by the CEMAC multilateral surveillance criteria), but with a high risk of external debt distress. Consequently, Cameroonian Authorities are considering

several measures to reduce this high risk of over-indebtedness, including:

1. Improving the absorption capacity of project loan resources by accelerating economic and financial reforms aimed at strengthening the responsibility of project implementation units;
2. Establishing terms of reference and studying the possibility of linking remuneration to performance as formulated by the IMF;
3. Strengthening the framework and monitoring of the debt of public enterprises;
4. Pursuing the policy of deepening the domestic market;
5. Improving policies aimed at import substitution and increasing export earnings.

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