

RESEARCH REPORT

MACROECONOMY

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Cameroon : 2020 Finance Act Draft Confirmed status of a **model student** in the **CEMAC** class ...

- 03 | Improved indicators and persistent weaknesses
- 04 | Economic imperatives of Cameroon
- 05 | 2020 FAD : consistent assumptions
- 06 | A limited leeway
- 07 | Tax measures which set priorities and novelties



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| GROWTH RATE |



+0 BP

| | |
|----------|------|
| 2020 FAD | 4.0% |
| 2019F | 4.0% |

| FISCAL DEFICIT |



-20 BPS

| | |
|----------|------|
| 2020 FAD | 2.1% |
| 2019F | 2.3% |

| OVERALL EXPENSES |



-5.0%

| | |
|----------|---------------|
| 2020 FAD | FCFA 4,952 Bn |
| 2019 FA | FCFA 5,212 Bn |

| CAPITAL EXPENDITURE |



+1.2%

| | |
|----------|---------------|
| 2020 FAD | FCFA 1,496 Bn |
| 2019 FA | FCFA 1,478 Bn |

EXECUTIVE SUMMARY

Cameroon is a model student of the CEMAC class. Its economy represents 40% of the region's GDP. Its growth rate is the most sustained among the actors in the region. Its development level calculated by the HDI is also the most advanced (Cf. [Macroeconomic report related to Cameroon](#)). Likewise, Cameroon takes center stage of CEMAC through its best practices.

It must be said that the economic context of the Region calls for great discipline in the conduct of economic policy. As a reminder, IMF assistance to CEMAC countries is conditioned by the implementation of a plan which aims to restore fiscal and external balances.

Thus, the Finance Act Draft (2020 FAD) is an opportunity to pursue budgetary consolidation through a reduction in exemptions, an improvement in customs and tax revenues, as well as a prioritization of investment expenses. It is also an exercise in which Cameroon is called upon to support public enterprises, promote non-oil diversification and help create a climate more conducive to private investment.

This being said, this draft law occurs in a somewhat complicated period. First, the year 2020 will give rise to a double legislative and municipal polls, which are likely to delay major decisions while retaining a sense of continuity. Then, the approaching African football competitions (CHAN 2020 and CAN 2021) give priority to the corresponding projects. Finally, the instability persistence in the North West and South West requires an increase in expenditure associated with the two English-speaking regions' security and development.

Enjoy reading.

