

REPORT ON THE 2021 BUDGET OF THE STATE OF CAMEROON



AN ANALYSIS OF THE SUSTAINABILITY OF THE PUBLIC DEBT

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FOREWORD



Law No. 2020/018 to enact the Finance Law of the Republic of Cameroon for Fiscal Year 2021 ([LF2021](#)) was promulgated by the President of the Republic, Head of State, on December 17, 2020. It comes in a context marked on the one hand by the COVID-19 pandemic and on the other by socio-political crises in the North-West and South-West regions and security in the Far North and East of the country. Despite these challenges, Cameroon's general budget, which is included in the 2021 Finance Law, has increased by about 16% year on year, rising from CFAF 4 409 billion in 2020 to CFAF 5 235.2 billion in 2021. *This budget is balanced in resources and uses at CFAF 5 480.4 billion, of which CFAF 5 235.2 billion is for the general budget and CFAF 245.2 billion for the special accounts.*

This increase in Cameroon's state budget is favored by the rise in oil prices on the world markets after the sharp drop recorded in 2020, and a certain number of actions implemented by the government, notably the increase in the stamp duty on national passports (which, since July 1, 2021, has risen from CFAF 75 000 to CFAF 110 000, that is, an increase of about 47%). However, as the budget voted remains insufficient to cover all the state's financial commitments, the government resorted to the international market in June 2021 to obtain a new Eurobond.

According to Cameroon's Finance Minister, Louis-Paul Motaze, this new Eurobond, which the government sought and obtained in June 2021, would make it possible to refinance all or part of the 2015 Eurobond, whose repayment dates are between 2021 and 2024. It thus offers the government the possibility of reorienting its financing priorities by adapting them to the prevailing socio-economic context ([Louis-Paul Motaze, 2021](#)). S'il est vrai que ce nouvel emprunt de l'État n'affecte pas le niveau actuel de la dette publique, il n'en demeure pas moins que le rythme d'endettement du Cameroun est aujourd'hui fait l'objet d'une certaine inquiétude.

While it is true that this new government borrowing does not affect the current level of public debt, the fact remains that the pace of Cameroon's indebtedness is now a matter of some concern.

This report provides an analysis of the Republic of Cameroon's 2021 budget, including an examination of public debt sustainability. Using the forecasts made by the Government in the [NDS30](#), this Report analyses the sustainability of Cameroon's public debt, drawing in particular on the new framework for analyzing the sustainability of public debt defined and implemented by the International Monetary Fund and the World Bank in 2018.

I sincerely hope that this report will be an important reference to inform the Cameroon government in its budgetary policy, as well as Cameroon's development partners.

Mrs. Fri Asanga

Chief Executive Officer
Denis & Lenora Foretia Foundation

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LIST OF ABBREVIATIONS AND ACRONYMS

ALUCAM	: Aluminum of Cameroon
ODA	: Official Development Assistance
DSA	: Debt Sustainability Analysis
WB	: World Bank
CAA	: Autonomous Sinking Fund
CAB	Cabinet
CAMPOST	: Cameroon Postal Services
CAMRAIL	: Railway Transport of Passengers and Freight
CAMWATER	: Cameroon Water Utilities Corporation
CAN	: African Cup of Nations
CDC	Cameroon Development Corporation
CDE	: Camerounaise des Eaux
CEMAC	: Economic and Monetary Community of Central Africa
CHAN	: African Nations Championship
CNDP	: National Public Debt Committee of Cameroon
NDIF	: National Social Insurance Fund
UNCTAD	: United Nations Conference on Trade and Development
COVID-19	Coronavirus Disease 2019
CTD	: Decentralized Territorial Collectivities
DGB	: Directorate General Budget
GESP	: Growth and Employment Strategy Paper
ENEO	: The Energy of Cameroon
CFA F	: Franc of the Financial Community of Africa
ECF	: Extended Credit Facility
IMF	: International Monetary Fund
MND	: Major National Dialogue
UNHCR	United Nations High Commissioner for Refugees
FDI	: Foreign Direct Investment
NIS	National Institute Statistics
INSEE	: National Institute of Statistics and Economic Studies
FL	: Finance Law
LFR	: Amended Finance Act
ECF	: Extended Credit Facility
MINEPAT	: Ministry of the Economy, Planning and Regional Development
MINFI	: Ministry of Finance
MINPMEESA	: Small and Medium Enterprises, Social Economy and Handicrafts
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
PAD	: Port Authority of Douala
PDI	: Development and Industrialisation Plan
GDP	: Produit Intérieur Br Gross Domestic Product ut
SMEs	: Small and Medium-Sized Enterprises

PNG	: National Governance Program
UNDP	: United Nations Development Program
PRC	Presidency of the Republic of Cameroon
CAR	: Central African Republic
GNI	: Gross National Income
SIC	: Cameroon Real Estate Corporation
SND30	: National Development Strategy 2020-2030
SONARA	: National Refining Company
SONATREL	: National Electricity Transport Company
SOPECAM	: Société de Presse et d'Édition du Cameroun
SPIRI	: Stockholm International Peace Research Institute
ICT	: Information and Communication Technology
VAT	: Value Added Tax
UNICEF	United Nations Children's Fund
USA	: United States of America
USD	: United States Dollar
WDI	: World Development Indicators
AfCFTA	: African Continental Free Trade Area

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EXECUTIVE SUMMARY

The purpose of this report is to analyze the 2021 budget of the State of Cameroon, examining the sustainability of public debt. We use data extracted from the Republic of Cameroon's Finance Laws, notably those for 2021; available public debt data from the Autonomous Sinking Fund; as well as forecasts made by the Ministry of the Economy, Planning, and Regional Development in the New National Development Strategy 2020–2030. Using the framework for analyzing public debt sustainability defined jointly by the International Monetary Fund and the World Bank in 2018, we show that Cameroon's public debt, while still sustainable (estimated at 46.9% of Gross Domestic Product, thus remaining below the community threshold of 70%), still poses a high risk of external debt distress on the Cameroonian economy. This result means that, in the absence of concrete and radical actions by the government to reduce its rate of indebtedness, it will be difficult for the Cameroonian Treasury to honor all the government's financial commitments on the bond markets in the near future, particularly with respect to debt service payments.

We show that Cameroon's liquidity and solvency ratios correspond to a policy that can be improved. Some debt and debt service indicators are significantly above short-term benchmarks over the entire study period from 2021 to 2030. Given this situation, it is urgent that the government define and implement an effective and efficient fiscal policy capable of bringing Cameroon to the level of development hoped for by 2035. This requires a more optimal reallocation of resources in order to guarantee productive investments and sustainable human development (Fambon, 2002). In this sense, this report emphasizes the need to guarantee the competitiveness of national enterprises, which includes the promotion of national private investment and the choice of loans at preferential rates that require the repurchase and/or cancellation of certain components of the country's public debt.

Thus, the study recommends several economic policy proposals to the Cameroonian government to reduce the debt burden. These are summarized in three main points as follow:

- **Further Promote the Competitiveness of the Economy and Greater Diversification of Production:** These options are now essential to prevent the external debt overhang currently weighing on the country from affecting growth and investment.
- **Favor Concessional Terms, Especially for Borrowing on the International Market to Finance its Budget Deficit:** This would allow it to ensure regular payment of the corresponding debt service.
- **Strengthen the Public-Private Partnership:** This method of financing will allow the State to finance part of its projects with the support of the private sector. The public-private partnership is thus an alternative mode of financing that is more affordable in the short term for the public sector.

RÉSUMÉ EXÉCUTIF

Ce rapport a pour objet l'analyse du budget 2021 de l'État du Cameroun, en examinant la viabilité de la dette publique. Nous utilisons les données extraites des Lois de Finances de la République du Cameroun notamment celles de 2021 ; les données disponibles de la dette publique à la Caisse Autonome d'Amortissement (CAA), ainsi que les prévisions réalisées par le Ministère de l'Économie, de la Planification et de l'Aménagement du Territoire (MINEPAT) dans la Nouvelle Stratégie Nationale de Développement 2020-2030 (SND30). À partir du cadre d'analyse de la viabilité de la dette publique définie conjointement par le Fonds Monétaire International (FMI) et la Banque mondiale en 2018, nous montrons que la dette publique du Cameroun, bien qu'elle reste soutenable (estimée à 46,9 % du Produit Intérieur Brut, demeurant ainsi en dessous du seuil communautaire de 70 %), fait peser sur l'économie camerounaise un risque de surendettement extérieur encore élevé. Ce résultat signifie qu'en l'absence d'actions concrètes et radicales du gouvernement pour réduire son rythme d'endettement, le Trésor public camerounais pourra difficilement, dans un futur proche, honorer tous les engagements financiers de l'État sur les marchés obligataires, notamment en ce qui concerne le paiement du service de la dette.

Nous montrons que les ratios de liquidité et de solvabilité du Cameroun correspondent à une politique susceptible d'être améliorée. Certains indicateurs de la dette et du service de la dette dépassent de manière considérable les seuils de référence à court terme sur toute la période de l'étude comprise entre 2021 et 2030. Face à une telle situation, il est urgent que le gouvernement définisse et mette en œuvre une politique budgétaire efficace et efficiente, capable de porter le Cameroun vers le niveau de développement espéré d'ici 2035. Ceci passe notamment par une importante réallocation plus optimale des ressources afin de garantir des investissements productifs et un développement humain durable (Fambon, 2002). Dans ce sens, ce rapport met l'accent sur la nécessité de garantir la compétitivité des entreprises nationales, laquelle passe notamment par la promotion des investissements privés nationaux et le choix des prêts à taux préférentiels qui exigent le rachat et ou l'annulation de certaines composantes de la dette publique du pays.

Ainsi, l'étude préconise un certain nombre de propositions de politique économique au gouvernement camerounais afin de réduire le fardeau de la dette. Celles-ci se résument en trois principaux points présentés ainsi qu'il suit :

- **Davantage promouvoir la compétitivité de l'économie ainsi qu'une plus grande diversification de la production.** Ces options sont aujourd'hui incontournables pour éviter que le surendettement extérieur qui pèse actuellement sur le pays n'affecte la croissance et l'investissement.
- **Privilégier des conditions concessionnelles notamment pour des emprunts sur le marché international pour financer son déficit budgétaire,** ce qui lui permettrait d'assurer un paiement régulier du service de la dette correspondante.
- **Renforcer le partenariat public-privé.** Ce mode de financement permettra à l'État de financer une partie de ses projets en bénéficiant d'un appui du secteur privé. Le partenariat public-privé se présente ainsi comme un mode de financement alternatif plus abordable à court terme pour le secteur public.



1. Overview of the Socio-Economic Situation in Cameroon

On December 17, 2020, the President of the Republic of Cameroon promulgated Law No. 2020/018 to establish the Finance Law of the Republic of Cameroon for the financial year 2021. This law defines the conditions of the national budgetary and financial balance, determines the State budget, and sets the amount and allocation of expenses and resources. In a way, it directs the economic activity of a government. In 2020, the Republic of Cameroon's finance law was adopted in a difficult context marked by security and humanitarian crises. According to Louis Paul Motaze, Cameroon's Minister of Finance, it reflected 'the government's desire to consolidate economic growth [...] to make it strong, sustainable and inclusive.'¹ Because of the country's major challenges, namely the maintenance of territorial integrity, the finalization of infrastructure projects (in the energy, road, and public works sectors), the organization of the African Nations Championship, the finalization of work on the African Nations Cup, legislative and municipal elections, the implementation of the conclusions of the Major National Dialogue, etc. culminating in the reconstruction of the North-West and South-West regions; the general State budget stood at CFAF 4 951.7 billion, a drop of 5% compared to 2019, a first after the uninterrupted increase observed since 2008.²

However, the global health crisis caused by the COVID-19 pandemic led the Head of State to create a special allocation account of CFAF 180 billion for the fight against the coronavirus and its economic and social repercussions, thereby revising the general budget by setting it at CFAF 4 409 billion, a 12% drop compared to the initial budget.

For the 2021 fiscal year,³ the President of the Republic has placed government action in a resolutely optimistic perspective. This is based on the resumption of economic growth to put the country back on the path to emergence by curbing the harmful effects of the COVID-19 pandemic through the structural transformation of the economy. The priority action levers selected are, in fact, in line with the modernization of agriculture and industrialization.

However, the government remains cautious about proceeding with a budgetary revival, mainly because of its commitments to the Economic and Monetary Community of Central Africa⁴ and the International Monetary Fund.⁵ The state budget has been set at CFAF 5,235.2 billion (Ministry of Finance, 2021), an increase of around 16% compared to 2020. This budget aims to improve the business climate, strengthen local taxation, promote import substitution, broaden the tax base, and secure revenue; the context remains marked by the completion of major infrastructure projects and the Covid-19 pandemic.

In view of the budgetary situation in Cameroon, it is appropriate to address the major factors likely to reduce the resilience of national fiscal policy. These factors are essentially of three kinds: The multiple crises (security, socio-political and humanitarian), the major infrastructure projects of the National Development Strategy 2020-2030, which naturally lead to the thorny issue of debt.

1.1. A Multiplicity of Crises

For about a decade, Cameroon has been facing a succession of crises: the Boko Haram crisis in the Far North (2014), the socio-political crisis in the North-West and South-West regions (2016), the humanitarian crisis in the Eastern region, and the global health crisis due to the COVID-19 pandemic that has been raging since 2020.

1. Louis Paul Motaze, Discours de lancement du budget au titre de l'exercice 2020 dans la région de l'Ouest, Bafoussam, 13 January 2020. <https://www.louispaulmotaze.cm/la-loi-de-finances-2020-du-cameroun-poursuit-de-nombreux-objectifs-au-rang-desquels-la-preservation-de-la-paix/> visited on June 16, 2021, at 22h00.

2. Order n°2020/001 of June 3, 2020, amending and supplementing certain provisions of law n°2019/023 of 24 December 2019 on the 2020 finance law.

3. Circular n°001/CAB/PRC of July 10, 2020, relating to the preparation of the State budget for the year 2021.

4. Cameroon's budget balance deficit increased in 2020 to 3.9% of GDP, even though the tolerated threshold is 1.5% in the CEMAC zone (<https://www.beac.int/wp-content/uploads/2020/10/Note-sur-les-finances-publiques-4eme-trim2020.pdf>).

5. The 2017-2020 three-year program concluded between Cameroon and the IMF was mainly dedicated to the consolidation of public finances, the prioritisation of expenditure and the improvement of the quality of public spending.

