Rethinking African Economic Policy in Light of the Global Economic and Financial Crisis Conference

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Global Economic and Financial Crisis: Transmissions Channels and Impacts on African Economies

Analyzing the Impact of the Global Economic and Financial Crisis in Cameroon[1]

By

Arsene Honore Gideon NKAMA
National Economist,
UNDP
Yaounde, Cameroon

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Comments welcome

Abstract: As many countries in the world, Cameroon has been affected by the ongoing global economic and financial crisis. The country suffered mainly from the second round of the crisis because of the marginal position of Sub Sahara Africa in the World finance. However, the negative impact of the crisis has been observed in terms of government finance difficulties, exports revenue diminution, higher inflation and jobs destruction in some sectors. The crisis seems however to have increased the external competitiveness of local products without enabling the country increase its exports revenue as the main importing countries of Cameroon's products have been deeply affected by the crisis. The Government of Cameroon, as many other governments worldwide took important decisions to limit the impact of the crisis on the Cameroonian economy. These decisions, although have had positive impact nationwide, need to be extended in the long run.

JEL Classification: E0; F0; F1; F24 ; G01 ; H2 ; H5 ; L11

[1] The Views expressed herein are those of the author and do not necessarily reflect the views of the United Nations

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1. Introduction

Cameroon's economy has been characterized by volatile growth between 2003 and 2007. During this period, the country's average annual growth rate stood at around 3%, lower than the minimum threshold of 6% necessary to achieve the millennium Development Goals as presented in the country's Poverty Reduction Strategy Paper (PRSP). Taking into account this situation, the Government of Cameroon has emphasized growth in its revised PRSP, the *Document de Stratégie pour la Croissance et l'Emploi*-DSCE or the Growth and Employment Strategy Paper (GESP). The GESP is itself based on the country's Vision 2035 according to which Cameroon projects itself to be an emergent country in 20-25 years.

While Cameroon was concentrated on the finalisation of its Vision 2035 and its GESP, the world started facing a financial crisis that emerged in the USA, and then spread to the Western Europe and Japanese economies. The crisis continued by affecting emergent countries like China, Brazil, South Africa and then after the world economy. This crisis has logically impacted Cameroon's move towards its Vision 2035 target.

As a member of a globalised world, it was first alleged that sub-Saharan Africa (SSA) would not be certainly affected by the financial crisis because of its marginal representation in the world financial markets. These earlier allegations failed to consider the high interdependence and interpenetration of the world economies. By the end of 2008, the financial crisis that rapidly moved to an economic crisis started having its impacts in SSA and did not avoid Cameroon whose ambitions were to accelerate growth and employment in order to move towards the emergent world. The global economic and financial crisis has certainly had important effects on Cameroon's economy. An analysis of such effects would certainly help appreciate the intensity of the crisis and the likeliness of Cameroon to achieve its ambition of becoming an emergent country. Underlining which policies would minimise this impact would also be welcome for important policy recommendations.

The major objective of the paper is to analyse the impact of the global economic and financial crisis on Cameroon's economy and propose some policy options aimed at minimizing the impact of the crisis. The paper is organized as follows. Section 2 presents Cameroon's economy prior to the crisis. In section three, I discuss the impact of the global economic and financial crisis on the global economy while section four is centred on the impact of the crisis on Cameroon's economy. Section five that outlines some policy implications stresses on government response to the global crisis as well as potential policy options. Section six concludes the paper.

2. Overview of the cameroonian economy prior to the crisis

The overview emphasises the oil and the non oil sectors of the cameroonian economy and is completed by an analysis of some important aggregates such as balance of payments, balance of trade, inflation and competitiveness. The analysis concentrates on these aggregate prior to the crisis.

The crisis occurred in 2007 in the United States of America and was first transmitted to Western European countries, Japan, emerging countries like China, Brazil, and then after African countries. Officially, Cameroon started suffering from the impacts of the crisis between the end of 2008 and early 2009. In the following, without coming back to the discussion about the effectiveness of the first effects of the global economic crisis on Cameroon, I consider for the analysis that the post crisis period deals with the period up to 2007 while 2008 is the beginning of the crisis period.

The Cameroonian economy prior to the crisis in 2007 performed as follows. Between 2003 and 2007, Cameroon registered and estimated annual real GDP growth of about 3 percent. This figure is lower than the average growth rate of 4% observed between 2000 and 2002 and more lower than the PRSP target of 6 percent. Growth was driven primary by the tertiary sector which grew by 5.36% and contributed an average of 2.2% to overall growth. The primary sector registered a growth rate of 3.9% and contributed about 0.78% to total growth. The contribution of taxes and duties net of subsidies to growth was estimated at 0.3% for a sectoral growth rate of 4.5%. The secondary sector accounted for 0.02% to growth with an average growth rate of 0.07%. Compared to PRSP growth projection, Cameroon has loosed between 2004 and 2007 an average annual GDP growth estimated at -2.62, corresponding to more than 11 GDP growth points.

Table 1: Sectoral contribution to growth rate of GDP in Cameroon

	2003	2004	2005	2006	2007	2003-2007
GDP at factor costs	**4,19**	**3,67**	**1,8**	**2,91**	**3,17**	**3,15**
Primary sector	3,5	4,37	2,69	3,02	5,91	3,90
Secondary sector	0,54	-0,22	-0,91	1,81	-0,86	0,07
Tertiary sector	8,1	6,7	3,53	3,72	4,74	5.36
Non merchant GDP	**4,58**	**6,39**	**0,81**	**2,86**	**6,2**	**4,17**
Dues and taxies less subventions	**1,42**	**0,74**	**10,47**	**7,3**	**2,91**	**4,57**
GDP	**4,03**	**3,7**	**2,3**	**3,22**	**3,42**	**3,33**
PRSP projection		5	5,8	6,1	6,2	5,78
Growth differential		-1,3	-3,5	-2,88	-2,78	-2,62

Source: computed using NIS database

The Cameroonian economy can be decomposed into non oil economy and oil economy. Between 2003 and 2007, the non oil economy accounted for about 93% of the country's real GDP against 7% for the oil economy. Compared to 2003 figure, the sectoral decomposition of GDP between oil and non oil GDP has declined before remaining relatively stable during 2004 and 2007.

Table 2: Oil and non oil economy in Cameroon

	2003	2004	2005	2006	2007	2003-07
GDP at constant prices (billions CFA F)	7478	7755	7933	8188	8468	7964
Oil GDP	612	555	502	541	510	544
Non oil GDP	6866	7200	7431	7648	7958	7421
	As Share of GDP					
Oil GDP	8	7	6	7	6	7
Non oil GDP	92	93	94	93	94	93

Sources: compiled using data from 2009 financial report of MINFI/DEA

2.1 The non oil sector

The tertiary sector represents the most important component of Cameroon's non oil GDP. This sector accounts for 50 per cent of total non oil GDP. Commerce, restaurants and hotels come at the first rank with about 46% of the total tertiary GDP, followed by non merchant service of public administrations (15%), transport, warehousing and communication (14%). The banking system accounts for about 3%. The tertiary sector is followed by the secondary sector that represents 25% of Cameroon non oil GDP. Manufacturing is the most important component of the secondary non oil sector with about 70 % of the subsector's GDP, followed by extractive industry (about 20%). The production and distribution of electricity, water and gas is marginal with only 2% of the manufacturing GDP.

