Fitch Maintains Cameroon's Rating At "B" With Negative Outlook

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Introduction

In its most recent World Economic Outlook, the IMF praised Cameroon as one of the few countries that continues to invest while reducing its debt burden. That is good, but reducing debt burdens is not sufficient to lower our borrowing rates in international markets. Meanwhile, Fitch Ratings has given Cameroon a "B" with a negative outlook. In this article, we look at the main drivers of Cameroon's rating and propose three strategies to improve its credit rating over the long run.

What Influenced Cameroon's Recent Rating ?

1. Strong GDP and Falling Debt Levels Drove Cameroon's Debt Rating :

Cameroon's 'B' rating is supported by a diversified and resilient economy, moderate levels of government debt, and a falling deficit with a manageable maturity schedule. Fitch forecasts general government debt to fall to 39.2% by 2025, driven by low fiscal deficits and strong GDP growth.

- Resilient GDP Growth : Fitch forecasts Cameroon's economy will grow by 3.9% in 2024 and 4.1% in 2025, from an estimated 3.3% in 2023. As oil production will decline in 2024 and 2025, growth will be driven by non-oil sectors notably agriculture, forestry, and transport and energy infrastructure boosted by large public investments. Downside risks stem from renewed inflationary pressures, volatile global commodity prices, lower external demand from key trading partners, weak project implementation, and persistent security risks.

- External Position: Cameroon's current account deficit will fall slightly and the projected decline in oil exports will be partly offset by higher value-added exports supported by policies to promote non-oil exports and import substitution. Secondly, The Economic and Monetary Community of Central Africa's reserve position strengthened in 2023, at USD 11 billion at end-2023, covering 4.9 months of imports, due to higher oil export receipts and stronger compliance with foreign-exchange regulation.

2. Political Uncertainty and Poor Governance Hold Back Rating :

Persistent PFM weakness due to poor treasury management, underestimation of spending, unplanned security expenses, fuel subsidy carry-over, and accumulation of domestic arrears. The stock of arrears almost doubled in Q1 2024, which is worrying (Figure 1). The fuel subsidy carryover (0.4% of GDP) to 2024 means the deficit declined on a cash basis from 1.2% in 2022 to 0.4% of GDP in 2023.

"CEPI applauds reforms to improve debt payment capacity, such as making transfer orders available to the regional central bank (BEAC) sooner and enhancing communication and coordination between all intermediaries". Mr. Henri Kouam

Cameroon's Fiscal Deficit Dynamics in 2024

The fiscal deficit will likely fall to 0.5% in 2025, due to lower oil prices and production, but non-oil revenue will increase owing to revenue administrative measures, digitalization of processes, and tax exemption reductions. Even so, the cash deficit is expected to widen due to a bloated public sector and large infrastructure investments.

Limited Financing Options

Cameroon's financing needs for the budget will increase again in 2024 due to higher cash deficits. As a result, CEPI expects external debt amortization to average 1.9% of GDP in 2024 and 2025, including a Eurobond payment of 0.1% of GDP per year. However, reform momentum will unleash IMF funds under Cameroon's current program.

Elections Could Slowdown Reforms

As Cameroon enters an election year, the credibility and durability of reforms and spending caps will be tested, especially as the election could slow the implementation of the reform, including fuel subsidies reduction (budgeted at 0.6% of GDP in 2024 from 3.7% in 2022), through additional pump prices increases, after 15% in 2024 and 21% in 2023.

Cameroon's IMF program

In 2024, the IMF concluded the fifth review under the Extended Credit Facility /Extended Fund Facility, disbursing 0.2% of Cameroon's GDP. Approving the 12-month extension means Cameroon must and should do more to accelerate the implementation of reforms. The 12-month extension of the programs to July 2025 (0.4% of GDP), and approved a $183 million (0.6% of GDP) arrangement under its Resilience and Sustainability Facility. However, Cameroon faces limited domestic financing flexibility.

What Could Cause a Rating Downgrade?

- New external arrears accumulation and/or heightened fiscal and external financing pressures could negatively impact public finances and Cameroon's external position.

- Secondly, heightened political instability or security threats particularly if they are significant, could impact economic activity and access to finance. As the Anglophone crisis persists, Cameroon will inadvertently pay more when borrowing in international markets.

- A marked and sustained increase in government debt/GDP, for example, as a result of a widening in the budget deficit due to social or security pressures or weaker GDP growth could worsen public finances and cause a rating downgrade

What Could Improve Cameroon's Credit Rating ?

- Public Finances: Sustained improvements in public finance management sufficient to improve confidence in Cameroon's ability to prevent the accumulation of external arrears and obtain external funding on time.

- Structural: A material easing of political and security risks, for example, as evidenced by reduced risks around the eventual presidential succession or an improvement in governance indicators.

- Macro: Improvement in medium-term growth prospects that results in a significant increase in GDP per capita, for example, following the implementation of reforms that improve the business climate and diversify the economy

Recommendations

The government should improve treasury management by limiting the use of direct interventions by the National Hydrocarbons Corporation and of exceptional spending procedures, such as capping treasury advances without a budget allocation to XAF15 billion per quarter. However, security risks could result in unplanned expenditures.