1.1.1. The Global Health Crisis

The major event of the year 2020 is, without context, the COVID-19 pandemic. Although warnings were issued in late 2019 around December, the spread and virulence of the new coronavirus around the world caught all governments unawares. In Cameroon, the first case of the new coronavirus was confirmed on March 6, 2020, by the Minister of Health.

On March 17, 2020, the Prime Minister, Head of Government, communicated, on behalf of the Head of State, the government's strategy for responding to the COVID-19 pandemic.⁶ This strategy, which was broken down into 13 measures, consisted essentially of limiting the gathering and movement of people and goods – ranging from the closure of the country's land, air, and sea borders to the prohibition of mass gatherings in all sectors of activity (education, commerce, etc.) – and the implementation of hygiene measures (handwashing, physical distancing, and wearing a mask). These barrier measures adopted by the world's governments under the aegis of the World Health Organization had the immediate effect of slowing down economic activity. World growth thus contracted by 2.5% (World Bank, 2020), but more severe falls were recorded, for example, in the eurozone (7.8%), Nigeria (6.8%), or South Africa (7.2%).

The Ministry of the Economy, Planning, and Land Management has identified several transmission channels of the COVID-19 pandemic to the Cameroonian economy. These include the drastic fall in the price of raw materials on international markets, supply difficulties due to the closure of borders, the fall in global demand, the fall in Foreign Direct Investment and official development assistance, the strengthening of domestic financing constraints, and the fall in domestic demand.⁷ The consequences of this situation include, for example, a decline in household purchasing power and rising unemployment. Households have also seen sharp falls in income and a decline in turnover. The state lost public revenue, as many companies could no longer meet their tax obligations, while budgetary expenditure, particularly on health, increased.

This crisis led to the creation of a trust fund of 180 billion CFA francs in the 2020 budget, which will be renewed in 2021 for 137 billion CFA francs. Cameroon has also benefited from accompanying measures from the Bank of Central African States, such as the lowering of the interest rate for calls for tender. In the end, with a growth of 3.7% in 2019 (World Bank, 2020), Cameroon, which had expected to maintain its growth rate at 3.8% (IMF, 2020), had to revise its outlook downwards, narrowly avoiding a decline to 0.7% (INS, 2020).

1.1.2. The Security Crisis in the Far North Region

The security crisis in the Far North region is caused by the invasion of the Boko Haram sect, which is an insurgent and terrorist movement formed in 2002 in Maiduguri, in the North-East of Nigeria, following the introduction of Sharia law in the northern states of the country. The first signs of the sect's presence in Cameroon date back to 2006, but it was in 2009 that the first signs of proselytism were observed in the Far North region of Cameroon.

This was due to the radicalization of young men who had studied in Maiduguri but also of clerics and other members who had fled the repression of Nigerian forces. The weak presence of the Cameroonian security services has helped to facilitate their establishment. The first isolated attacks were recorded in 2010, and they intensified between 2014 and 2016.⁸ In 2018, the attacks decreased in intensity but increased again from 2020.

6. <https://www.spm.gov.cm/site/?q=fr/content/strategie-gouvernementale-de-riposte-face-la-pandemie-de-coronavirus-covid-19>.

7. http://www.minfi.gov.cm/wp-content/uploads/2020/07/01-Expose-Impact_de_la_Covid-19_sur_l_economie_camerounaise.pdf, accessed on July 4, 2021, at 19:00.

8. The Boko Haram Crisis and its Impact on Development in the Far North Region of Cameroon, Economic Commission for Africa (ECA), 2018.

The importance of the repercussions of this crisis stems from the strategic position of the region, which is a privileged trade area between Nigeria and Chad. This security conflict has profound repercussions on the humanitarian and socio-economic levels of the country. These include significant internal displacement of populations,⁹ the influx of refugees from Nigeria¹⁰ because of the attacks, the disruption of the cross-border circuit, and the virtual destruction of the local economy (trade, agriculture, livestock). The closure of the borders has notably halted the flow of imports into Chad from Nigeria. “Thus, Kousseri, a border town with Chad, which was the second-largest contributor to customs revenue (excluding oil) after Douala before this crisis,¹¹ is now 10th (out of 12) in the national ranking.¹²

The tourism sector is also affected by this crisis. Indeed, 13% of tourist sites are in the Far North (67 out of 364 in 2007, according to the Economic Commission for Africa)¹³, and nearly 40,000 homes have been destroyed, as well as 128 schools, 30 health centers, and 240 wells.¹⁴ The IMF estimates that Cameroon has lost between 1% and 2% of GDP (including war expenditure) because of the crisis, with indirect losses not yet fully assessed.

However, there has been a significant increase in defense and national security budgets. According to the Stockholm International Peace Research Institute, military expenditure, which represented CFAF 155.203 billion in 2008, will rise to CFAF 247.447 billion in 2019, that is, between 6% and 8.3% of the national budget; and 1.097% and 1.312% of GDP.

1.1.3. The Humanitarian Crisis in the Eastern Region

For several years, Cameroon has been experiencing an invasion of Central African refugees. This is the result of the political crisis that the Central African Republic has been experiencing since 2012, which has turned into a humanitarian crisis affecting even neighboring countries.

According to the United Nations High Commissioner for Refugees (UNHCR), Cameroon is now the second-largest host country for Central African refugees after Chad. In eastern Cameroon in particular, there are more than 323,525 Central African refugees, including those displaced by the recent post-election crisis in 2020 (UNHCR, 2021).

Although the Cameroonian authorities benefit from the financial support of its international partners (the European Union, Japan, the United Nations Development Program, the UNHCR) as well as logistical assistance from UN humanitarian organizations¹⁵ to deal with this influx of refugees into the East Cameroon region, the resulting security and humanitarian crisis are not without consequences for the economic development of the region. The Cameroonian government’s intervention to solve this problem undoubtedly requires financial resources, which naturally have an impact on the budget deficit.

9. 321,886 IDPs as of May 31, 2021 (IOM).

10. 118,000 Nigerians as of May 31, 2021 (UNHCR).

11. The Far North of Cameroon: The Puzzle of Conflict Reconstruction, International Crisis Group (ICG) (<https://d2071andvip0wj.cloudfront.net/b133-extrême-nord-du-cameroun-le-casse-tête-de-la-reconstruction-en-période-de-conflit.pdf>), visited on July 4, 2021, at 19:00).

12. Annual Report 2019, Directorate General of Customs.

13. ECA, op. cit.

14. ICG, op. cit.

15. EU, Japan, UNHCR, UNDP.

1.1.4. The Socio-Political Crisis in the North West and South West Regions

In 2016, Cameroon was plunged into a socio-political crisis that is becoming more widespread in the North-West and South-West regions. In addition to the humanitarian and social consequences (loss of human life, internally displaced persons, influx of refugees), the impact on the economy is increasingly felt. It is reflected in the destruction of the economic fabric of the two regions (due in particular to the multiplication of “dead towns,” targeted attacks against particular structures such as the CDC, intimidation, and kidnappings).

According to the Inter-Patronal Grouping of Cameroon, the economic indicators illustrate the economic disaster: 70% increase in unemployment in the agricultural sector, 60 to 80% of agri-food industries inaccessible, significant losses in export earnings (20% in the coffee-cocoa sector), loss of earnings and other production losses amounting to billions of CFA francs (GICAM, 2018).¹⁶

Before the start of the socio-political crisis in 2016, the South-West and North-West produced mainly Tea, oil palm, and especially Cocoa and Coffee.¹⁷

While the South-West accounts for 45% of national cocoa production, the North-West is the main Arabica coffee producing area with more than 70% of national production¹⁸. Estimated losses in export earnings from the cocoa and coffee sectors are currently estimated at more than CFAF 56 billion, or 20% of national export earnings.¹⁹

In addition to cocoa and coffee, the NW and SW are major production areas for maize, cassava, potatoes, beans, and sweet bananas. Before the crisis began, these two regions provided the equivalent of 20% of the national production of these goods.²⁰

As a result of the crisis, up to 60% of companies specializing in agricultural services have seen their activity decline. As regards agri-food industries, about 80% of the South-West and 60% of the North-West are now inaccessible, resulting in a loss of earnings of nearly 12 billion CFA francs.²¹

In addition, due to the increasing acts of violence in these regions, commercial activity has been revised downwards. According to a GICAM survey carried out in 2018, business turnover in these regions has fallen by an average of 50% and represents an impact of around 20-30% of the overall turnover of the companies consulted (GICAM, 2018).

The social and human costs of this socio-political crisis are also quite significant. The United Nations Children’s Fund counts more than 4,400 schools closed in the two regions of North-West and South-West Cameroon due to the prevailing insecurity and more than 800,000 children out of school. Available statistics also show more than 3,000 casualties, 711,056 IDPs (OCHA, 2020), and 66,718 refugees in Nigeria (UNHCR, 2021).

The Major National Dialogue initiated by the government of Cameroon in September 2019, with a view to finding a solution to this crisis, resulted in resolutions concerning the disaster-stricken regions of the North West and South West in particular. The Steering Committee of the Presidential Plan for the Reconstruction of these two crisis regions has sequenced the intervention into three phases, namely: recovery, reconstruction, and development.

16. In security in the North-West and South-West regions - Economic consequences and impacts on business activity. GICAM, 2018. . <https://www.legicam.cm/index.php/p/une-enquete-du-gicam-revele-l-impact-de-la-crise-anglophone>, visited on July 4, 2021 at 19:00.

17. Inter-Patronal Grouping of Cameroon (2018),

18. National Institute of Statistics (2018).

19. Inter-Patronal Grouping of Cameroon (2020)

20. Inter-Patronal Grouping of Cameroon (2018)

21. Inter-Patronal Grouping of Cameroon (2018)

The initial budget for the first phase, which is spread over a period of two to three years, is estimated at CFAF 89 billion. The reconstruction phase was 25% complete by the first quarter of 2021, with only CFAF 10.4 billion mobilized. In May 2021, the Prime Minister, invited by GICAM, invited Cameroon's big bosses to support the government in this effort.

1.2. The Major Infrastructure Projects of the NDS30

Taking over from the Growth and Employment Strategy Paper, which expires in 2020, the National Development Strategy 2020–2030 was drafted to operationalize the MND resolutions and correct certain shortcomings of the GESP. It is divided into four main areas: structural transformation of the economy; development of human capital and well-being; promotion of employment and economic integration; and governance, decentralization, and strategic management of the state.

Regarding the structural transformation of the economy, the new orientations set out in the NDS30 give pride of place to the realization of infrastructure projects, which amount to CFAF 37.5 billion. In essence, CFAF 3.5 trillion is allocated to the reconstruction of the North–West, South–West, and Far–North regions; the increase in energy potential is budgeted at CFAF 5.855 trillion; the development of agro–industry at CFAF 1.455 trillion, digital technology at CFAF 250 billion, as well as the strengthening of technical and scientific education at CFAF 120 billion.

It should be recalled here that the Development and Industrialization Plan, drawn up in 2016, has been updated to correspond to the NDS30. In the 2021 State budget, an envelope of CFAF 98 billion has been allocated to the industry and services sectors, with a view to making the PDI operational. It is precisely, to make “the promotion of the label Made in Cameroon through the construction of a metrology laboratory, the support of the structures of supervision of artisans, the promotion of local crafts and the establishment of business incubators in the locality of Edea.”²²

To achieve the objectives set out in its New National Development Strategy, the government of Cameroon needs to mobilize significant financial resources. To achieve this, the government plans to tap the financial markets as well as bilateral and multilateral cooperation, which would undoubtedly have a profound impact on the level of public debt.

1.3. The Debt Issue

For several years, the issue of Cameroon's public debt has been the subject of much debate both at the national level and in the international sphere. Between 2016 and 2020, the public debt increased from CFAF 6,010 billion to CFAF 10,334 billion,²³ an increase of just over 43%. External public debt has been exacerbated in recent years by borrowing from international institutions, including the IMF. Between 2016 and 2020, external debt rose from CFAF 3 941 billion to CFAF 6 736 billion. The same movement can be observed in domestic debt, which rose from CFAF 1 304 billion to CFAF 2 646 billion (CAA, 2017). In 2021, the government finalized two debt operations: the three–year 2021–2024 program and the refinancing of Eurobonds on the international markets.

On May 27, 2021, the Cameroonian authorities and the IMF reached an agreement for a new 36–month program under the Extended Credit Facility and the Extended Fund Facility. This agreement comes after a previous program ended in September 2020 under the Rapid Credit Facility for an amount of 382 billion US dollars. According to the IMF²⁴ statement, the new program is based on the NDS30 and has four pillars:

22. <https://www.investiraucameroun.com/gestion-publique/1007-14821-le-cameroun-projette-d-injecter-pres-de-98-milliards-de-fcfa-dans-le-secteur-des-industries-et-services-en-2021>.

23. By March 31, 2021.

24. <https://www.imf.org/fr/News/Articles/2021/05/27/pr21147-cameroon-imf-mission-reaches-staff-level-agreement-new-arrangements-under-ecf-and-eff>.

mitigating the impact of the pandemic while ensuring macroeconomic sustainability; accelerating reforms to modernize tax and customs administration, mobilizing revenue, improving public financial management, increasing investment efficiency and reduce fiscal risks for state-owned enterprises; strengthening debt sustainability and management; and intensifying structural reforms to boost economic diversification and financial sector resilience.

On June 30, 2021, Cameroon's Minister of Finance announced the successful completion of a Eurobond refinancing operation for FCFA 450 billion. The Eurobond is an instrument that makes it possible to raise funds on the money and financial markets and whose objective is, as a general rule for the least developed countries, to finance development projects. Cameroon used it for the first time in 2015, managing to raise CFAF 375 billion (out of CFAF 750 billion expected), with repayment due between 2023 and 2025 at a rate of CFAF 150 billion per year. This second-of-its-kind operation authorized by the President of the Republic by a decree dated May 26, 2020, has enabled the successful redemption of an outstanding Eurobond.

Cameroon's presence on the bond markets has intensified in recent years, partly due to the numerous fluctuations in commodity prices (including oil) and more recently due to the economic repercussions of the COVID-19 pandemic (slowdown in economic activity, drop in tax revenues, increase in public health expenditure). The direct consequence of Cameroon's strong presence in these bond markets is undoubtedly the very rapid increase in its public debt level. While some analysts prefer to focus the debt issue on the quality of its management, it is becoming increasingly difficult not to be concerned about the pace at which it has been growing in recent years. In its 2020 budget report, the Nkafu Policy Institute already questioned fiscal sustainability and public debt sustainability, linking the capacity of the economy to the impact of new borrowing.