Table 3: the non oil economy

	2003	2004	2005	2006	2007	2003-07
Non oil GDP Billions CFA constant prices	6866	7200	7431	7648	7958	7420.6
	sectoral share in %					
Primary	23.96	21.78	21.58	22.73	23.66	22.74
Secondary non oil	24.85	24.87	27.70	28.57	26.86	26.57
Tertiary	51.19	53.35	50.72	48.71	49.47	50.69

Sources: compiled using data from 2009 financial report of MINFI/DEA

2.2 The oil sector

The oil sector of Cameroon suffers from diminishing production. Between 2003 and 2007, the production of crude oil declined an annual average of about 3%. According to the Ministry of Finance, Department of Economic Affairs, the oil reserves in fields under exploitation are estimated at 227.1 million barrels. During this period, the positive impact of per barrel price has positively affected government revenues. However, this impact has been limited by the downward $/CFAF parity as shown in table below.

Table 4: Selected oil indicators

	2003	2004	2005	2006	2007
Production (million barrels)	35,6	32,7	30,1	31,8	31,2
% annual growth	-4,8	-8,1	-8	5,6	-2
Trend in per barrel price (USD) international market		37,8	53,4	64,3	71,1
Trend in per barrel price (USD) Cameroonian oil		34,8	50,9	59,8	66,6
Trend in $/CFAF		527	488.8	522.1	478.3
Trend in oil revenues (billions CFA F)		439	643	631.3	805.3

Source: MINFI/DEA, 2009

2.3 Balance of payments

The capital account deteriorated between 2006 and 2007 as the surplus balance dropped from 829 to about 192 billion mainly because of the movement in transfer of capital. The financial transaction account was negative in 2006 and became positive in 2007. This movement was supported by the net flows in foreign direct investments that increased from 33.7 to 105.2 billion CFA F.

Table 5: Balance of payment 2003-2007 (billion CFA F)

	2003	2004	2005	2006	2007
Current account	-346.7	-321.6	-410	-78.9	23.3
Goods	156.5	124	198	350	501.1
Services	-190.3	-304.1	-405.5	-419.7	-469
Net revenue	-262.7	-324.3	-327	-173.2	-207
current transfers	36.3	92.8	124.7	163.6	194.2
Capital and financial account	82.7	138.9	313.4	280.3	446.4
capital account	3.6	22.4	107.7	829.3	190.9
financial transactions	79.1	116.5	205.8	-549	255.5
Errors and Omissions	67.6	21.2	-27	95.4	-49.2
Overall Balance	-159.9	-161.5	-123.5	296.8	420.6
Net variation of official reserves	-138.4	-88.5	-135.5	-476.7	-442.2
Special financing	298.4	250	259.1	179.9	21.6

Source: MINFI/DEA, 2008

Two balances, the balance of services and the balance of revenue contributed to reduce the positive impact of the balance of goods. As a result, the current account balance registered a negative balance that became positive in 2007 due to rapid increase in exports relative to imports.

The net variations in official reserves have been ameliorated between 2004 and 2007. They represented 88.5 billion in 2004 against 442.2 in 2007. This movement underlines a positive government financial situation, outlining government external solvability.

2.4 External trade

An analysis of Cameroon’s trade balance shows the importance of oil. In fact, between 2003 and 2007 and as usual, Cameroon non oil trade balance was negative meaning that non oil exports fail to cover non oil imports. Oil price deeply determined the level of Cameroon’s trade balance. In 2007, the overall trade balance experienced a deficit of 395 billion, representing a reduction of more than 615 billion, compared to the surplus observed in 2006. Between 2004 and 2007, total exports experienced a 12% average annual growth while total imports growth rate was estimated at about 16%, underlining the degradation of Cameroon’s balance of trade.

Table 6: external trade

	2004	2005	2006	2007
Exports	**1,256,789**	**1,509,215**	**1,868,453**	**1,727,477**
Exports non oil	764,443	848,058	940,407	818,474
Oil	492,346	661,157	928,046	909,003
Imports	**1,365,047**	**1,524,464**	**1,648,110**	**2,122,798**
Imports non oil	1,170,474	1,100,042	1,165,768	1,435,542
Oil	194,573	424,423	482,342	687,256
Balance of trade (BT)	**-108,258**	**-15,249**	**220,342**	**-395,322**
Non oil BT	-406,031	-251,984	-225,362	-617,068
Cover rate %	**92.1**	**99**	**113.4**	**81.4**
Cover rate non oil %	65.3	77.1	80.7	57

Source: NIS

Oil represents an important component of Cameroon’s exports. Figures between 2000 and 2007 show an average contribution to total exports of 53%. Export revenues are concentrated at 65% in only six products namely: oil, cocoa, fresh banana, coffee, wood and rubber. Exports revenues are deeply determined by oil exports and then oil price. Petroleum products (34% of total imports in 2007), transport equipments, industrial equipments, consumption by enterprises, and first necessity goods are the main imported products.

Data from the Ministry of Finance reveal that European Union remains the major trading partner with 54% of non-oil trade, followed by East Asia (about 19%), Central Africa (about 8%) and North America (5%). In 2006, Cameroon’s main imports came from Nigeria (23%), France (18%), China (7%), Belgium (4%) and Equatorial Guinea (3%). At the same time, the main clients of Cameroon’s exports were: Spain (26%), Italy (23%), France (11%), USA (6%), Netherlands (6%) and China (4%).

2.5 Remittances

Remittances have become an important source of investment and household consumption financing in SSA during last years. In 2003, remittances inflows were estimated in Cameroon at US$ 76 million against 167 billion in 2007, representing an average annual growth rate of about 24%. These remittances include workers' remittances, compensation of employees, and migrant transfers and credit. They represented less than 1% of the country’s GDP in 2007. This figure is lower than outflows annual growth rate that was estimated at about 29%, from 57 billion USD in 2003 to 102 million in 2007. Outflows include Workers' remittances, compensation of employees, and migrant transfers, debit. Remittances outflows represented about 0.5% of Cameroon’s GDP in 2007. Since the earlier 2000, remittances outflows are lower than inflows, showing a positive trend in economy finance.