Abdelaziz LAHLOU

Chief Economist
+212 529 03 68 37
ab.lahlou@attijari.ma

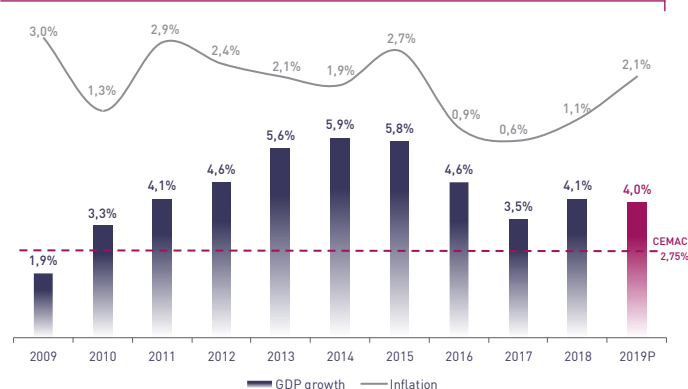
Asmaa LAMICH

Financial Analyst
+212 529 03 68 19
a.lamich@attijari.ma

IMPROVED INDICATORS AND PERSISTENT WEAKNESSES

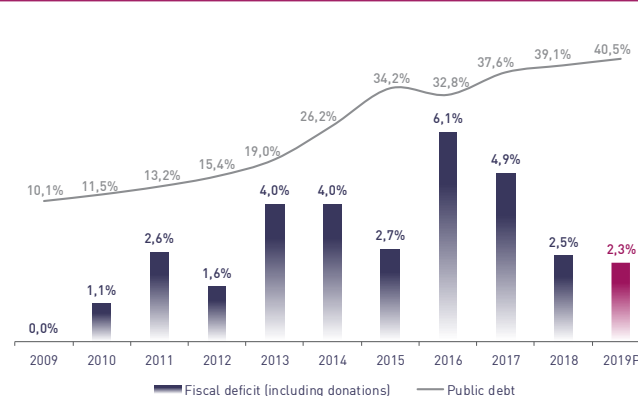
If the economic growth, inflation and fiscal deficit indicators follow favorable trends, the Cameroonian economy nevertheless displays some weaknesses. Indeed, the economic growth is exposed to the risks linked to the North-West and South-West regions and to the price risks on international raw materials. Similarly, commitments to the IMF, particularly in terms of the fiscal deficit's shrinking, would have a considerable economic cost.

ECONOMIC GROWTH AND INFLATION IN %



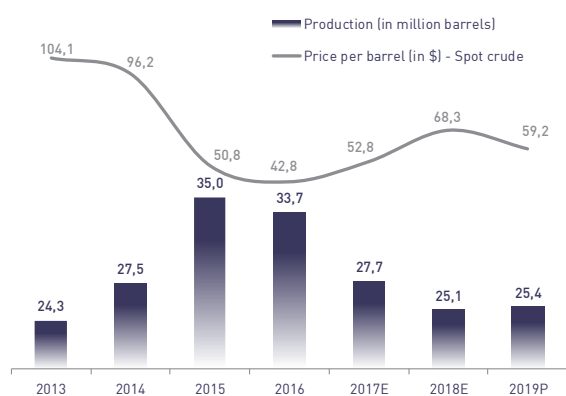
2019 should show stable economic growth around 4.0%. This level remains significantly higher than the average CEMAC growth rate expected at 2.5%. The reason for this increase lies in the non-oil sector, which compensates for the stagnation in oil activity. Overall, oil-GDP now represents only 3.0% of global GDP against 3.5% a year earlier.

FISCAL DEFICIT VS. INDEBTNESS (% GDP)



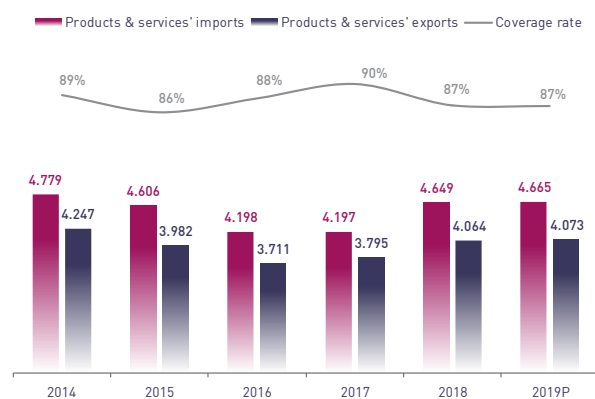
Cameroon is continuing to reduce its fiscal deficit with the target of reaching 1.5% of GDP in 2020. Thus, the debt curve continues its upward trend but at a slower pace. Overall, within a decade, the debt ratio went from 10% in 2009 to 41% in 2019.

CRUDE OIL'S PRICE AND PRODUCTION



Note that oil production is part of a downward trend justified by oil fields' depletion. This situation is all the more problematic due to the drop in oil prices during 2019.

FOREIGN TRADE (FCFA BN)



The low barrel's price combined with the drop in production has little impact on Cameroon's exports. This country is reputed to be among the most diverse in the CEMAC zone. In fact, exports are driven by the natural gas activity's ramp-up as well as by the Cocoa sector's resumption.