The analysis in this report has a similar objective and is divided into five main parts: (i) an analysis of the 2021 budget, with a particular focus on the budgets of the ministerial departments in charge of promoting free enterprise, as well as a focus on the financing of investments and the budget deficit; (ii) an analysis of Cameroon's public debt, namely the structure of external and internal debt; (iii) the determinants of public debt (internal and external); and (iv) an analysis of the viability of this debt, following on from the analyses carried out on the trends identified in 2020. At the end of this kaleidoscope, economic policy recommendations will be formulated with a view to proposing sustainable solutions to the public debt crisis in Cameroon and the promotion of free enterprise to public decision-makers.

REPORT ON THE 2021 BUDGET OF
THE STATE OF CAMEROON



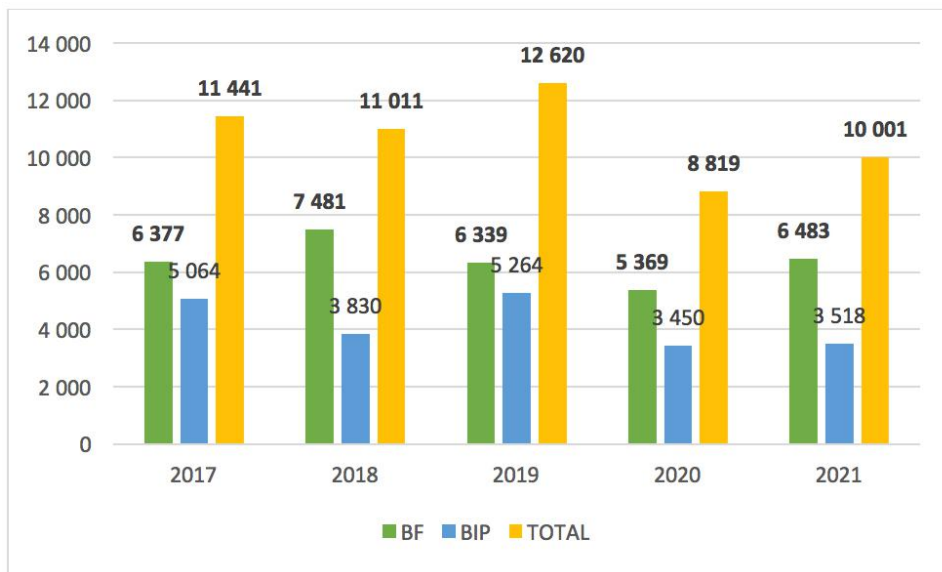
2. General Presentation of the 2021 Budget of the State of Cameroon

By ratifying the African Continental Free Trade Area agreement on July 19, 2019, Cameroon hopes to raise its level of public revenue, which could lead to less recourse to the international market for financing. Such an initiative can only be profitable if the authorities in place continue to densify and guarantee the competitiveness of small and medium-sized enterprises. Among the ministerial departments responsible for promoting the competitiveness of the national economy is the Ministry of Small and Medium Enterprises, Social Economy, and Handicrafts.

2.1. Promotion of the Free Market in the Sub-Sector of Small and Medium-Sized Enterprises, the Social Economy and Handicrafts.

In 2021, the budget allocated to MINPMEESA will increase by 11.89% compared to its 2020 level, thus reaching CFAF 10 billion. By analyzing the expenditure and expenses of this ministerial department in the 2021 general budget, the Operating Requirements (OR), estimated at CFAF 6.483 billion, have recorded an increase of 17.18% compared to their 2020 level, but remain equal to 0.12% of the overall budget estimated at CFAF 5.235.2 billion, as in 2020. Public Investment Requirements represent 0.067% of the overall budget, the lowest level since 2017. They have nevertheless risen from CFAF 3.450 billion in 2020 to CFAF 3.518 billion in 2021, an increase of around 2%. The figure below shows the evolution of the budgetary allocations of the Ministry of Small and Medium-sized Enterprises, Social Economy and Handicrafts, between 2017 and 2021.

Figure 1 : Evolution of Budgetary Allocations to the Ministry of Small and Medium-Sized Enterprises, Social Economy, and Handicrafts



Source : Cameroon’s 2017–2021 State Budget Laws.

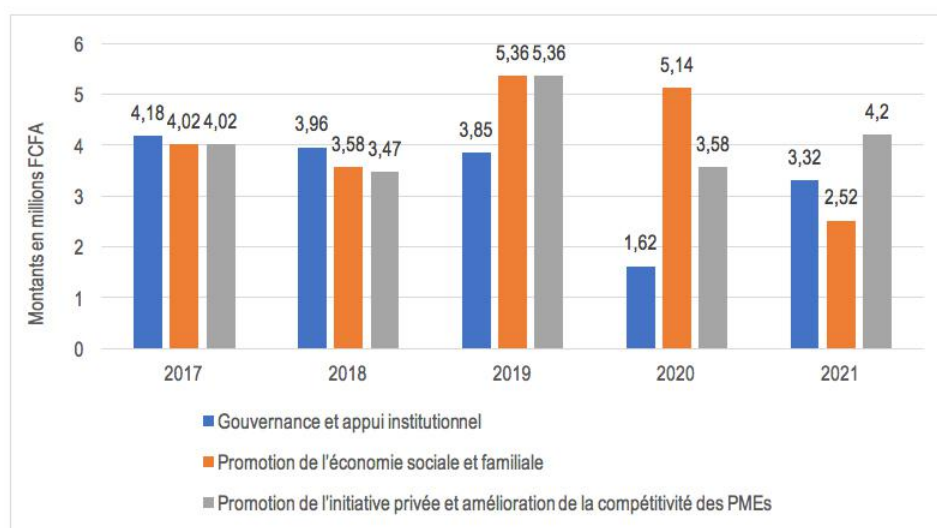
Note : Amounts are expressed in millions of CFAF.

As regards commitment authorizations, these are around CFAF 3.3 billion in 2021 for the promotion of private initiative and the improvement of SME competitiveness, that is, a drop of 11% compared to its 2020 level. The Payment Appropriations opened for this purpose are equal to the commitment credits and represent 0.063% of the general budget. For the promotion of the social and family economy, the commitment credits granted in 2021 amount to CFAF 2.526 billion compared to CFAF 3.6 billion in 2020, that is, a drop of 42.51%. The Payment Appropriations allocated for these commitment authorizations represent 0.048% of the overall budget.

According to the United Nations Conference on Trade and Development (2014), the promotion of a free market, which implies a disengagement of the state in favor of the private sector, cannot be achieved in the absence of a mechanism to secure investments. This liberalization requires a strengthening of the rule of law and, in particular, the establishment of institutions dedicated to the protection and enforcement of property rights and contracts. The question that generally arises is how to improve economic governance. The National Governance Programme created by Cameroon in 1995 and whose effective implementation started on May 4, 2001, aims to encourage the development of the private sector and to enable the state to better play its regulatory role in the new configuration of the economy.

Looking at the figures for governance and institutional support, commitment and payment appropriations were estimated at CFAF 1.62 billion in 2020, compared with about CFAF 3.9 billion in 2019. In 2021, they are estimated at CFAF 4.157 billion, that is, an increase of 61.02% compared to 2020, representing 0.08% of the overall budget.

Figure 2 : Payment Appropriations Granted to the Ministry of Small and Medium-Sized Enterprises, Social Economy, and Handicrafts between 2017 and 2021 (in CFAF billion)



Source : Authors (based on data taken from the 2017–2021 Budget Acts.

Note : Budget allocations for payment appropriations are equal to commitment appropriations in these years.

Graph 2 above shows the evolution of Payment Appropriations granted to MINPMEESA between 2017 and 2021. It thus highlights the efforts made by the Cameroon government to promote free enterprise in this sub-sector despite the pandemic already in Covid-19. The budget allocated for the promotion of private initiatives, for example, is estimated to have increased to nearly CFAF 0.62 billion compared to 2020. The budget allocated for the promotion of the social and family economy has fallen sharply from approximately 5.14 billion in 2020 to 2.52 billion in 2021, that is, a 51% year-on-year decrease. The budget for governance and institutional support in this ministerial department has increased by CFAF 1.7 billion.

This increase in the budget allocated to governance and institutional support reflects the government's desire to continue to control this sub-sector of activity, which hinders the process of trade liberalization in the country. However, given Cameroon's commitments under the FTAA, it is necessary for the government to give more autonomy to companies and liberalize this sub-sector of activity. Such a strategy is basically aimed at promoting «Made in Cameroon» in order to benefit from the economic advantages of this continental economic space.

2.2. Promotion of the Free Market in the Industrial Sub-Sector

The Ministry of Mines, Industry, and Technological Development is responsible for promoting the competitiveness of industrial enterprises in Cameroon. The missions of this ministerial department can be summarized in three main points, namely: diversification and improvement of the competitiveness of industrial sectors, valorization of inventions, technological innovations, and industrial property assets, the aim of which is to increase the number of valued industrial property assets; valorization of geological mining resources with a view to increasing the contribution of non-oil geological and mining resources to GDP; governance and institutional support.

The «diversification and improvement of the competitiveness of industrial sectors» program aims, in particular, to transform agricultural, mining, and forestry raw materials through the development of industrial sectors. The Payment Appropriations granted to achieve this objective are equal to the commitment authorizations. These Payment Appropriations are estimated at CFAF 2.056 billion in 2021, that is, an increase of about CFAF 0.53 billion compared to 2020.

The Payment Appropriations defined for the valorization of inventions, technological innovations, and industrial property assets will increase in 2021 compared to 2020. The amount of these Payment Appropriations amounts to about 1.024 billion or 43.26% more than in 2020. Regarding the “Development of Geological Mineral Resources” and “Governance and Institutional Support,” the number of payment appropriations is estimated at around 42% of the overall budget granted to this ministerial department.

In total, the share of payment appropriations in the overall budget for the Ministry of Mines, Industry, and Technological Development decreased by 0.088 points between 2017 and 2021, from 0.269% in 2017 to 0.181% in 2021. The commitment authorizations and payment appropriations of this ministry over the above-mentioned period are illustrated in the table below.

Table 1: Commitment Authorization and Payment Appropriations Opened on Programs Contributing to the Achievement of the Objectives of the Ministry of Mines, Industry, and Technological Development Between 2017 and 2021

Années	2017	2018	2019	2020	2021
Budget global	4 373 800				
Autorisation d'engagement	12 005	10 409	11 255		9 496
Crédits de paiement	11 805	10 409	11 255		9 496
Autorisations de paiements en du budget global	0,274	0,222	0,216	0,187	0,181 %
Crédits de paiements en du budget global	0,269	0,222	0,216	0,187	0,181 %

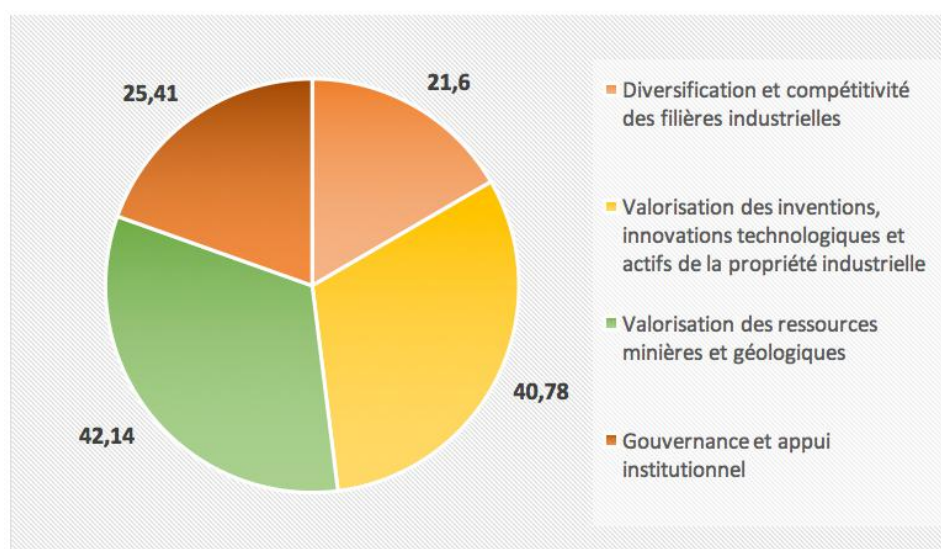
Source : Cameroon State Finance Laws

Note : Amounts are expressed in millions of CFA francs.

While it is true that the budget allocated to governance and institutional support for the industry and technological development sub-sector in 2021 is down by 66.36% compared to 2019, the government still needs to make efforts, particularly with a view to promoting the diversification and competitiveness of national industrial sectors. The Payment Appropriations to ensure the coordination of MINIDT services and the proper implementation of programs (2.413 billion in 2021) remain much higher than those devoted to the diversification and improvement of the competitiveness of industrial sectors on the one hand (2.056 billion) and to the development of inventions, technological innovations, and industrial property assets on the other hand (1.024 billion). The budgetary envelope granted for the development of mining and geological resources

remains the most important in this ministerial department. Estimated at nearly CFAF 4.002 billion in 2021, the Payment Appropriations devoted to the development of mining and geological resources are up by about 18% compared to 2020. Increasing the competitiveness of industrial sectors would contribute to making Cameroon an emerging economy by 2035.

Figure 3: Distribution of the Budget of the Ministry of Mines, Industry, and Technological Development for the 2020 Fiscal Year



Source : Finance Law 2021

Let us now examine the operating and public investment expenditure and expenses of the Ministry of Mines, Industry, and Technological Development for the 2021 fiscal year. Operating expenses amounted to CFAF 5.5 billion, compared with CFAF 4.6 billion in 2020 and CFAF 6.565 billion in 2019. These operating expenses are higher than public investment expenses, estimated at 3.973 billion.

In total, the expenses of the general budget of the Ministry of Mines, Industry, and Technological Development of Cameroon amount to approximately CFAF 9.5 billion in 2021, which is an increase of 13.29% compared to 2021. As Cameroon's economic policy aims at reviving growth, which is dependent on the promotion of local industry, it is urgent to clean up the business environment, not only to encourage private entrepreneurship but also to attract foreign investors.