Table 7: remittances inflows and outflows in Cameroon (billion USD)

	2003	2004	2005	2006	2007	2003-07
Inflows	**76**	**103.38**	**77.25**	**129.94**	**167.44**	**110.80**
% annual growth		36.03	-25.28	68.22	28.86	24.06
Outflows	**57**	**42.17**	**56.33**	**91.67**	**102.64**	**69.96**
% annual growth		-26.02	33.59	62.73	11.96	28.68
Net flows	**19**	61.21	20.92	38.27	64.80	40.84
% annual growth		222.16	-65.83	82.98	69.33	48.21

Source compute using World Bank data base (2009)

2.6 Inflation

In 2004, the general price level remained stable compared to its 2003 level (0.2%). There after, inflation rose to 2% in 2005 before going down again in 2007 around 1%. In 2006, inflation stood above the 3% threshold fixed by the CEMAC convergence criteria. Paragraph below gives an idea of the main sources of inflation in Cameroon.

Data from NIS reveal that of the 1.1% inflation rate in 2007, the price index of transport and communication rose by 2.3%, followed by food, beverages and tobacco (1.4%). Household spending and healthcare price index increased by 1% each. The increase in the price of foodstuffs was mainly due to a 6% rise in the price of food products, 38% of imported cereals and by-products and of crude palm oil (37%).

Table 8: Trend in price index and inflation

	2003	2004	2005	2006	2007
General index	180.9	181.3	184.9	194.1	196.2
Food price index	203.9	199.9	201.6	214.8	218.1
Inflation rate		0.2	1.9	5.0	1.1

Source: NIS

2.7 Competitiveness

According to the Department of Economic Affairs of the Ministry of Finance, Cameroon's economy observed a gain in international competitiveness in 2006 and 2007. This gain in international competitiveness was largely limited by the loss in competitiveness of Cameroonian exports to international markets. This loss of competitiveness of exports was more than compensated by rapid increase in international prices, leading to a low gain in composite REER.

Competitiveness was measured by the real effective exchange rate (REER). The REER is a real concept that measures the relative price of two goods. The REER is defined as a weighted average of a country's currency (units of domestic currency per unit of foreign currency) relative to the ratio of tradable goods to non tradable goods. The REER is a good proxy of a country's degree of international competitiveness. A decline in the REER or appreciation reflects a decline in the country's international competitiveness as the domestic cost of producing tradable goods increases. An increase in the REER or depreciation reflects an improvement in the nation's competitiveness at international markets.

Table 9: Trend in Cameroon's REER (%)

	2003	2004	2005	2006	2007
Composite REER	2.4	0.3	-2.7	0.4	0.5
REER of imports	1.7	-1.1	-2.3	2.1	0.5
REER of exports	3.9	2.2	-3	-2.5	-0.4

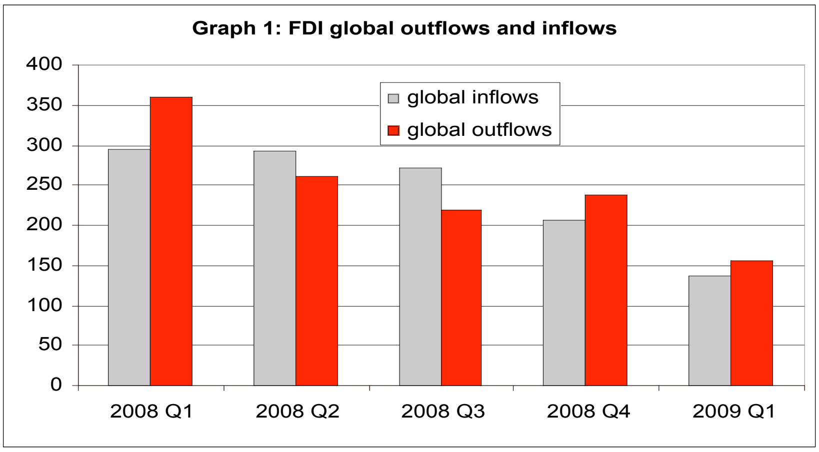
Source: MINFI/DEA

3. Global economic and financial crisis and its effects on the global economy

The global financial crisis up surged in the USA in the middle of 2007 when the sub-prime lending practices of the american's economy during the last ten years led to an important level of "toxic assets". Toxic assets in turn hit the banks that started collapsing, one after another. The failure of the banking institutions spread to the rest of the world, firstly in Western Europe, in Japan and then in emergent countries before affecting Africa.

As a result, many financial institutions reduced their lending activities because of increasing debt burden. Those who escaped from collapsing continued applying drastic measures. These measures rapidly led to lower investments and lower household's consumption. The crisis then affected the real sphere of all economies with a higher speed in the context of globalisation that has increased interdependency and interconnectivity.

As a consequence of the crisis, transnational corporations have been confronted by increasing uncertainties that have affected the world economy in the short run. That led to a decline in their foreign direct investment expenditures by the end of 2008 up to 2009 as show in figure below and where its can be observed a drop in both FDI inflows and outflows in selected countries representing 60% of total inflows and outflows. The reduction in FDI is accompanied by cuts in workforce in companies worldwide.



Source: UNCTAD, July 2009

In the USA, stock markets failed, precipitating the world stock markets in the same trend. World financial institutions such as Lehman Bros, Freddie Mac, Merrill Lynch… have collapsed or have been bought out. Governments in developed world came up with rescue packages to support their financial systems without totally controlling the collapsing process. Some examples outlined the reaction of governments in order to overcome the impact of the crisis in their respective economies. The US centred its $700 billion rescue package on buying distressed assets from bank and supporting some other activities. Britain came out with ($ 680 billion) European Union ($ 1370 billion) to protect their respective economies from the effects of the crisis. The intensity of the crisis called for new rescue packages in many countries such as Germany.

Based o this behaviour of governments in Developed world, some did not hesitate to analyse the situation as the resurrection of the Keynesian economics whose paternity should be attributed to Gordon Brown, the UK Prime Minister. In fact, by earlier October 2008, UK Prime Minister announced a massive injection of funds in UK banks in order to re-launch inter bank credit necessary for the financial system sustainability. His decision stood as a world example to support economies hardly hit by the crisis. According to Keynesian economics, private sector (or market) decisions sometimes lead to inefficient macroeconomic outcomes, outlining the importance of the public sector to stabilise output in the long run based on important State intervention.

As the crisis continued, international financial institutions such as IMF and the World Bank started revising the world's growth downwards. According to recent estimations, the world economies would face a decline in output of -1.3% in 2009 after a slow down of 3.2% in 2008 as compared to 5.2% growth in 2007. Advanced economies will be the most hit by the crisis while emerging and developing economies will suffer a slow down in their output growth.