ECONOMIC IMPERATIVES OF CAMEROON



Fiscal rebalancing as a top priority

As a reminder, the CEMAC zone has known a difficult period since 2016 which marked by a sluggish growth, the lowest during the last two decades, a strongly rising debt and substantially decreasing foreign exchange reserves i.e. nearly two months of imports only. This situation is the combined result of three factors:

- ⇒ Oil revenues' decline ;
- ⇒ Drought periods' succession ;
- ⇒ Political instability in certain areas.

This economic context has prompted countries to request IMF support, which took the form of individual packages to countries generally comprising a credit facility (\$ 666 Mn for Cameroon), economic recommendations and a technical assistance. At the same time, the IMF has encouraged these countries to take a series of corrective measures, including:

- ⇒ Reducing tax exemptions (3% of GDP) without affecting social expenses ;
- ⇒ Improving State resources ;
- ⇒ The business environment's improvement.

In this context, Cameroon is called upon to continue its budgetary consolidation efforts with a target of a fiscal balance of 1.5% of GDP.



Sensitivity of the situation in the North-West and the South-West regions

The security and socio-economic situation's worsening in the two Anglophone North-West and South-West regions requires a resources' mobilization in order to:

- ⇒ Secure both areas ;
- ⇒ Provide aid to those in greatest need (1.3 million people in need according to UN estimates) ;
- ⇒ Sustain the two regions' stability through a program of decentralization and economic recovery.



Support for public enterprises

In general, the public enterprises' difficulties contain in their ramifications a series of collateral damage:

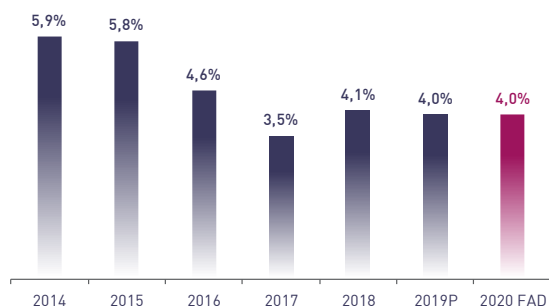
- ⇒ The closure of the public refining company SONARA favored imports, which impacted negatively the trade balance ;
- ⇒ The cumulative arrears of payments from public enterprises puts companies bidding on government contracts in financial distress and increases the default payment risk in the banking sector.

These factors raise the support for public enterprises in the list of Cameroon's economic priorities.

2020 FAD : CONSISTENT ASSUMPTIONS

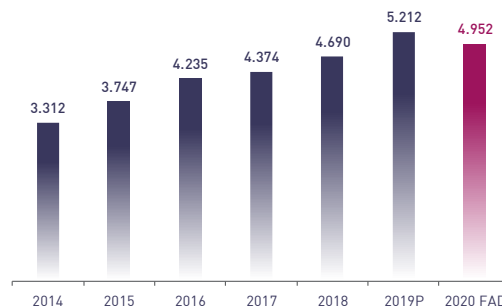
The 2020 FAD construction assumptions are characterized by great consistency. The general budget takes into account Cameroon's deadlines while adapting to revenues' constraints and the imperative to shrink the fiscal deficit.

GDP GROWTH (%)



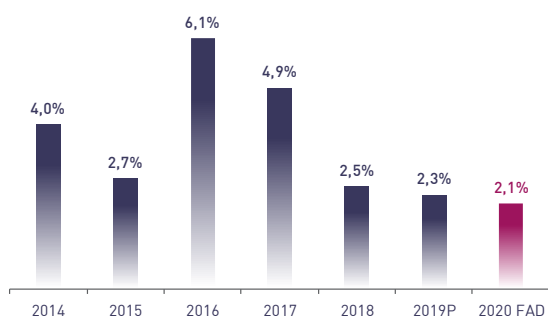
Growth in 2020E will be based on the entry into service of new natural gas fields, the works' completion related to CHAN 2020 and CAN 2021*. Oil activity should continue to decline due to the drop in production and a forecasting price per barrel at \$ 55.3.