2.3. Promotion of the Free Market in the Trade Sub-Sector

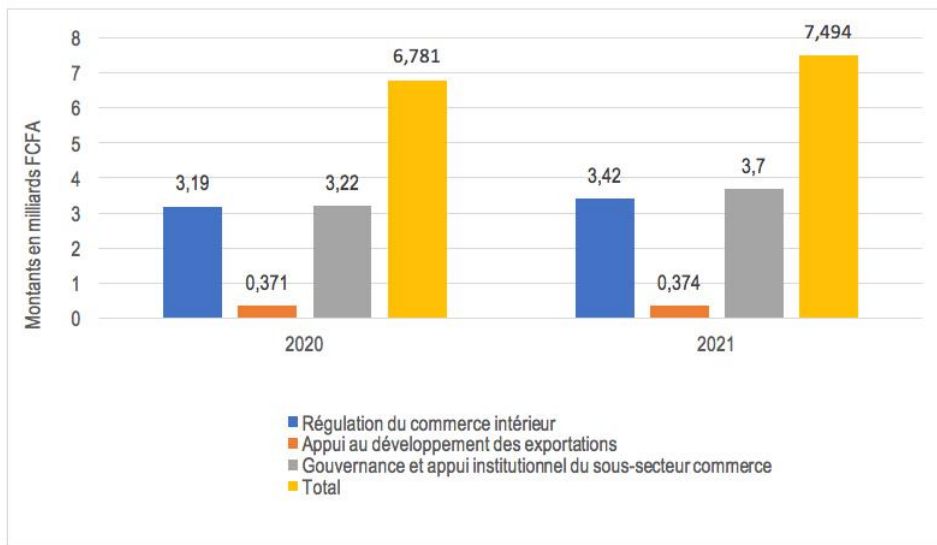
Among the objectives pursued by the Ministry of Commerce of Cameroon, we cite the «contribution to the improvement of the competitiveness of local products, conquering new markets and attracting foreign direct investments» through the «support to the development of exports» program. The challenge is to boost Cameroonian know-how while protecting it from foreign competition (influx of imported products on local markets). The state's commitment to achieving this major objective is assessed here because of the allocations granted to the various MINCOMMERCE programs.

The budgetary envelope granted to the Ministry of Commerce in 2021 amounts to CFAF 7.5 billion, or 9.3% more than in 2020. Payment Appropriations for the 'support for export development' program are estimated at CFAF 0.375 billion, or only 5% of the budgetary envelope granted to this ministerial department. As for the 'governance and institutional support' program, this amount is CFAF 3.7 billion, an increase of 11% compared to 2020 and representing 49.3% of MINCOMMERCE's budget envelope. As for the "regulation

of internal trade” program, which aims to liberalize certain branches of activity characterized by highly influential commercial operators or natural monopolies, the PCs represent 45.5% of the budget allocated to MINCOMMERCE. In total, the Cameroonian government’s efforts in terms of promoting the free market in the trade sub-sector remain insignificant.

The amounts allocated for this initiative, through the «support for export development» and «regulation of internal trade» programs, remain very low, barely 0.1% of the state budget.

Figure 4: Payment Appropriations to the Ministry of Commerce



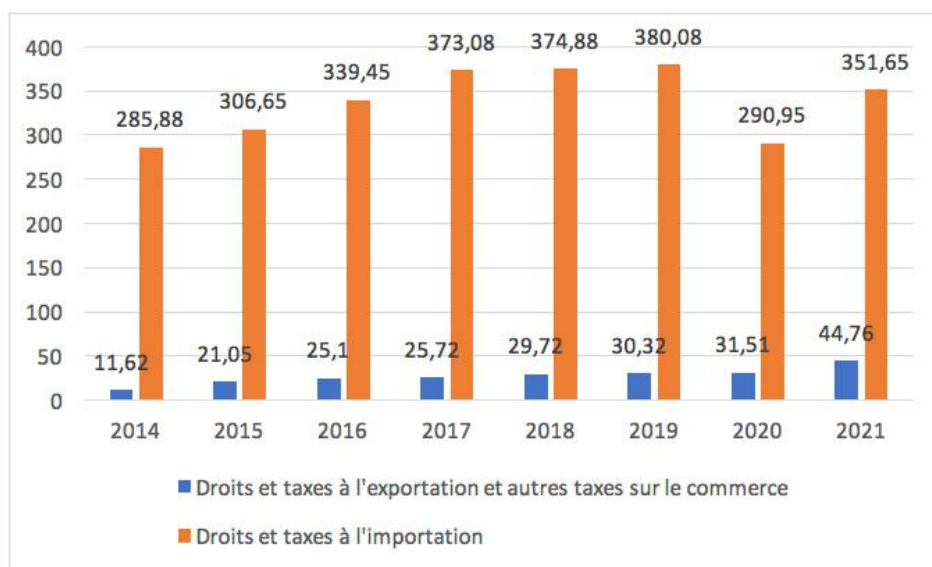
Source : Extracts from the 2020 and 2021 Finance Acts

Note : Amounts are expressed in billions of CFA francs.

The Ministry of Commerce’s operating needs, estimated at CFAF 5.7 billion, represent 76% of the overall budgetary allocations granted in 2021 and remain much higher than the public investment needs, estimated at CFAF 1.2 billion, or 24% of the Ministry of Commerce’s budget. As operating expenses are non-productive, such a budget allocation remains ineffective in ensuring and guaranteeing the competitiveness of local products, conquering new markets, and attracting foreign investors.

As trade liberalization is a key factor in the competitiveness of the domestic market, increased competition would improve the productivity of enterprises, make exports more competitive, and lower prices. According to the International Monetary Fund (2019b), several factors are essential to ensure the competitiveness of domestic firms. These include the adoption of appropriate competition law, the establishment of an independent enforcement agency, and the promotion of competition. The removal of tariff and non-tariff barriers also helps to enhance the competition and competitiveness of domestic firms (World Bank, 2012).

Cameroon’s relatively high import duties compared to exports indicate the government’s desire to protect domestic production from foreign competition. The rate of customs duty depends directly on the category of goods. Rates can vary from 0% to 30%. The forecast revenue from import duties in the 2021 budget is estimated at CFAF 351.65 million, a significant increase compared to the previous year, which was marked by the Covid-19 pandemic and border closures. Figure 5 below shows the evolution of revenue from import and export duties between 2014-2021.

Figure 5 : Import and Export Duty Revenues (2014-2021)

Source : Cameroon's State Finance Laws.

Note : Amounts are expressed in millions of CFA francs.

Export duties and taxes and other taxes on trade help to boost public revenue without penalizing export activity. These taxes mainly concern natural resources (fishery products, forestry, fuels, mining products). They are projected to reach 44.76 million in 2021, an increase of 29.6% compared to 2020. However, reforms in the trade sub-sector should be pursued to significantly simplify the barriers that still constrain the emergence of national companies and thus achieve the fiscal transition.

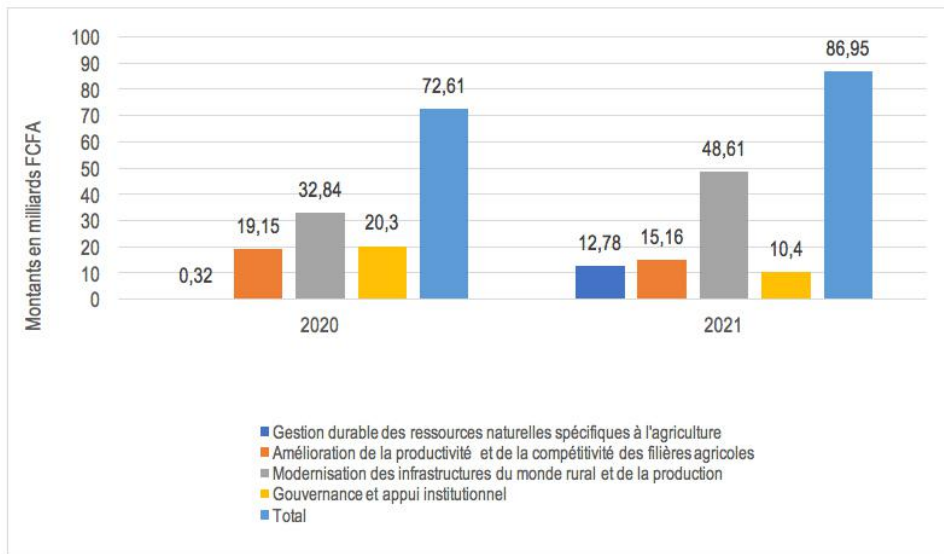
2.4. Promoting Free Markets in the Agricultural Sub-Sector

The agricultural sector is also affected by varying degrees of liberalization. The challenge here is to strengthen the economic and social capacities of Cameroon's agricultural sector to enable it to play its role in promoting development. Hence the need to reform the bases of operation of the production and marketing of agricultural products. Placed under the authority of the Ministry of Agriculture and Rural Development, the development of Cameroonian agriculture is based on:

- Improving the performance of the fundamental factors of production and the living environment in rural areas.
- Improving the sustainable exploitation of arable land and respecting environmental constraints.
- Productivity and competitiveness of agriculture and the will to gain additional market shares.
- Improving the coordination of services and ensuring the proper implementation of programs.

To achieve these objectives, MINADER has received a budget of CFAF 86.96 billion in 2021, that is, 15.16% more than in 2020. This budget represents exactly 1.66% of the overall budget, an increase of 0.01 percentage points compared to the previous year. Figure 6 below shows the distribution of MINADER's budget in its different programs (in the form of Payment Appropriations) in 2020 and 2021.

Figure 6 : Distribution of the Budget of the Ministry of Agriculture and Rural Development in its Different Programs in 2020 and 2021.



Source : Authors (based on the 2020 and 2021 Finance Acts).

Note : Budget allocations expressed in billions of CFA francs.

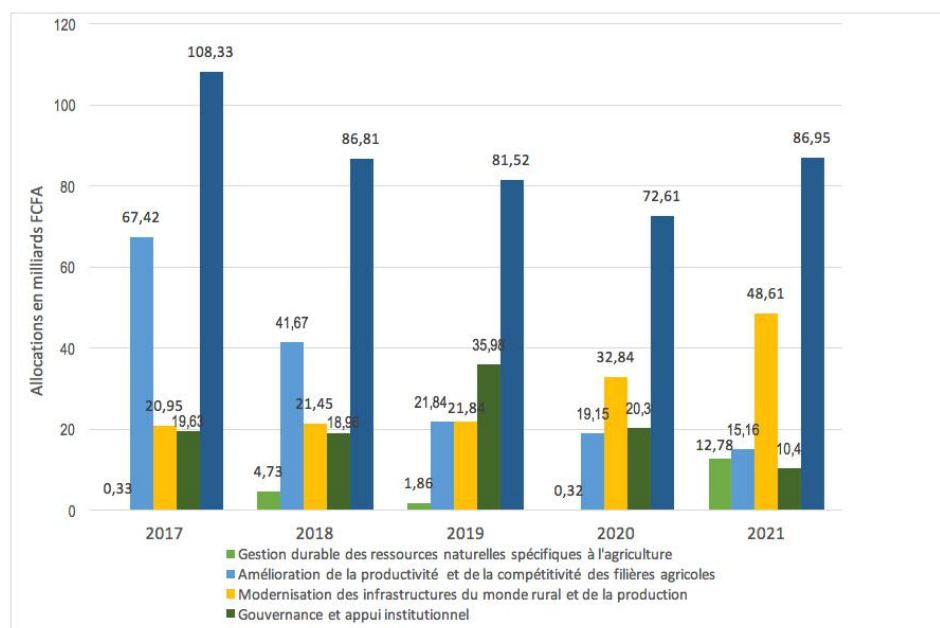
An analysis of the budgetary allocations of the Ministry of Agriculture and Rural Development in 2021 shows that the “modernization of rural infrastructure and production” program (improvement of the infrastructural environment and access to production factors and markets) has the largest share of the budget, that is 55.9% (45.22% in 2020). For several years, this expenditure has remained below 1% of the state budget (0.75% in 2020, 0.42% in 2019, 0.48% in 2018). About 12% of the budget of this ministerial department is devoted to governance and institutional support for this sub-sector. This has decreased considerably compared to 2020 (from 25.96% of the budget to 12%).

The amount allocated to improving the productivity and competitiveness of agricultural sectors represents 17.43% of the budget allocated to this ministerial department in 2021, that is, around 9 percentage points less than in 2020. The share of this amount in MINADER’s budget fell by 1.25 percentage points between 2017 and 2020, from 1.54% of the overall budget in 2017 to 0.29% in 2021.

The sustainable management of natural resources specific to agriculture – strengthening the resilience of agricultural production systems and the food and nutritional security of rural populations in the face of climate change – has seen a significant increase compared to 2020, rising from 0.32 billion CFA francs to 12.78 billion, a good performance that could well enable Cameroonian agricultural actors to increase their capacity to adapt to climate hazards by 2025.

Figure 7 below presents the evolution of budget allocations for the various MINADER programs between 2017–2021. It can be seen from this representation that the budget allocated to the program “improving the productivity and competitiveness of agricultural sectors,” whose aim is to increase the annual production of each of Cameroon’s main crop sectors by at least 10% by 2025, has decreased significantly since 2017, from CFAF 67.43 billion (equivalent to 1.54% of the state budget) to CFAF 15.17 billion (equivalent to 0.29% of the budget for 2021).

Figure 7: Evolution of Budgetary Allocations for the Various Programs of the Ministry of Agriculture and Rural Development (2017-2021)

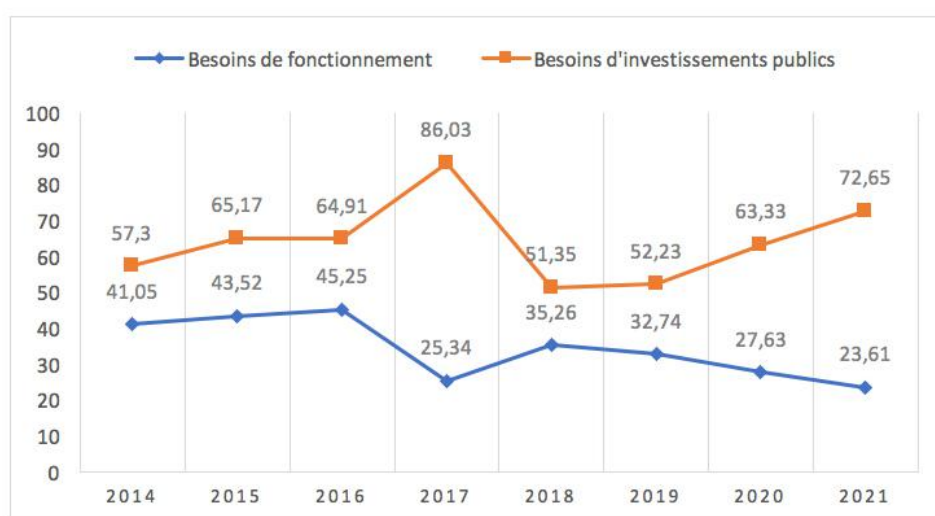


Source : Cameroon’s State Finance Laws.