Table 10: Projection of the world economic outlook

	Observations		Projections, July 2009	
	2007	2008	2009	2010
World output	**5.1**	**3.1**	**-1.3**	**1.9**
Advanced economies	2.7	0.8	-3.8	0
United States	2	1.1	-2.8	0
Euro area	2.5	0.8	-4.2	-0.4
United Kingdom	2.6	0.7	-4.1	-0.4
Canada	2.5	0.4	-2.5	1.2
Japan	2.3	-0.7	-6	1.7
Emerging and Developping Countries	8.3	6	1.5	4.7
Africa	6.2	5.2	1.8	4.1
Sub Sahara Africa	6.9	5.5	1.5	4.1

Source: WEO, Update July 2009, IMF

At the international level, many countries amongst which France played and important role, advocating for a more 'moral' capitalism. As a result, controlling traders' bonus is now a worldwide reality. At the same time, the G7+1 is smoothly being substituted by the G20 where transition or emergent countries like China, India, Brazil, South Africa …have become more and more present in decision making for the world economy. The IMF also integrated this reality in its activities.

Because of its weak integration into the global financial system, Africa that represents about 1.3% of the world stock market capitalisation, 0.2% of debt securities, 0.8% of bank assets and 4% of foreign direct investment (confer BBC), did not suffer enough from the first run of the crisis. However, by weakening the demand of African exports and reducing access to liquidity in developed countries at government, firms and individual levels, Africa has suffered second round effects of the crisis.

The literature (see for example Ibi Ajayi 2009, Ademola 2009, Ajakaiye O. and Fakyesi 2009…) outlines that the crisis has affected African countries from the second round through a multitude of channels such as : trade, public revenue, remittances, financial flows, foreign direct investment. The economic structure of the country is also an important factor determining the extent to which this country is affected. In the Section below, based on the above mentioned channels, I discuss to which extent the crisis has affected Cameroon's economy that is deeply dependant on imports of food and equipment products on one hand and exports of crude oil an some raw materials (cocoa, coffee, banana, rubber, woods) on another hand.

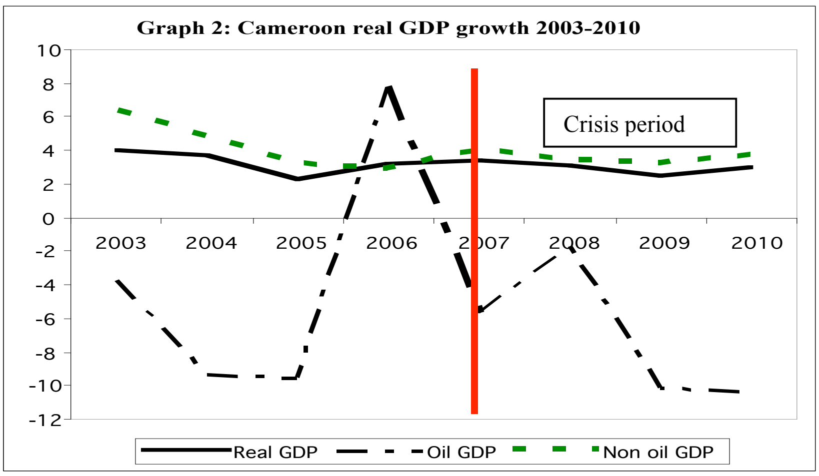
4. The Global economic and financial shocks and the cameroonian economy

The Analysis distinguishes macroeconomic impact from sectoral impact. Macroeconomic impacts deal with growth and poverty, government finance, inflation, employment, external trade, remittances and foreign direct investment. Sectoral analysis is limited to some important sectors which have been rapidly affected by the crisis and for which some information were available.

4.1 The macroeconomic impact of the crisis

4.1.1 Growth, poverty and inequality impact

One of the biggest issues of the economic and financial crisis is its impact on growth. For this concern, recent data outline that Cameroon real GDP growth has lowed down in 2008 and will continue its decline in 2009 to represent 2.5% against 3.1% in 2008 and 3.4% in 2007. Oil GDP will accelerate its downwards trend in 2009 around -10% as a result of combined oil price volatility and diminishing oil production. Real GDP growth would certainly limit its fall to represent 3.3% in 2009 against 3.4% in 2008 and 4% in 2007. As projected in many economies, recovering is expected to be observed by 2010 in Cameroon.



Source: computed using data from MINFI, DEA, May 209

The impact of the crisis on growth can help extrapolate its impact on poverty. This can be done based on the growth elasticity of poverty approach. According to this approach, economic growth is a fundamental of income poverty reduction, meaning that as an economy grows, it is expected that growth benefits to all populations, leading to lower poverty. This approach has been widely used to recap the impact of growth on poverty alleviation worldwide. In Cameroon and as an example, Fambon (2008), using the method proposed by Shapley (1999), decomposed the evolution of poverty in Cameroon into a growth effect linked to increases in income, and a redistribution effect resulting from changes in inequality. Results outline a growth effect of -0.1151 meaning that a one percent change in growth would lead to a 0.1151 reduction in poverty headcount index. These figures are -0.1201 in the urban sector and -0.1003 in the rural sector.

Taking 2007 as reference year where Cameroon growth rate was estimated at 3.4%, the country faced a slow down leading to 1.24% growth loss between 2008 and 2009 projections. If one supposes that the slow down is totally due to the economic and financial crisis, this will result to an increase in poverty headcount of about 0.14. At the same time, the intensity and severity of poverty would have increased, moving from 12.3 to about 12.4 and from 5 to 5.04 as shown in table below. In spatial terms and using absolute figures, the crisis has been more severe in the urban area with an increase in poverty headcount of about 0.15 point against 0.12 in rural area. This figure is more pronounced if one considers relative terms 1.2% as compared to 0.2% (0.15/12.2 as compared to 0.12/55). This corroborates the fact that in Cameroon as in many African countries, the crisis has most affected city dwellers who have been more exposed to food crisis, loss of jobs or dismissals in formal activities because of the crisis.

Table 11: the impact of the crisis on poverty and inequality, an extrapolation

	2007			2009		
	P0	P1	P2	P0	P1	P2
National	39.9	12.3	5	40.04	12.37	5.04
Urbain	12.2	2.8	1	12.35	2.9	1.03
Rural	55	17.5	7.2	55.12	17.56	7.24

Sources: NIS (2007) and own calculations (2009)

4.1.2 Government finance

The implications of the crisis for government budget can be quantified as observed in table below. As a consequence of the crisis, adjustments in both revenues and expenditures have been necessary to keep the country macroeconomic equilibrium as to pursuit the main development policies undertaken by the government.

In fact, the volatility of oil revenue because of the crisis has affected Cameroon budget execution in 2009. Of the 519 CFA billion voted, the country was told to be able to realise about 390 billion, leading to a revenue gap of more than 129 billion. At the same time, non oil revenues would have suffered a total gap of 80 billions as of the 1535 billions estimated in 2009, only 1454 are likely to be realised.

Table 12: budgetary revision and realization 2009

	2009 voted	2009 revised	Differential 2009	First quarter results based on 2009 revised budget		
				Observed realizations	Expected realizations	Differential
Total revenues	**2301.4**	**2091.4**	**-210**	**444**	**523**	**-79**
Oil revenues	519.4	389.9	-129.5	43.2	98	-54.8
Non oil revenues	1535	1454.5	-80	388.5	364	24.5
Other revenues	247	247	0	12.3	62	-49.7
Total expenditures	**2301.4**	**2091.4**	**-210**	**373.1**	**523**	**-149.9**
Current expenditures	1359.8	1359.8		279.2	340	-60,8
Capital expenditures	597	597	-210	81.4	150	-68.6
Public debts	344.6[2]	134.6		15.2	34	-18.8

Sources: compiled from MINFI/DAE, May 2009[3] and own calculations

The adjustment in government total revenue calls for an equivalent adjustment in total expenditures. Based on the above mentioned table government might, instead of disbursing 93 CFA billions of public debt of the banking sector, increase its debt to this sector by about 117 CFA billions in order to compensate losses observed in public revenues.

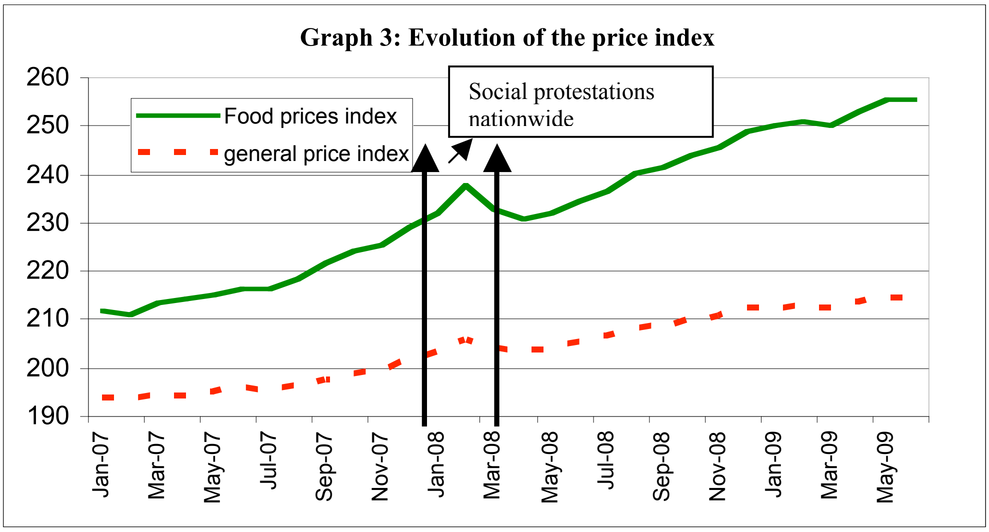
Based on 2009 revised budget, Cameroon has poorly performed during the first quarter. Apart from non oil revenues that were higher than what was expected, Cameroon has not been able to realise the average rate necessary for the achievement of the revised budget revenues and expenditures, leading to important differentials. Such differentials are not to support growth.

4.1.3 Inflation

The crisis has affected the world output growth. That led in some sectors (food stuffs for example) to a disequilibrium between increasing demand due to increase in population, and diminishing supply due in turn to low investments on one hand and natural environmental crisis characterised by widespread and unpredictable floods and/or long and unpredictable dry seasons in producing countries. This situation accelerated inflation in Cameroon that rapidly moved from 1.1% in 2007 to reach 5.5% in 2008. During the first semester of 2009 inflation rate is estimated at about 4.5%.

In the figure below, on can observe how the crisis has accelerated the price index that moved from 191 in January 2006, 194 in January 2007 and 204 in January 2008 and 212 in January 2009 according to the National Institute of Statistics. The rapid increase between 2007 and 2008 led to social movements nationwide as people realised how rapidly their purchasing power was declining.

[2] Of which 93.1 from the banking system, 97.9 from external debt and 153.6 from domestic debt
[3] Fiche Technique sur l'impact de la crise, MINFI



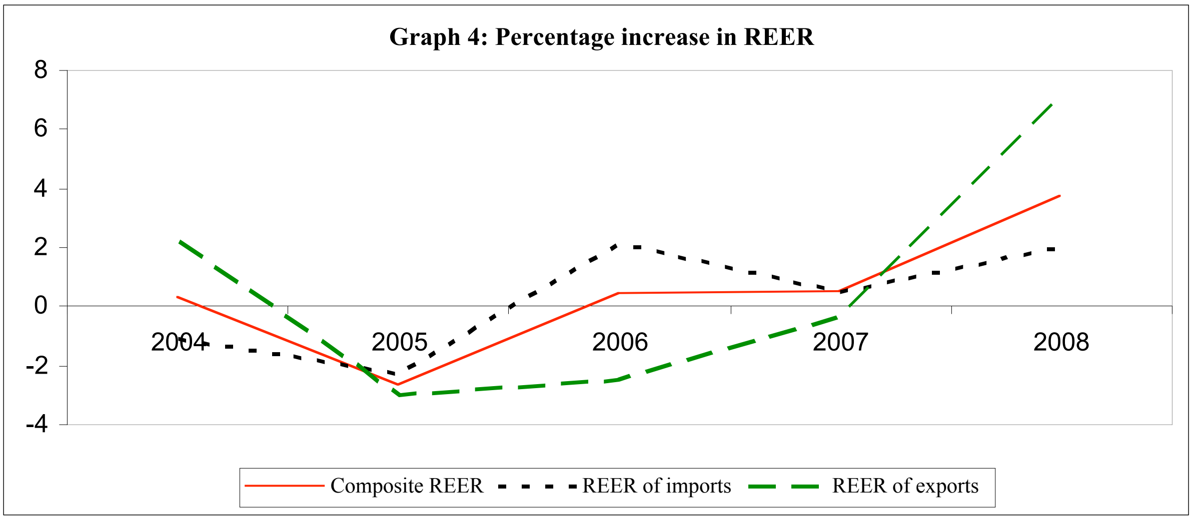
Source: NIS

The crisis has accelerated the movement of the price index that was already upward in the earlier 2007. Data outline that food price has the most increased. This increase would have been higher in the absence of government intervention to limit the upwards trend. In fact, following the February 2008 events, Government has reduced or cancelled duties for some imported products. Tariffs disarmament concerned food prices, construction material prices and agricultural inputs like fertilizers and pesticides.

Note that inflation accelerated in Cameroon via the increase of the world price for cereals and other food crops generally due to export limitations in producing countries such as China, Pakistan, Thailand, and Vietnam to consider the case of rice. According to FAO data, food crops price index moved from 139 to 219 between February 2007 and February 2008. Cereal and milk products registered the highest increase in prices. As an example, exports prices for US wheat represented 375 US dollars per ton in January 2008 against 440 US dollars in March of the same year. During the same period, Thai rice price increased from USD 365 per ton to USD 562 per ton. Inflation has also a domestic source to be found in higher prices for palm oil, meet and many food crops such as plantain, cassava and green vegetable. Data from SAILD (2007and 2008*)*, an NGO the activities of which are concentrated in the development of the rural sector outline that many food crops registered an increase in price of two digits between 2006 and 2008.