Note : The ordinate shows the amounts of budget allocations expressed in billions of CFA francs.

Regarding expenses, investment needs constitute 72.83% of MINADER’s expenditure in 2021, compared to 62% in 2020. As for operating expenses, they represent 27.16% of MINADER’s budget in 2021, compared to 38% a year earlier. These investment and operating needs are estimated at 72.65 and 23.62 billion CFA francs, respectively, and represent 1.39% and 0.45% of the State budget in 2021. Figure 8 below shows the evolution of public expenditure in the Ministry of Agriculture and Rural Development between 2014 and 2021.

Figure 8 : Evolution of Public Expenditure at MINADER Between 2014 and 2021



Source : Cameroon Finance Law 2014-2021

Note : Amounts are expressed in millions of CFA francs.

This analysis of MINADER's 2021 budget shows that many efforts remain to be made by the Government to improve the competitiveness of agricultural sectors. The challenge here is to continually promote food security for the population, facilitate sub-regional integration by making agricultural products available to other CEMAC countries, and take advantage of the African continental market that is currently being implemented. Indeed, agriculture remains one of the assets for the realization of the ambition of an «emerging Cameroon» by 2035.

Unfortunately, this sector of activity remains confronted with major difficulties, including difficult access to land, water, and financing, the predominance of small family farms, low yields, archaic production techniques, and poor dissemination of research findings.

2.5. Promoting Free Markets in Sub-Sectors With Imperfect Competition

Telecommunications, water and energy, and transport are characteristic of the liberalization of public services in Cameroon. These sectors were reformed respectively by Law No. 98/014 of July 14, 1998, and Law No. 98/022 of December 24, 1998, which advocated the introduction of competition to improve their efficiency. They have the particularity of providing a final service with the status of input for almost the entire productive apparatus. According to UNCTAD (2014), these sectors are therefore a decisive factor of competitiveness. In addition to consumption for productive purposes, the services these sectors offer are demanded by households and individuals for their final consumption needs. They are therefore essential to economic and social life, and the related expenditure is necessary.

The dominance of the state in these sub-sectors crowds out private investment by maintaining a price distortion. A demonstration of this omnipresence can be seen in the budgetary allocations to each of the ministerial departments concerned. Looking at the budget allocated to the Ministry of Water and Energy in 2021, there is an increase of 1.42% compared to 2020, from 222.845 billion to 226.064 billion, an increase of 3.2 billion. Public investment needs remain very high, but the proportion in relation to the budget is down compared to 2020 (4.22% in 2021 against 5.54% in 2020, that is, a decrease of 1.32 points year-on-year. The share of operating expenditure in the State budget is also decreasing, from 0.10% in 2020 (CFAF 4.53 billion) to 0.09% in 2021 (CFAF 5.07 billion).

For posts and telecommunications, the allocated budget represents 0.41% of the state budget in 2021, compared with 0.56% in 2020, while that for transport corresponds to 0.92% of the general budget, compared with 0.24% in 2020. Public investment spending by the Ministry of Post and Telecommunications will decrease by CFAF 8.45 billion between 2020 and 2021, while spending by the Ministry of Transport will increase by almost CFAF 36.2 billion from CFAF 6.77 billion to CFAF 43 billion to improve transport conditions and increase mobility.

Although public investment spending has improved somewhat in recent years, the state should continue to priorities overall infrastructure by targeting facilities that meet the specific needs of the competitive clusters created by private entrepreneurs (market structures, financial institutions, training programs, quality control mechanisms, etc.). The low level of investment, both public and private, does not allow the country to take advantage of the many assets that are generally recognized.

Table 2: Expenditure and charges, Commitment Authorizations and Payment Appropriations granted to the Ministries of Transport, Posts and Telecommunications and Water and Energy between 2019 and 2021

Sub-sectors		Water and Energy			Télécommunications			Transports		
Year		2019	2020	2021	2019	2020	2021	2019	2020	2021
Total Budget		5 212	4 409,05	5 235,2	5 212	4 409,047	5 235,2	5 212	4 409,047	
ON	Amount	5,71	4,53	5,07	4,92	4693	4,95	4,72	3,94	4,94
	% of budget	0,10	0,10	0,09	0,09	0,11	0,09	0,09	0,08	0,09
PIN	Amount	196,96	244,21	221,01	43,43	20,20	16,55	8,8	6,77	43
	% of budget	3,77	5,54	4,22	0,83	0,46	0,32	0,17	0,15	0,82
Budget (ON + PIN)	Amount	202,67	222,85	226,06	48,35	24,9	21,5	13,52	10,71	47,94
	% of budget	3,88	5,05	4,32	0,93	0,56	0,41	0,26	0,24	0,91
AE	Amount	207,65	244,21	228,16	48,73	24,9	21,49	13,52	10,71	48,11
	% of budget	3,98	5,54	4,35	0,93	0,56	0,41	0,26	0,24	0,92
CP	Amount	202,67	222,85	226,08	48,35	24,9	21,49	13,52	10,71	47,94
	% of budget	3,88	5,05	4,32	0,93	0,56	0,41	0,26	0,24	0,91

Source : Finance laws of the Republic of Cameroon.

ON: Operating needs; PIN: Public investment needs.

Amounts are expressed in billions of CFA francs.

The table above shows the evolution of commitment authorizations (amounts of expenditure that can be committed) and Payment Appropriations (amounts of expenditure that can be ordered or paid during the year to cover commitments contracted within the framework of commitment authorizations) granted to MINT, MINPOSTEL, and MINEE between 2019 and 2021. It can be seen that the Payment Appropriations granted to MINEE and MINT are lower than the commitment authorizations, unlike those of MINPOSTEL, which are equal.

However, these different amounts granted by the government to each of these sub-sectors remain very insufficient to cover the needs of the population in the different areas, which are also essential to facilitate the production and marketing of goods and consequently guarantee or ensure the competitiveness of local companies in relation to foreign competition.

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3. The Budget Deficit and its Financing in Cameroon in 2021

A budget deficit occurs when government revenue (excluding borrowing) is lower than its expenditure (excluding loan repayments), resulting in a negative budget balance. In 2021, Cameroon's budgetary revenue is forecast at CFAF 3 429.7 billion for a total expenditure of about CFAF 4 091 billion. The overall budget deficit resulting from the assessment of revenue and expenditure stands at CFAF 661.7 billion in 2021, corresponding to an adjustment level of 1.6% of GDP in the deficit compared to 2020. This slight improvement in the budget deficit is due to the recovery of economic activity following the opening of borders after the closure caused by the COVID-19 pandemic, the recovery of oil prices on international markets, the main export commodity, as well as those of several commodities, and the recovery of production and consumption.

However, despite the recovery, the budgetary revenues collected are still far from sufficient to cover all expenditures. These include the reconstruction of the North-West and South-West regions, preparations for the 2020 African Cup of Nations, security spending to ensure territorial integrity in the Far-North and East regions, and the ongoing fight against COVID-19. Cameroon's budgetary expenditures and revenues in 2021 are shown in Table 3 below.

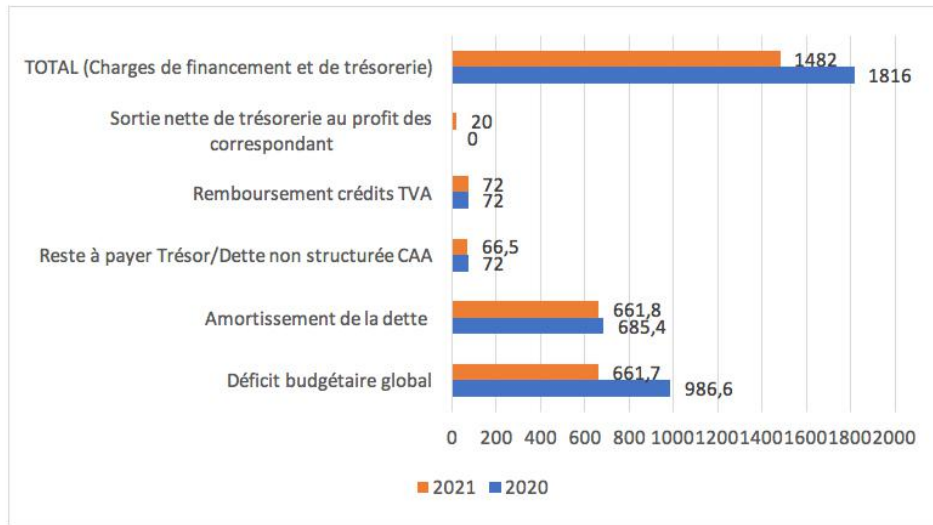
Table 3 : Presentation of Cameroon's State Revenue and Expenditure in 2021

Internal revenue	3 277,6	Current expenditure	2 564,2
Donations	106,9	Capital expenditure	1352
Deductions from revenue for the Special National Solidarity Fund for the fight against the coronavirus	150	Other expenditure	-20
General budget net revenue	3 234,5	General budget expenditure	3 896,2
Trust account	195,2	Trust account	195,2
Total net state budgetary revenue	3 429,7	Total state budgetary expenditure	4 091,4
Balance (government financing requirement)	-661,7		
Balance, as a % of GDP	-2,8		

Source : Republic of Cameroon Finance Law 2021

Considering the overall budget deficit of the State, estimated at CFAF 661.7 billion, total financing and cash expenses are estimated at CFAF 1 481.9 billion, down from the 1 816 billion recorded in 2020. The financing and cash expenses that contribute to the achievement of the state's financial balance in 2020 and 2021 are represented as follows:

Figure 9: Cameroon’s Financing and Cash Flow Costs in 2020 and 2021 (Amounts Expressed in Billions of CFA francs)



Source : Finance laws of the Republic of Cameroon (2020 & 2021)

To finance its budget deficit and other financing and cash flow costs, the government of Cameroon generally resorts to various debt-related mechanisms. At the local or regional level, these mechanisms refer mainly to the issuance of public securities: Assimilable Treasury Bonds, Assimilable Treasury bills, or bond issues. At the international level, they are Eurobonds, defined as public debt securities allowing a State to borrow money on the international market in a currency other than its own. They are denominated in a foreign currency (unlike OTAs and BTAs denominated in domestic currency), and the country that subscribes to a Eurobond will be able to obtain it at an interest rate defined according to the characteristics of the bond issued.

Looking at the government’s financing and treasury resources, project loans, and public securities issues, valued at CFAF 703.4 billion and CFAF 350 billion respectively, account for 71.08% of the total; bank financing is estimated at CFAF 102 billion and exceptional financing at CFAF 66.5 billion. Considering the government’s limited capacity to levy new taxes to cover all its expenditure, parliament authorized the government to issue public securities, particularly treasury bonds, and to conclude, under conditions that safeguard the financial interests of the state and its political sovereignty, concessional and non-concessional loans, in order to ensure the financing of various development projects.

The amounts authorized for these various loans are presented as follows 350 billion for concessional loans, 300 billion for non-concessional loans, and 300 billion for public securities issues (treasury bonds).

These loans authorized by Parliament were effectively contracted by the government in June 2021. According to the Minister of Finance, Louis-Paul Motaze, this international loan, amounting to 685 million euros, would have no impact on the level of debt but would rather refinance part of the debts arising from the Eurobond subscribed in 2015 in the amount of CFAF 375 billion, at an interest rate of 9.5% per annum and therefore the repayment schedule will be effective from November 2023 until 2025, at the rate of CFAF 150 billion per year.

This new loan of the Cameroonian government on the international market follows an ordinance signed on May 26, 2021, by the Head of State, amending the 2021 finance law and empowering the government to resort to issues on the international market for an amount of 450 billion for the partial or total redemption of the 2015 Eurobond. Although according to the government’s explanations, the new Cameroon Eurobond does not affect the level of Cameroon’s debt, it should be noted that it remains at a rather worrying level

([African Economic Outlook, 2021](#)). Indeed, the outstanding public debt increased from 12% of GDP in 2007 to 46.9% of GDP in December 2020 (Autonomous Sinking Fund, 2021). Cameroon has the characteristics of a country at high risk of debt distress (International Monetary Fund, 2018). To highlight this, the structure of the country's public debt must first be presented.



4. Analysis of the Structure of Cameroon's Public Debt

Public debt represents all loans contracted by the State but also by local authorities and social security bodies. It is the debt in the sense of the Maastricht Treaty, that is, the debt of all public administrations. Over the last decade, Cameroon has experienced a significant increase in the size of its public debt. As of December 2020, the state-guaranteed debt was estimated at CFAF 10 334 billion, which represents about 46.5% of GDP. It is estimated to have increased by more than 40% between 2017 and 2020, from CFAF 6 250 billion to CFAF 10 334 billion (CAA, 2020). This is mainly the result of financing granted by Cameroon's main development partners, namely the International Monetary Fund, the World Bank, and the African Development Bank and France (CAA, 2020).

The evolution of Cameroon's debt in recent years is explained in particular by the acceleration of work on major infrastructure projects in preparation for the African Cup of Nations, scheduled to take place in Cameroon in January 2022, the reconstruction of the North-West and South-West regions, which were severely affected by the socio-political crisis, expenditure to ensure security and national integrity in the Far-North and East regions, as well as expenditure due to the health crisis caused by the new coronavirus.

At the time of writing, Cameroon's public debt-to-GDP ratio is estimated at 46.9%, and the National Credit Council has estimated the guaranteed public debt at CFAF 10,334 billion. Although Cameroon's debt burden is below the community standard of 70%, its evolution is nonetheless worrying. Indeed, Cameroon's debt is growing at a faster rate than its tax revenues. Cameroon's public debt is made up of domestic and external debt, with external debt representing the largest proportion.

4.1. External Debt

External debt refers to all debts owed by a country, including the state, companies, and individuals, to foreign lenders. In other words, it is all the sums borrowed by a government from its partners (bilateral, multilateral, financial institutions, financial markets, etc.) to finance development actions that could not be covered by the national budget. It is made up of all the debts incurred by economic agents towards external financial partners. Cameroon is currently indebted to around forty foreign creditors. External debt rose from CFAF 3,664 billion in 2015 (representing 21.8% of GDP) to CFAF 6,736 billion in 2020 (30.6% of GDP), an increase of about nine (9) percentage points in five years. According to the CAA, external debt represented about 72% of Cameroon's public debt in 2020. This includes three main components: multilateral debt (40.88% of external debt), bilateral debt (45.57%), and commercial debt (13.55%).

4.1.1. Multilateral Debt

Multilateral debt represents all debts contracted by Cameroon with groups of states or International Financial Institutions. These international organizations include the IMF, the World Bank, the African Development Bank Group, the Islamic Development Bank, the European Union, the International Fund for Agricultural Development, the Arab Bank for Economic Development in Africa, the OPEC Special Fund for International Development, the Development Bank for Central African States. In other words, a total of nine institutions. Cameroon's multilateral debt was estimated at CFAF 2 734 billion as of December 31, 2020, that is, 1,722 billion more than in 2015.

4.1.2. Bilateral Debt

Bilateral debt is made up of all the commitments contracted by the State of Cameroon with a given State. In 2020, fourteen countries granted loans to the State of Cameroon. These are China (the country's largest donor with nearly 62% of the bilateral debt contracted), France (28.5%), Turkey (3%), Japan (1.62%), India (1.5%), South Korea (1.1%), Norway (0.03%), Germany, Belgium, Spain, the United States of America, Switzerland, Kuwait, and Saudi Arabia. Cameroon's bilateral debt had risen from CFAF 1,704 billion on December 31, 2015, to CFAF 3,069 billion on December 31, 2020, an increase of 45% in five years.

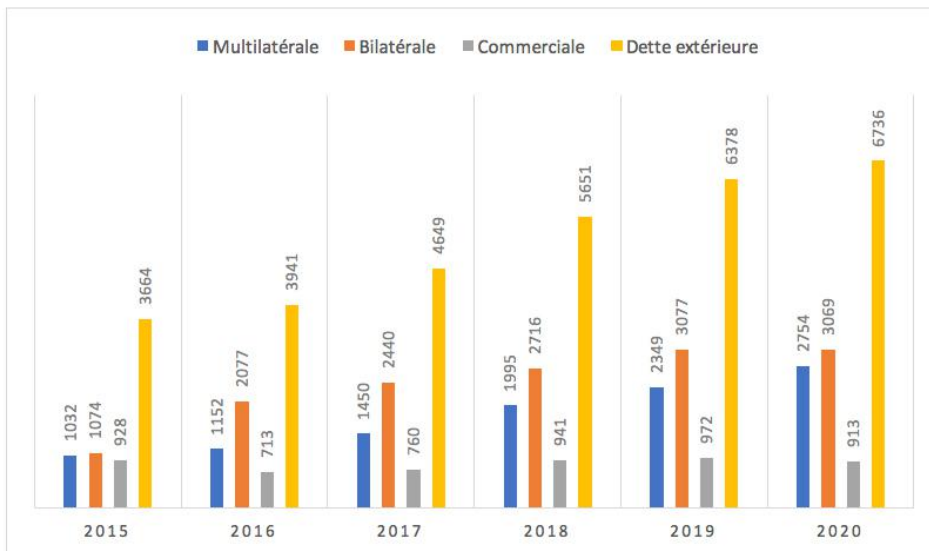
4.1.3. Commercial Debt

Commercial debt represents all government borrowings from foreign commercial banks. Since 2010, Cameroon’s access to the Blend Status has allowed it to have unlimited recourse to concessional resources from international institutions. However, this financing is expensive and risky than multilateral and bilateral financing. Until December 31, 2020, the main debt instrument was the CFAF 450.4 billion Eurobond issued in 2015, which matures at the end of 2023.

Among the commercial creditors of the State of Cameroon is Bank of China; ICBC Bank which is the largest bank in China and in the world; BMCE Bank, which is an international investment and finance bank specializing in Africa and based in England; Belfius Bank, which is a Belgian banking and insurance services company; Commerzbank (France-Germany); Intesa San Paolo in Italy; the Austrian cooperative bank Raiffeisen; Société Générale (France-USA); Standard Chartered London in England; the International Islamic Trade Finance, which aims to develop and expand intra-organizational trade in Islamic cooperation; a total of nine foreign banks.

Despite the large number of foreign commercial banks with which Cameroon is indebted, it appears that commercial debt remains low compared to bilateral and multilateral debt. The main reason is that the cost of credit with these banks is very high. Commercial debt was estimated at CFAF 913 billion on December 31, 2020, compared with CFAF 972 billion on December 31, 2019, that is, a drop of CFAF 59 billion.

Figure 10: Evolution of Cameroon’s External Debt Between 2015 and 2020 (CFAF Billion)



Source : CAA (2020)

As for the composition of external debt by currency, its portfolio shows that it is mainly made up of 37.7% of loans denominated in Euros, 28.4% of loans denominated in USD, and 26.3% of loans denominated in XDRs (ISD, BUA...). The breakdown by sector of activity indicates that 21.1% of the external debt stock in 2020 was contracted under the Economic and Financial Programme agreed with the IMF in June 2017, as well as previous structural adjustments. More than 19.2% of outstanding loans are for the transport sector, 3.2% for the agricultural sector, and 7.3% for the social sector (health, education, rural development, and housing).

Overall, the composition of external debt has remained largely unchanged since 2015. One-third of Cameroon’s debt comes from Paris Club’s multilateral and bilateral external debt. Meanwhile, non-Paris Club bilateral debt is dominated by China, with the other half of the debt including the \$450 million Eurobond issued in 2015 that matures in three installments from 2023 to 2025. China holds 61.3% of Cameroon’s bilateral debt,

or 27.4% of its total debt, and the African Development Bank holds 30.1% of the multilateral debt or 12.3% of its external debt. About 40% of the external debt is concessional, and about 40% of this debt is denominated in euros. Moreover, the average maturity of external debt is 9.4 years, which excludes the debt of the National Refining Company.

As for SONARA, 57% of its debt is in the short-term supplier debt account. It is important to note that SONARA's payment problems have an impact on its solvency as well as that of the government. However, the weighted average interest rate was 2.4%, while 26% of this debt has a flexible interest rate. Therefore, changes in the value of the currency will have an impact on Cameroon's ability to repay its debt, which explains its recent decision to borrow on the capital markets.

Table 4 : Cameroon's Outstanding Public and Publicly Guaranteed Debt Between 2015 and 2020 (CFAF Billion)..

Category	2015	2016	2017	2018	2019	2020
External debt	3 664	3 941	4 649	5 651	6 378	6 736
<i>Multilateral</i>	1 032	1 152	1 450	1 995	2 349	2 754
<i>Of which budget support</i>			273	582	749	1103
<i>Bilateral</i>	1 074	2 077	2 440	2 716	3 077	3 069
<i>Of which budgetary support</i>			66	131	197	197
<i>Commercial</i>	928	713	760	941	972	913
Domestic debt	1 254	1 304	1 578	1 719	2 297	2 647
<i>Public securities</i>	265	370	307	440	706	1 013
<i>Consolidated BEAC</i>	138	231	577	577	577	577
<i>Structured debt</i>	587	513	569	609	671	803
<i>Unstructured debt</i>	264	190	125	93	80	68
<i>Outstanding debt over 3 months</i>					264	168
Direct central public debt	4918	5246	6227	7370	8695	9 383
Endorsed debt	87	66	50,9	46	37	28
Direct debt and guaranteed by central government	5 005	5 312	6 278	7 416	8 733	9 411
<i>Of which budget support</i>			339	714	945	1300
Debt of public enterprises		698	551	516	1053	922
<i>Direct external debt not endorsed by the State</i>		95	97	124	516	452,5
<i>Domestic debt to the banking system</i>		603	454	393	538	470
Total public debt	5 005	6 010	6 829	7 932	9 786	10 334
Public debt as % of GDP	26,7	31,5	33,6	36,9	43,4	46,9%

Source : CAA (2020)

4.2. Domestic Debt

Domestic debt represents all debts incurred by economic agents towards financial partners within the national territory. As of December 31, 2020, Cameroon's outstanding domestic debt was estimated at CFAF 2 647 billion, or 12.0% of GDP, including outstanding debts of more than three months. This was made up of 38.3% public securities, 30.3% structured debt, 21.8% BEAC consolidated debt, 2.6% unstructured debt, and 7.0% outstanding debt of over 90 days.

4.2.1. Public Securities

They are generally issued on the money market (auction market, syndication market) and within the framework of the Eurobond. Between 2015 and 2020, the debt relating to public securities rose from CFAF 265 billion to CFAF 1 013 billion, that is, an increase of about 74% in five (5) years.

4.2.2. The BEAC Consolidated Loan

The BEAC consolidated loan is the result of the consolidation (following the decision to abolish statutory advances to CEMAC Member States) in 2017 of statutory advances drawn by the Treasury from the BEAC, into a long-term loan, with a maturity of fourteen years with a four year grace period and an interest rate of two years. The level of this loan has remained unchanged since 2017 at CFAF 577 billion (CAA, 2020).

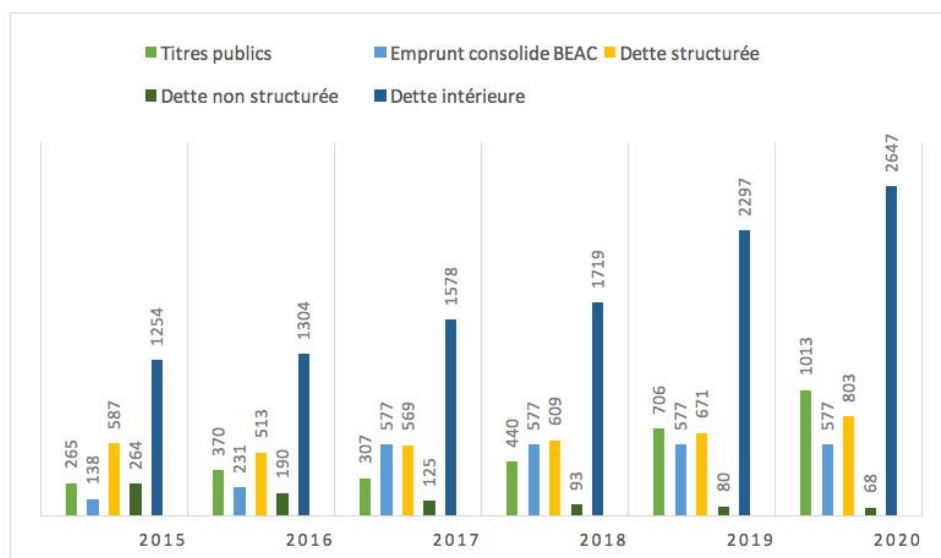
4.2.3. Structured Debt

Structured debt refers in particular to outstanding debt vis-à-vis Ecobank, BGFI, Banque Atlantique, UBA, Crédit Foncier, Société Générale, securitised debt, non-securitised debt and debt vis-à-vis public enterprises (CNPS, ALUCAM, OLA-Energy, CORLEY, PAD, CAMWATER, SOPECAM, CDE, ENEO, CAMRAIL, SIC, SONATREL, Cameroon's Minoteries). Cameroon's structured debt increased from 587 billion CFA francs in 2015 to 803 billion CFA francs in 2020, that is, a net increase of 27% in five years.

4.2.4. Unstructured Debt

Unstructured debt represents expenditure incurred by the State and not paid by the Treasury, which, after an audit, is sent to the Autonomous Sinking Fund for settlement. It is a non-conventional debt in the sense that it does not include an interest charge or a repayment schedule.

Unlike other types of domestic debt, unstructured debt has been declining sharply since 2015, from CFAF 264 billion in 2015 to CFAF 68 billion in 2020, a drop of about 74%.

Figure 11 : Evolution of Cameroon's Domestic Debt Between 2015 and 2020 (CFAF Billion)

Source : CAA (2020)

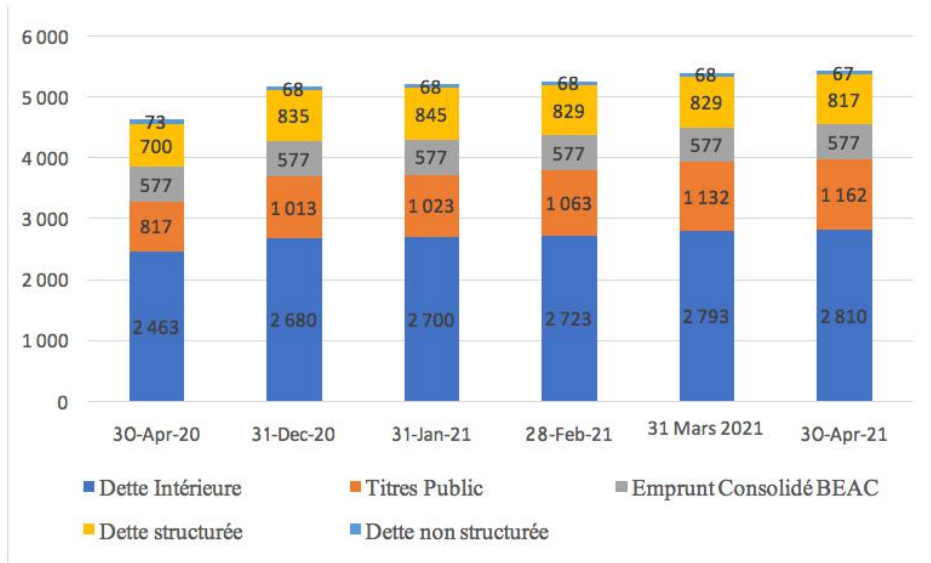
The size of the public debt and the interest to be paid in the coming years has obliged the State of Cameroon to revise the 2021 finance law. Indeed, Cameroon's return to the international market in June 2021 to negotiate a new Eurobond at a preferential rate is mainly aimed at the partial or total redemption of the CFAF 375 billion Eurobond subscribed in 2015 at an interest rate of 9.5% per annum and whose repayment peaks are projected for the period 2023 to 2025 at a rate of CFAF 150 billion per annum with interest to be paid of nearly CFAF 741 billion. With this new negotiation, the country will be able to postpone this repayment to 2030 if it benefits, as in 2015, from a 10-year maturity of the new Eurobond.

While it is true that this loan will alleviate the State's cash flow by lowering the interest on the current Eurobond by extending the repayment of the principal, it should be stressed that resorting to a loan to repay another is a bad indicator for a country that is increasingly subject to exogenous shocks, which significantly affect its macroeconomic performance and compromise its ability to repay debts contracted in the years to come.