4.1.4 International competitiveness

Between 2007 and 2008 (estimates), Cameroon's REER increased about 3.7%, underlining a gain in international competitiveness. This gain can be explained mostly by the rapid increased in imported good prices. Note that as discussed in the above paragraph, inflation observed in Cameroon was mostly imported through the world price of food products. The increase in international competitiveness of Cameroonian products did not lead to higher sales at international markets. This paradox can be explained by the fact that its main export markets (European Union) was hit by the crisis, limiting or reducing exports demand for Cameroon's products.



Source: Own calculations based on MINFI data

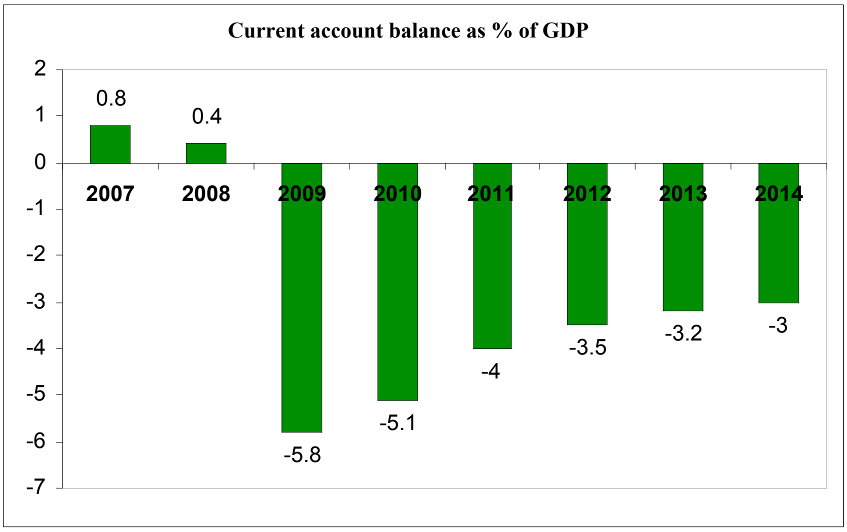
4.1.5 Employment

According to the ministry in charge of forestry and as of February 2009, the crisis led to 11% technical unemployment and about 14% of redundancies in the forestry sector. In May 2009, the number of jobs destroyed following the surge up of the crisis was estimated at 3000 in the forestry sector. In the aluminium sector, while about 300 jobs were destroyed as a consequence of the decline of the aluminium price, several job creation programmes have also been cancelled. The tourism sector experienced a slow down in its activities consecutive to the decline in revenue from their potential clients from developed countries. The contraction of activities in these sectors, combined with the same contraction in cotton, rubber, fresh banana among others, would affect the rest of the economy in reducing employment.

4.1.6 Current account Balance

As shown in the figure below, Cameroon's current account balance suffered a deep deterioration as the crisis started affecting the country in 2008. Cameroon's current account balance was reduced from about 1% of GDP in 2007 to 0.4% in 2008. The projected figure in 2009 is a negative current account balance representing nearly -6% of GDP. According to IMF projection, the recovery will be slow. No sign of positive current account balance is projected between 2009 and 2014.

As an explanation, one must take into consideration the slow down and even the drop in the prices of the main exported commodities of which crude oil, aluminium, timber and woods, cocoa … play an important role as it will be seen in sections below.



Source: WEO IMF, April 2009

4.1.7 Remittances

Another important channel of crisis transmission to Cameroon is remittances. As an important source of foreign exchange earnings in developing countries, remittances have become an important channel of crisis transmission. Globally speaking, in developing countries, remittances inflows annual growth rate has rapidly declined from 23% in 2007 to 9% in 2009. Sub Sahara Africa is the most affected region. This region has observed a rapid decline of remittances inflows growth rate between 2007 and 2008, moving from 46% to 5%. In Cameroon, the effect has been more severe as the country's annual growth rate of remittances inflows represented 28% in 2007 and zero percent growth rate in 2008, foreseeing negative growth rate in next years.

Table 20: Remittances inflows in Cameroon: the effect of crisis

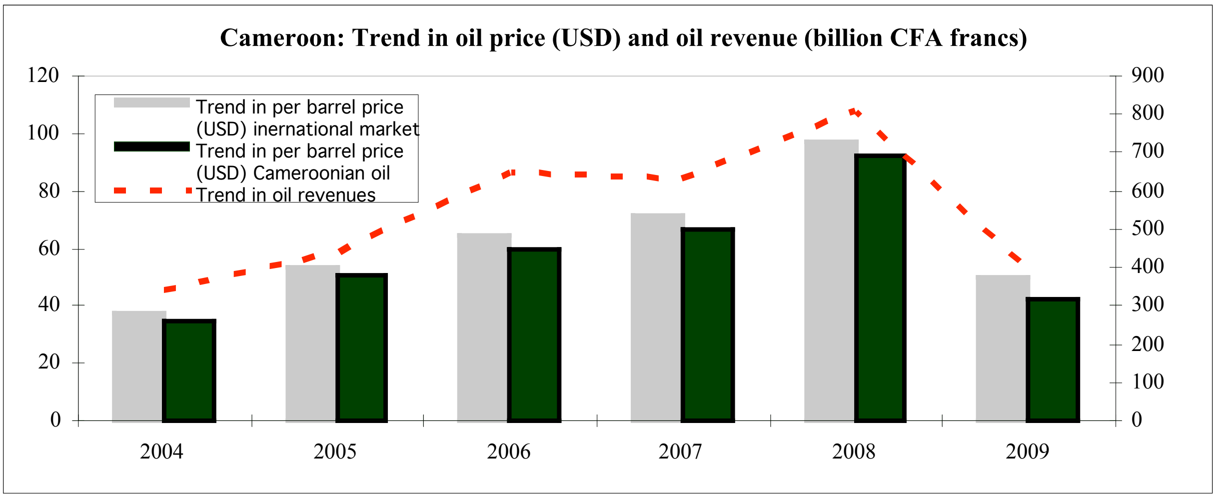
	2006	2007	2008e
US$ million			
Developing countries	229 000	281 000	305 000
Sub Sahara Africa	13 000	19 000	20 000
Cameroon	130	167	167
Growth rate (%)			
Developing countries		23%	9%
Sub Sahara Africa		46%	5%
Cameroon		28%	0%

Source: compiled from World Bank Data base (2009)

4.2 The impact of the crisis in selected sectors

4.2.1 The oil sector

Between 2005 and 2007, exports of crude oil represented about 45% of Cameroon total exports. Oil revenues accounted for 35% of total government revenues. The oil sector is therefore one of the fundamentals of Cameroonian economy. Consequently, oil price is also an important determinant of Cameroon economic equilibrium. Oil price has been volatile in recent years. This situation has negatively impacted the country's external reserves position as well as government finance equilibrium.



Source: Computed using data from MINFI, DEA, 2009;   2009 = first quarter

Oil price instability has caused Cameroon to readjust its revenue projections in 2009. When the country voted its budget in 2008, the average price of oil barrel used in projecting government revenues was around 70$. The price rapidly increased in the second half of 2008 to represent an annual average of 97$. However, the slow down in global economy that has been generalised in 2009 led to a rapid decline in per barrel price. In the earlier 2009, Cameroon oil was sold 42.5 $ against 92.5 in 2008. As a consequence, government faced a revenue gap of about 130 billion CFA francs because projected revenue could not be attained.

4.2.2 The crisis and the industrial sector

According to the quarterly survey of GICAM[4], data outline that, compared to the 2007 figures, the national industrial production index has declined by about 1% in 2008 as a consequence of a diminishing demand from exports markets. Textile industry (-15.6%), paper and plastic industries (-11.7%), agro industries (-7.6%), cement and metallic industries (-1.5%) suffered the most. This poor performance is a consequence of a decline of -22% in exports of industrial products of which -35% in the CEMAC market and -11% in the non-CEMAC market. Textile industry, beverages and tobacco, food products and cement and metal industries faced their first decline in output production since 2004, outlining the important impact of the crisis in these sectors.

[4] GICAM is the organization of Cameroonian entrepreneurs

Table 23: The effect of the global crisis on Cameroon's industrial sector

	2004	2005	2006	2007	2008	2008/2007 (in %)
Production index, base 100 = 1995/1996						
Industrial production index	**162.5**	**158.7**	**164.9**	**174.7**	**173.5**	**-0.68**
Non manufacturing industry	160.4	157.5	175.9	194.9	196	0.54
of which agro industry	121.7	129.2	121.6	104.9	97	-7.6
Manufacturing indusrty of which	164.4	159.8	155	156.3	153.1	-2.07
textile industry	64.7	65.5	71.5	92	77.7	-15.6
paper and plastic industries	86	79.4	81	78	68.9	-11.7
chemical industry	84.4	80.9	82.8	108.9	119	9.3
beverages and tobacco	111.8	104	116.8	109.7	116.3	6
food products industry	295.4	283.4	321	418.6	417.3	-0.3
cement and metal industry	109.4	118.4	131.4	133.9	131.8	-1.5
Sales, net of taxes (billion CFA Francs)						
Total sales, net of taxes	**1318.6**	**1505.3**	**1624.4**	**1737.2**	**1919.9**	**10.5**
Sales in domestic market	***862.3***	***964.2***	***1014.4***	***1109.7***	***1431.5***	***29***
Sales in exports market	***456.2***	***541.1***	***610***	***627.6***	***488.4***	***-22.2***
Exports to CEMAC market	69.9	70.1	217.8	285	185.5	-34.9
Exports to non CEMAC market	386.3	470.9	392.2	342.5	302.9	-11.6

Source: GICAM (June, 2009)

Because of rapid increase in imported goods (most inflation was partly imported), the secondary sector of Cameroon has benefited from the substitution effect in favour of domestic products, leading to a higher increase in domestic sales. The increase in domestic sales has more than compensated the decrease in exports value in both CEMAC and non CEMAC markets, explaining an average increase of 10.5% in total sales. It can therefore be said that the crisis has had an advantage in Cameroonian secondary sector in the way that local production became preferable to imported products. If this shift last for a long time, that would be a positive effect because consumption behaviour would shift toward domestic products.

4.2.3 Some other sectors

Forestry

Forestry represents about 8-10% of Cameroon GDP and is among the top three sectors in terms of employment, with about 300 to 350 billion CFA Francs of total sector sales. This sector has been one of the first sectors to be hit by the crisis. In fact, the global economic and financial crisis affected this sector in its earlier stage, leading to purchase order cancellations. By the end of October 2008, the sector suffered a 50% reduction in its total purchase order. Combined with a 25% to 30% decline in its export price, this led to about 3000 jobs reduction. The deterioration of the sector continued in 2009. An analysis of different forest products outlines a continual decline in quantity exported between the first quarter 2008 and the first quarter 2009.

Table 22: Exports of selected forest products in m^3

Type of product	**Q1 2008**	**Q1 2009**	Absolute Variations	Variations in %
Rough timbers	*59000*	*77000*	18000	+13,23%
Sawing	*149000*	*86000*	-63000	-26,80%
plywood	*4000*	*2000*	-2000	-33,33%
veneering	*17000*	*6000*	-11000	-47,82%
flooring	*1000*	*0*	-1000	-100%

Source: Ministry of Forest and Faun, Regional delegation, Douala, April 2009

Cotton

In 2008, a World Bank Study on Agricultural Competitiveness in Cameroon revealed that Cameroon was competitive at international market for cotton despite prevailing lower price. However, as the crisis came out, China, the world most important producer and consumer withdrew from the market, leading to a drop in cotton prices. As an example, during the fourth quarter 2008 cotton price went down to 17.5% as compared to the third quarter. This trend continued in the first quarter 2009 with a price decline of about 3.5%. Combined with a rapid increase in fertilizers prices, cotton sector profitability in Cameroon has been deeply jeopardized. In 2008, Cameroon cotton export revenues was estimated at 38.5 billion for 69 600 tons against 69 billion CFA francs in 2007 for a quantity of 132 125 tons, underlying important difficulties in this sector.

Cameroon cotton had one of the best perspectives in Chinese market. With one of the highest growth rate of the World, China imports from Cameroon would have certainly boosted the cotton sector as to support this growth. However, with the surge of the crisis that hit China, Cameroon automatically lost an important export market. The living conditions of the estimated 350 000 cotton farmers in the northern region have certainly been affected by this new market orientation.

Rubber

Data from GICAM (2009) outline that many other important sectors have been affected by the crisis in Cameroon. This is the case of rubber whose price declined about 43% during the fourth quarter 2008. The sector exports that represented about 46 000 tons in 2006 declined to 38 000 tons in 2007 to reach 33 000 tons in 2008. The main rubber producers in Cameroon, HEVECAM, CDC and SAFACAM are the most concerned by this situation.

Aluminium

According to GICAM, aluminium price decline about 55%. Increase in quantity produced was not sufficient to maintain aluminium exports revenue that experienced a 5.6% decline in 2008. The most important impact of the crisis would be certainly in the level of huge investments that were about to be launched and whose realisation can be postponed or reduced as a consequence of the present crisis. The non realisation of such investments would have important draw backs in Cameroon economy.