The various components of Cameroon's domestic debt increasingly have shorter payment terms due to the increase in the issuance of treasury bills. These bills represent about 27% of domestic debt, while statutory advances from the BEAC represent 20%. The average maturity of Cameroon's domestic debt is 4.4 years, and the weighted average interest rate is 3.6%.

For SONARA, 76% of its domestic debt is short-term bank debt, 60% of which is in letters of credit (IMF, 2021). There is thus a structural imbalance between domestic enterprise debt, guaranteed public debt, and low levels of banking sector profitability. When SOEs are unable to make payments to domestic banks, profit and liquidity margins dry up, increasing the cost of borrowing in international debt markets.

Figure 12: Breakdown of Domestic Debt in Q1 2021 (In Billions of CFAF)



Source : Authors based on CAA data (2021)

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**5. Determinants of Public Debt
in Cameroon in 2021**

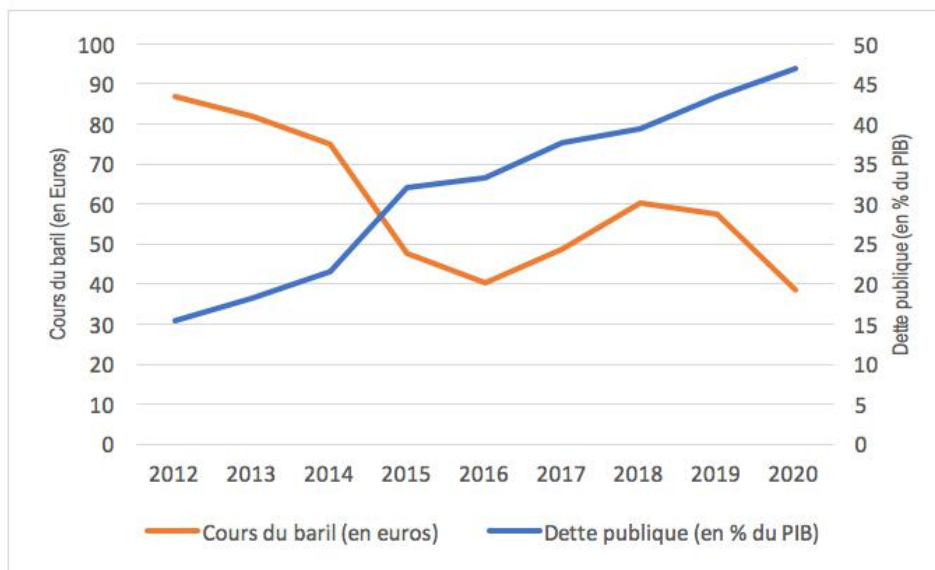
Several factors explain the current evolution of Cameroon's debt. These include the price of commodities on the international financial markets, Cameroon being a small, open, and extroverted economy, the pace of economic growth, the level of public spending; as well as the general price level (growth rate of the consumer price index).

5.1. The Price of Raw Materials

L'économie du Cameroun dépend majoritairement du secteur primaire et une grande partie du budget Cameroon's economy is largely dependent on the primary sector, and a large part of the budget is derived from the export of raw materials. [World Bank reports \(2021\)](#) reveal that 21.33% of Cameroon's exports were agricultural commodities such as cocoa, coffee, bananas, and crude oil, as well as petrol and iron ore. Consequently, a drop in the prices of these primary products automatically leads to a decrease in public revenue, which in turn affects the level of public debt.

This is the case, for example, with oil, the country's main export, where fluctuations in world market prices have a profound impact on the state budget. Revenues from oil, gas, and minerals have accounted for over 77% of Cameroon's budgetary revenues in recent years (MINFI, 2020), and low oil prices continue to affect all aspects of the country's fiscal policy. Fiscal policy adjustments made in response to the new reality include changes in government revenues, changes in the expenditure structure of the government budget, including reductions in capital and recurrent expenditure, and new sources of financing for the budget deficit.

Figure 13: Evolution of Oil Prices and Public Debt in Cameroon Between 2012 and 2020



Source : Authors based on data from the Republic of Cameroon. Data on oil prices are from the National Institute of Statistics and Economic Studies (INSEE)

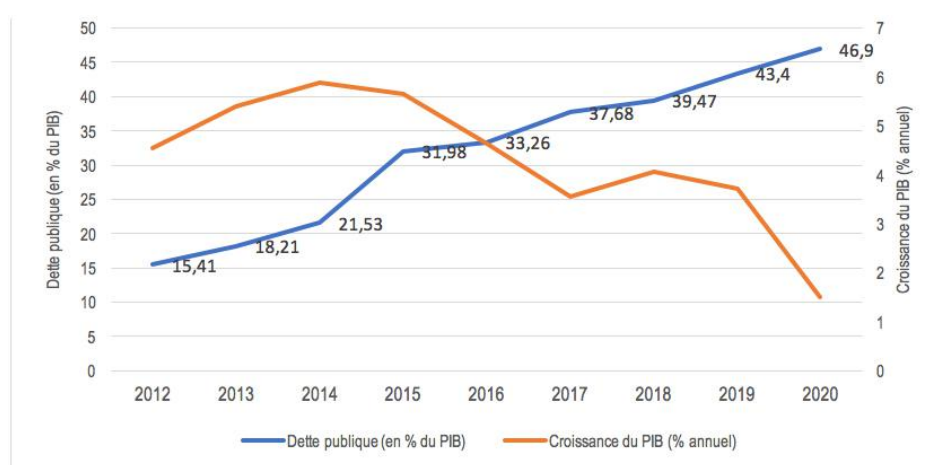
Similarly, due to the COVID-19 pandemic, fiscal policy has been severely constrained by low oil prices, which are linked in particular to insufficient budgetary revenues and increased public spending. Current fiscal balances have also deteriorated in the context of falling oil prices. In 2020, the decline in crude oil and natural gas production, coupled with the fall in crude oil prices, led to a contraction in the country's GDP. The government has decided to reduce the public investment budget by about 20% in 2020 (a reduction of CFAF 242 billion) and to stop funding several investment projects.

5.2. The Growth Rate of the Economy

The rate of growth of the economy is another key determinant of public debt in Cameroon. The objective set by the government is to improve living standards and to achieve emergence by 2035. According to the New Development Strategy 2020–2030, Cameroon’s real GDP growth should reach double digits by 2030 and be sustained by growth in the non-oil sector to compensate for the sharp decline in oil production. Indeed, several studies show that there is a relationship between GDP growth and the level of public debt. According to [Reinhart and Rogoff \(2010\)](#), high ratios of public debt to GDP have an inverse relationship and significant effects on the growth rate of an economy. According to the authors, there is a non-linear threshold, around 90% of GDP, beyond which debt has a significant impact on growth rates. Other empirical studies have confirmed the negative impact of high public debt on growth. Most of these studies have determined a threshold between 75% and 100% of GDP above which the relationship between public debt and economic growth would be negative.

Moreover, most of these studies find a negative relationship between high levels of public debt and economic growth. This is true even for those studies that do not find a common threshold. The empirical evidence overwhelmingly supports the idea that high public debt has a negative impact on economic growth potential, and, in many cases, this impact becomes more pronounced as debt increases. Figure 14 below shows the evolution of the growth rate of the economy and public debt in Cameroon between 2012 and 2020. On this graph, beyond the 33.26% public debt/GDP ratio observed in 2016, the GDP growth rate begins to decrease to reach 1.5% in 2020. This evolution shows that the relationship between public debt and the growth rate of the economy is non-linear; public debt has a negative impact on growth when its ratio to GDP is above 33%.

Figure 14: Evolution of the Growth Rate of the Economy and Public Debt in Cameroon Between 2012 and 2020



Source : Authors based on data from the State of Cameroon

However, it should be recalled that in the CEMAC, the community norm for public debt set by the authorities in place is 70% of GDP, which means that below this threshold, the relationship between economic growth and public debt would be positive but becomes negative when the debt exceeds this threshold. Figure 14 above reflects some extent the need to revisit this debt threshold for which growth would become negative for each CEMAC country.

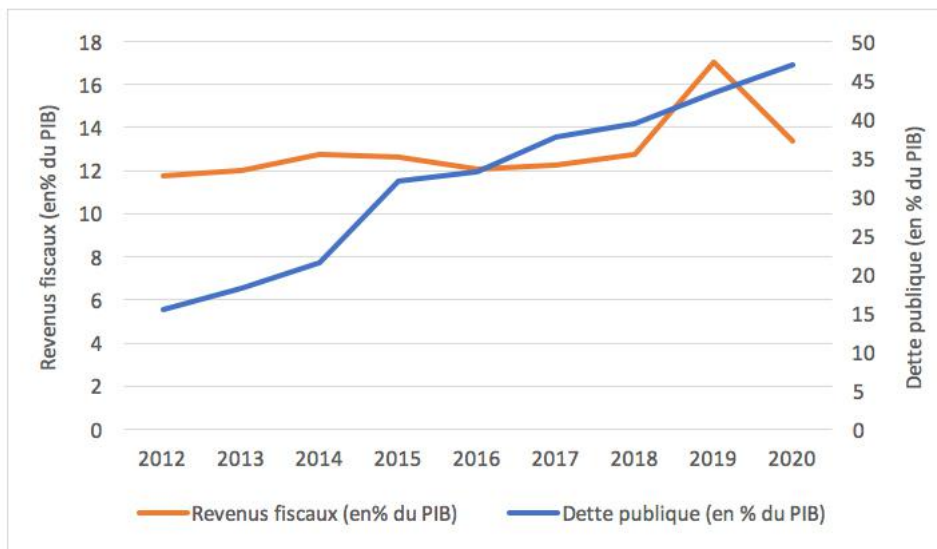
5.3. The Level of Public Revenue

Low public revenue mobilization would also have a negative impact on the level of public debt. In this sense, when state revenues decrease and become insufficient to finance the projects undertaken, the state generally finds itself indebted to its various partners to achieve its objectives. The increase in the revenue/GDP ratio (excluding grants) cannot contribute to a decrease in the rate of indebtedness, thanks to certain measures to broaden the base, notably the gradual elimination of tax and customs exemptions and the strengthening of coordination between administrations.

As an illustration, Cochrane (1999) finds that periods of rising debt-to-GDP ratios are those when the United States has experienced a large primary deficit. Periods of high inflation are not characterized by a high government deficit. In general, when government spending increases more than proportionally to government revenues, the government tends to go into debt to finance the additional spending or its budget deficit. Under these conditions, the increase in the primary deficit is perceived as a desire by the government to generate surpluses at a later date; it is, therefore, a Ricardian regime, and the level of public debt does not influence the price level.

Figure 15 below presents the evolution of public revenue (in % of GDP) and public debt (in % of GDP) in Cameroon between 2012 and 2020. This evolution shows that Cameroon's public debt has grown steadily since 2012 as a result of a weak evolution in the level of public revenue, which remained constant until 2018 (on average 12% of GDP) before reaching 17% of GDP in 2019. Overall, the strong increase in Cameroon's public debt remains dependent on the low mobilization of tax revenues.

Figure 15: Evolution of Public Expenditure, Tax Revenue and Public Debt in Cameroon Between 2012 and 2020



Source : Authors based on data from the State of Cameroon

The relationship between public debt and the level of public revenue is a dichotomous issue between Keynesian economists (advocates of the interventionist thesis) and the classics, who claim that the market plays a role. For the Keynesians, debt does not burden current and future generations and therefore would have no impact on the level of government revenues because of the investments it generates. According to the short-term Keynesian analysis, public debt causes a multiplier effect on demand and, thus, by accelerator effect, a more than proportional increase in investment, and therefore stimulates production.

By stimulating economic activity, the State accumulates surpluses that enable it to repay its debt. The effect of public debt is therefore positive under the hypothesis of a chronic budget deficit; this theory is shared by authors including Mankiw (2003) and Krugman (2015).

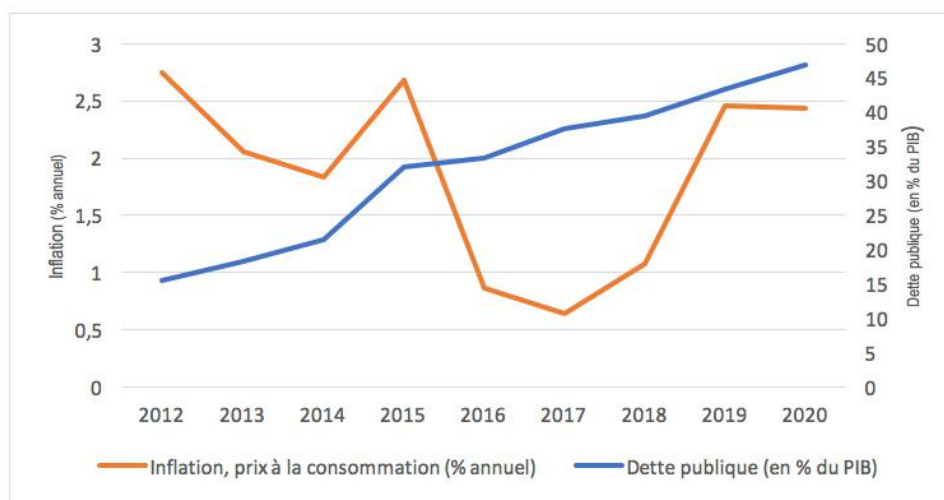
For the so-called «classical» economists, debt is considered a future tax and is therefore fundamentally linked to the level of future public revenues. For the latter, public debt has a negative effect on capital accumulation and consumption of future and present generations. According to Ricardo, citizens see borrowing as tax-deferred in time and will behave as if they are forced to pay a tax later to repay the loan, regardless of the intergenerational lag.

Barro (1974) will oppose this thesis by arguing that the budget deficit is neutral without any multiplier effect on demand and that the effect of an increase in the budget deficit does not depend on how it is financed. According to the latter, the debt would have no effect on demand because economic agents anticipate its repayment in the future by raising taxes.

5.4. The Growth Rate of the Consumer Price Index

The term inflation refers to the sustained increase in the prices of goods and services, and the rate of inflation is usually measured by the Consumer Price Index. It is also characterized by the increase in the circulation of money. The inflation rate also determines the level of indebtedness in Cameroon. Indeed, when the inflation rate is high, economic growth is negatively affected. For several years, the inflation rate has been kept below the 3% convergence threshold of the Central African Economic and Monetary Community, with 2.9% in 2020, compared with 2.5% in 2019. The Bank of Central African States, the monetary authority of CEMAC, whose primary objective is to ensure price stability within the various member countries, has taken various measures in 2020 to support the economies of its member states hard hit by the health crisis. The most important effect of inflation on debt is the resulting erosion of the real value of debt, based on assumptions such as a constant debt maturity structure, no impact of inflation on economic growth, and an adjustment of nominal interest rates on newly issued debt to inflation. [Mondjeli and Tsopmo \(2017\)](#) find a non-linear relationship between inflation and economic growth in the BEAC, confirming the existence of an optimal inflation threshold of about 4.3%. This threshold significantly explains economic growth.