5. Policy implications

Government responses to the crisis and potential policy options are the main points discussed in this section. After realising both intensity and severity of the crisis, the Government came out with important policies as to reducing the impact of the crisis on Cameroonian populations. These policies and many other important options are discussed in order to appreciate the reaction of the authorities.

5.1 Government response to the global crisis

In February 2008, Cameroon faced social riots as population went out to protest against increasing living conditions nationwide. This included rioting against the higher price of petrol at pump and the rapid food price increase and building materials scarcity that also led to higher price of related products.

As to limit the impact of this crisis on populations, the government of Cameroon increased salary in the public sector by 15%. This increase was combined with an increase of 20% in housing indemnity. Because this policy only concerned public servants, some other measures have been taken in order to cover all populations. That is why Cameroonian authorities also decided to reduce and/or to cancel duties on some goods of first necessity and construction material. In the financial sector, the minister of finance decided the reduction of bank commission as to protect consumers' purchasing power.

Table 24: Selected government important decisions to tackle the crisis

Decisions	Expected Beneficiaries	Projected effect	Time horizon
15% salaries increase in public servant + 20% of housing indemnity	Public servants	Limiting the decline in Purchasing power	Short time
Exoneration of import of first necessity goods (rice, fish, wheat, vegetable oil)	All populations	Limiting the decline in Purchasing power	Short time
Suspension of duty on imported wheal	All populations	Limiting the decline in Purchasing power	Short time
Increase in import quotas palm oil		Increase oil supply	Short time
Decrease in duties on imported clinker	All populations	Increase local cement competitiveness and decrease the cost of construction, limiting purchasing power	Short time
Promoting employment	Youth and unemployed	Reduce unemployment	Medium term
Comity set up for the reflexion on the impact of the financial crisis	Government	Proposing policies to limit the impact of the crisis and solutions to come out of the crisis	Short term
Revising the structure of petrol products price		Limit the increase of pump price of petroleum products	Medium term
Accelerating the process of launching investment projects	Mining, energy, agriculture	Increase supply in agriculture, energy and mining	Medium term

Source: The Republic of Cameroon (2008): *Communique de Presse Issue* of March 07, 2008 (decisions)

5.2 Some potential policy options

The main objective in Cameroon as revealed by Vision 2035and the DSCE is the acceleration of sustainable growth combined with poverty and inequality reduction. The advent of the crisis has deteriorated the external environment for the above mention objective: failing commodity prices leading to lower exports revenues; increased in food price jeopardizing food security and therefore social stability; lower investments reducing job creations opportunities; firms financial difficulties leading to job destructions; external aid limitation as donor countries has been hit by the crisis; government financial instability leading to budget revisions an then many development projects risking to be cancelled or postponed…

An analysis of the structure of export revenues reveals that Cameroon gains more than 65% of its total exports revenue from only six products namely: crude oil, cocoa, banana, coffee, timber and rubber. This structure does not guarantee stable export revenues as commodities are subject to price volatility. To respond to the global economic and financial crisis and as to achieve its sustainable growth, Cameroon need to adopt a strategy that consist in both short term and long term policies. Most of the measures adopted by Government can be seen as short-term measures.

In fact, reducing import duties and removing import quotas for example cannot be long term solutions to support households' living standard. Policies aiming at shifting demand from imported goods to domestically produced goods would be advantageous for at least to points: in reducing dependency from imports and in increasing job opportunities nationwide. As an example, shifting demand of rice from imported rice to domestically produced rice would be a policy supporting at the same time food security, growth acceleration, job creations, poverty and inequality reduction. Such policy is very welcome in Cameroon if the country would like to meat its main goals as presented in the Vision 2035.

Richly endowed by natural resources and agricultural land, the global economic and financial crisis should not be considered only as a challenge. The crisis is also an opportunity for Cameroon. In fact, rapid increase in food production can be an important asset for Cameroon whose population, both poor and non poor, can consider as a mean of increasing revenues. Cameroon demand for food product is very important in both domestic and exports market. Nigeria, the CEMAC, the CEAAC are potential export market for Cameroon food products. Increasing food supply in these markets means higher revenues and higher job opportunities countrywide. Policy aiming at increasing agriculture production in both small scale and large scale levels would boost growth while increasing job creations and household revenues.

At industrial level, Cameroon needs to encourage non-traditional exports. An example of opportunity to apply this policy is the Doha Round. Industrial competitiveness friendly policies would certainly limit the impact of the crisis in the secondary sector. These policies may concern incentives in investment (both equipment capital and human capital), in production and in sales. Such incentives go together with an improvement of the nation's business environment as well as the improved provision of infrastructural services of which electricity supply is a fundamental. Cameroon may face a slow down in its industrial activity if electricity supply cannot meet the demand as observed during the first quarter when AES-SONEL asked ALUCAM, the aluminium producer to reduce its production because of limited electricity supply. According to ALUCAM, such a decision was estimated to lead to 40% output reduction in this company (confer MINEFI 2009, May, page 3). Taking into account both direct and indirect effects of such decision, it is logic to project a slow down in economic activity in the absence of long term investments in electricity supply.

Financing growth is also an important point policies should emphasise. Cameroom's banking system is said to be over liquid. In a developing country like Cameroon who lacks funds to finance its development, banks over liquidity contrasts with low investment to sustain growth. Actions are necessary to drain banks over liquidity to productive and profitable investments as to benefit from unused funds necessary to support long term growth.

6. Concluding remarks

The global economic and financial crisis has affected the world economy, starting with the most developed economy that controls the world financial systems, then after the emergent, and finally the developing world. The intensity of the crisis defers from one group of countries to another. If the crisis has hit the developed world directly, hardly and earlier, most of developing countries have been hit indirectly and after a delay. In Cameroon, the impact of the crisis can be observed trough developing countries' traditional channels through which they participate in the world economy.

Globally speaking, the global economic and financial crisis has had some negative implications in Cameroon's growth. Extrapolation of the growth impact leads to a deterioration in poverty ad inequality indicators. Government finance, inflation, employment, current account balance, remittances have also been negatively affected by the global economic and financial crisis. Even though the international competitiveness of the country has increased, the reduction in demand of Cameroon's exports to developed countries affected by the crisis did not help the country increase its exports to this market. In term of sectoral analysis, the crisis has deteriorated economic activity of the forest sector, the oil sector, cotton, rubber and aluminium sectors.

The Government has rapidly undertaken important measures to overcome the negative impact of the crisis on populations. Theses measures have had a positive impact. However, they need to be accompanied by long term measures aimed at changing the structure of the Cameroonian economy from dependent on imports of food products and on imports of limited number of raw material to self sufficient in food production and diversified exports. The crisis is also an important opportunity for Cameroon that can increase and diversify its exports revenues because of increase food price in presence of increase demand in both sub regional and international markets.

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