Figure 16 : Evolution of the Growth Rate of the Consumer Price Index and Public Debt in Cameroon Between 2012 and 2020



Source : Authors based on data from the State of Cameroon



6. Examining Cameroon's Debt Sustainability: An Analysis Using the National Development Strategy 2020-2030 Forecasts

Public debt is said to be «sustainable» when the state and the public administrations that contracted it can repay it while remaining in a credible and functional position over the long term. This capacity to honor its commitments to its economic and financial partners depends, among other things, on the prevailing economic situation and the impact of new borrowing on it. According to the World Bank and the IMF, the purpose of external debt sustainability analysis is to assess a country's ability to finance its economic policy objectives and to service the debt incurred for this purpose.

This review of Cameroon's public debt sustainability is being prepared in a context dominated by the COVID-19 pandemic and the slowdown in economic activity at the national and global level due to restrictions put in place by governments to curb the spread of the virus. This context has resulted in a significant decline in tax and export revenues that could guarantee the viability of public debt and the sustainability of public finances and a greater incentive to borrow to finance the many projects underway to achieve the 2035 emergence target. The main objective is to inform the Cameroonian public authorities of the danger of excessive debt, particularly for the country's economic and financial sovereignty.

Indeed, according to the [IMF](#), the DSA makes it possible to assess macroeconomic stability, the long-term viability of fiscal policy, and the overall sustainability of the debt. However, a country's ability to manage its debt depends on the soundness of its policies and institutions, its macroeconomic performance, and its capacity to absorb shocks. In this context, the IMF's Debt Sustainability Analysis Framework classifies countries into three categories according to their level of indebtedness (high, medium, and low).

- **Low risk** is described when all debt indicators are below the benchmark and stress test thresholds;
- **Moderate risk** indicates that debt indicators are below the thresholds in the baseline scenario, but stress tests show that the thresholds could be exceeded in the event of an exogenous shock or abrupt change in macroeconomic policy ;
- **High risk** is usually explained when at least one of the thresholds in the baseline scenario has been exceeded, but the country is not yet in debt repayment difficulties ;
- **Over-indebtedness** indicates that the country is already experiencing difficulties in repaying its debt, as evidenced by the presence of arrears; either debt restructuring is underway or imminent, or it shows early signs of over-indebtedness (that is, debt and debt service indicators significantly exceed short-term benchmarks, and these exceedances are high or prolonged).

6.1. Debt Thresholds and Benchmarks for Debt Sustainability Analysis

In this study, we focus on the indicators used by the IMF and the World Bank for debt sustainability analysis, namely: debt as a percentage of GDP, debt as a percentage of exports, debt service as a percentage of exports, debt service as a percentage of budgetary revenues²⁵ and public debt as a percentage of GDP. These indicators show that a country's debt capacity depends not only on its historical performance but even more on its real growth prospects.

25. Budgetary revenues consist of tax revenues and other revenues. Tax revenues constitute the bulk of budgetary revenues. By way of illustration, they were estimated at 78.38% in 2019 and 80.47% in 2020 (Revised Finance Law, 2020)..

Table 5 : Debt Thresholds and Benchmarks in Debt Sustainability Analysis

	PV of external debt		External debt service		PV of total public debt
	GDP	Exportations	Exportations	Revenues	GDP
Poor policy	30	140	10	14	35
Medium policy	40	180	15	18	55
Strong policy	55	240	21	23	70

Source : Debt Sustainability Analysis Framework developed by the World Bank and the International Monetary Fund (2018).

6.2. Evolution of Debt Indicators in Cameroon Between 2017 and 2030

Table 6 below presents the evolution of the debt indicators presented above between 2017 and 2030 in Cameroon. The data is expressed in billions of CFA francs and is taken from the budget laws of the State of Cameroon and the Autonomous Sinking Fund of Cameroon for the period 2017 to 2020. The data for 2021 to 2030 are forecasts made by the Ministry of the Economy, Planning, and Regional Development in the new National Development Strategy 2020 to 2030.

Under Article 588 of Chapter 8 of its new National Development Strategy 2020–2030, the government of Cameroon states that: «...external debt has until now been the main means of financing public infrastructure and proposes, in particular, to strengthen the mobilization of national savings through bond issues and to improve financial inclusion through the effective implementation of a national strategy for inclusive finance...» In this context, our results of the debt sustainability analysis broadly establish that the debt as a percentage of GDP will remain well below the EU standard of 70% over the period 2020 and 2030.

However, the liquidity ratios (debt service to export earnings and debt service to budgetary revenues) may remain below the poor policy threshold. Moreover, these liquidity ratios will experience a downward trend with a steeper slope during the decade 2020 to 2030. This means that the Cameroonian treasury could face enormous difficulties in servicing its debt. In other words, Cameroon's public debt could remain sustainable over the next decade but with a very high risk of debt distress.

Table 6 : Evolution of Debt Indicators in Cameroon Between 2017 and 2030²⁶

Indicators	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Outstanding public debt	10 334	10 849	11 338	11 809	12 292	12 823	13 409	14 013	14 729	15 521	16 344
Outstanding external debt	6 736	7 066	7 528	7 970	8 549	9 257	10 156	11 149	12 247	13 462	14 755
Gross Domestic Product	2 2034	25 344	27 171	29 467	32 175	35 407	39 074	43 177	47 734	52 825	58 786
Export ²⁷	2 524	2 989	3 868	4 157	4 583	5 048	5 606	6 266	7 072	8 046	9 181
Budgetary revenues (tax revenues + + other revenues)	2 950,5	3 456,6	3 885,4	4 479	5 084	5 842	6 564	7 340	8 162	9 139	10 229
External debt service	359,9 ²⁸	253,4	271,7	206,3	225,2	212,4	234,4	216	191	211,3	235,1
External debt stock/ GDP	30,57	27,88	27,7	27,04	26,57	26,14	25,99	25,82	25,65	25,48	25,09
External debt/ exports ratio	266,9	236,4	194,6	191,7	186,5	183,4	181,16	177,9	173,1	167,3	160,7
Debt service to exports ratio	14,25	8,47	7,02	4,96	4,91	4,2	4,18	3,44	2,7	2,62	2,56
Debt service to budget revenue ratio	12,2	7,33	6,99	4,59	4,42	3,62	3,57	2,94	2,34	2,31	2,29
Outstanding public debt/GDP	46,9	42,8	41,72	40,07	38,2	36,21	34,31	32,45	30,85	29,38	27,8

Source : Authors' calculations

Overall, Cameroon remains at high risk of public debt distress, but the debt remains sustainable. The thresholds are exceeded for both external debt service indicators, which highlights the fragility of the liquidity situation. The country's debt overhang is problematic for economic growth, and the emergence hoped for by 2035, especially given the need to carry out the major structuring projects envisaged in its new National Development Strategy 2020–2030. Considerable efforts are needed to keep the debt on a downward trajectory and preserve sustainability.

The determined implementation of fiscal and structural reforms is crucial to mitigate risks. The weaknesses in the debt service indicator, which is expressed as a proportion of exports, underline the need for deep structural reforms to improve competitiveness and achieve economic diversification, while fiscal consolidation, revenue mobilization, and a prudent borrowing policy geared towards concessional lending remain essential to keep public debt dynamics on a sustainable path and rebuild reserves ahead of high debt repayments.

26. The data for 2021 to 2030 are the forecasts made by the government in the new development strategy 2020-2030 (NDS30).

27. Semi-final AAC data (2020).

28. Semi-final AAC data (2020).

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7. General Conclusion and Policy Recommendations

The objective of this report was to analyze the 2021 budget of the State of Cameroon by examining the sustainability of public debt. The aim is to make economic policy proposals to the government so that it can consolidate its achievements and find new ways of overcoming the risk of high external debt to which the country is subject. Indeed, the importance of Cameroon's external debt burden requires the government to define new methods and new instruments of treatment which, to be effective and efficient, must not only result in a very significant reduction in the country's debt (Fambon, 2002). This is because Cameroon has increasingly turned to its national and international partners to finance its numerous infrastructure projects on the one hand and to cope with the various crises that affect it on the other,

At the end of this analysis, we show that Cameroon's liquidity and solvency ratios clearly indicate a very high risk of external debt distress. It is therefore clear that the Cameroonian government still has a lot of work to do to reduce the risk of external debt overhang in the country. The challenge here is to optimize internal resources to meet development needs while minimizing recourse to external sources of financing. Indeed, Cameroon's public debt is increasing rapidly and is becoming increasingly worrying for the country's economic development, which is why it was contracted.

This worsening of Cameroon's level of indebtedness is the result of, among other things, the continuous deterioration of the current account caused by the ever-increasing imbalances in international economic, financial, and monetary relations and the significant fluctuations in prices on the international markets; Cameroon being a small, open, extroverted economy that is highly dependent on the terms of trade. In addition to these external causes, there is also the implementation of inappropriate economic policies at the domestic level, very often inadequate to promote national competitiveness, which has contributed to the aggravation of payment difficulties.

The data used come from the Republic of Cameroon's Finance Laws, notably those for the 2021 budget; the data available from the Autonomous Fund, the institution in charge of managing Cameroon's debt, as well as the forecasts made by the Ministry of the Economy, Planning and Regional Development in the New National Development Strategy 2020-2030. Based on the framework for analyzing public debt sustainability defined jointly by the International Monetary Fund and the World Bank in 2018, we show that Cameroon's public debt, while still sustainable (below the community threshold of 70%), poses a very high risk of external debt distress. This means that in the absence of concrete and radical actions by the government to reverse the trend, the Cameroonian Treasury will not be able to repay the debts contracted by the state soon.

Such a situation would undoubtedly have profound repercussions on economic growth and investment, hence the need to define and implement an effective and efficient budgetary policy capable of bringing Cameroon to the level of development to which it aspires by 2035. In addition to deciding on a more optimal reallocation of its resources, which is very important for guaranteeing productive investments and sustainable human development (Fambon, 2002), it is essential to continue to guarantee the competitiveness of national companies, which is achieved by promoting private national investments as well as exports of goods and services.

In short, given that the public debt has grown very rapidly in recent years, it is urgent that it be dealt with to prevent its burden from dangerously affecting the resources of the State in the near future and causing the country to sink into a situation of insolvency, which would tarnish its image in the eyes of its national and international partners. In this context, this report recommends a certain number of recommendations which can be summarized in three main areas.

- ❖ **Cameroon must further promote the competitiveness of its economy and greater diversification of its production. These options are now essential to prevent the external debt overhang that currently weighs on the country from affecting growth and investment.** In view of the budgets allocated to the ministerial departments in charge of promoting Cameroonian know-how and the competitiveness of national companies, it is clear that many efforts still need to be made by the government to enable local companies to be even more productive in their own market so as to be easily integrated into the continental value chains (African Continental Free Trade Area), particularly through the development of trade (exports and internationalization) and industrialization. The emergence of national enterprises, by broadening the tax base, would allow the State to collect additional revenue from SMEs (taxes and duties) and reduce recourse to the national and international money market to finance the budget deficit. To succeed in strengthening the competitiveness of national enterprises, the Cameroonian government could draw inspiration from the UK government policy developed in 2001 for this purpose. This policy consists of concentrating its action on the following three priority areas²⁹ : Culture and environment, including macroeconomic stability and the policy framework; improving the regulatory framework governing business activities; and supporting businesses at every stage of their life cycle, particularly in the areas of human resources, skills, advice, working conditions, information technology, finance, and international trade.
- ❖ **Cameroon should favor concessional terms when it decides to borrow on the international market to finance its budget deficit, the challenge being to ensure regular payment of the corresponding debt service.** Concessional loans refer to those where the interest rate prevailing at the time the external debt is contracted is lower than the current market rate. As a rule, a loan is considered concessional if its grant element is at least 35%, but this threshold can be higher in some cases ([IMF, 2010](#)). The challenge for Cameroon is to support gradual fiscal consolidation while reducing the existing external debt burden. The use of non-concessional loans for any financing should be clearly exceptional. In addition to incorporating concessional conditions, public debt in Cameroon should make a significant contribution to economic development. In order to achieve this, priority should naturally be given to investment expenditure that serves production, to the detriment of recurrent expenditure. Such a strategy could allow the state to identify in advance the source of debt service repayment as well as the means to repay the principal when due.
- ❖ **Strengthening the public-private partnership is also essential to avoid Cameroon's external debt overload.** The public-private partnership framework provides for entrusting to a private service provider the construction of public infrastructure, as well as the management of certain activities in the public domain for a determined period. The [private partnership](#) is, therefore, a method of financing whereby the public authority calls on private service providers to finance and manage a facility that provides or contributes to the public service. The advantage of this system of financing is that it allows the State as well as citizens to benefit from innovations designed by private companies. The public-private partnership thus appears to be a more affordable alternative financing method for the public sector in the short term.

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Annex

Indicator	Formular	Interpretation
Debt-to-Export Ratio	Represents the ratio of total outstanding debt at the end of the year to the economy's exports of goods and services for that year.	An increase in the debt-to-exports ratio over time, for a given interest rate, implies that total debt is growing faster than the economy's main source of external income, indicating that the country may have difficulty meeting its future debt obligations.
Debt/GDP Ratio	This is the ratio of the total external debt stock at the end of the year to the annual GDP for that year.	
Debt to Fiscal Revenue Ratio	This is the ratio of the total external debt stock at the end of the year to the annual fiscal revenue.	This ratio can be used to determine the debt sustainability of countries with relatively open economies whose external debt weighs heavily on their budgets.
Debt Service to Exports Ratio	This is the ratio of external debt service payments (principal and interest) to exports of goods and services in any given year.	It indicates the proportion of the country's export earnings that will be absorbed by its debt service and thus shows how sensitive the payment of debt service obligations maturing in a given year is to an unexpected decline in export earnings
Debt Service to (government) Revenue Ratio	This is used to assess the external debt service burden in relation to government revenue. It indicates the extent to which debt service weighs on debtor countries' use of their financial resources.	

Source : World Bank and IMF (2018)