GENERAL BUDGET (FCFA BN)



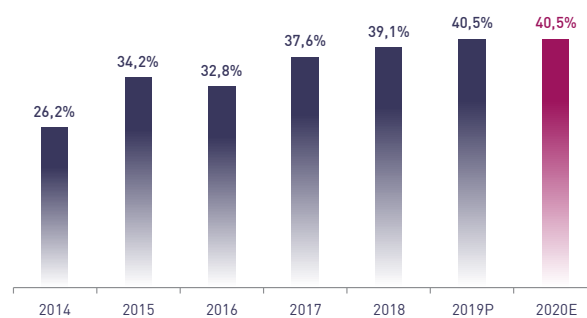
The general budget is down 5%, reflecting a rationalization of the state's spending, together with the decline in overall revenues. These are linked in particular to the expected decline in oil sector revenues.

FISCAL DEFICIT (% GDP)



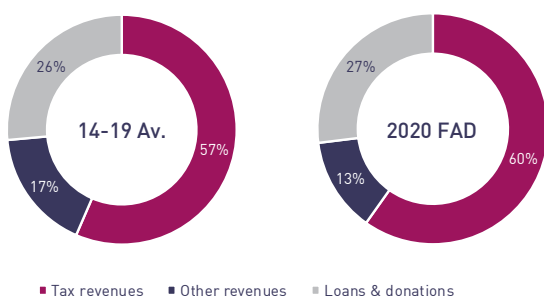
Although down 20 BPS from its expected level in 2019, the estimated fiscal deficit at 2.1% of GDP in 2020E is below the IMF target set at 1.5% of GDP within the framework of the Economic and Financial Program.

PUBLIC DEBT (% GDP)



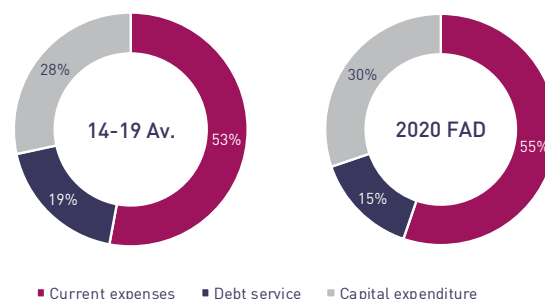
The fiscal deficit's reduction would stabilize the outstanding debt in % of GDP according to the IMF. The institution insists that the new loans relate mainly to project finance.

PUBLIC RESSOURCES BREAKDOWN (%)



The public resources' structure is gaining in quality. The increasing tax revenues offset the drop in other revenues, notably oil revenues.

PUBLIC EXPENSES BREAKDOWN (%)



The declining share of debt service in public expenditure could be justified by the Cameroonian debt's relief by FCFA 35 Bn due to China. As a reminder, the latter contributes up to 30% of Cameroon's external debt.

* CAN : African Cup of Nations, CHAN : African Championship of Nations

A LIMITED LEEWAY



Enhancing the budget balance

As a reminder, the fiscal deficit in 2020 is estimated at FCFA 512.5 Bn i.e. 2.1% of GDP. The latter is down 20 BPS from its expected level of 2.3% of GDP in 2019. However, it remains below the IMF target set at 1.5% of GDP under the Economic and Financial Program.

Overall, the continued drop in the fiscal deficit reveals Cameroon's firm determination to consolidate its public finances over the long term. In fact, the 2020 budget highlights a 1% drop in current expenses reflecting a rationalization of the State's spending, together with the decline in overall revenues given the expected decrease in oil sector revenues.



Tax base broadening and revenues securing

A real budgetary challenge for many African countries, Cameroon presents in this FA 2020 new measures aimed at broadening its tax base and securing its revenues. Thus, the taxation of electronic commerce and the obligation to have a Unique Identifier for each taxpayer constitute the main innovations for the inclusion of new individuals subject to tax. In addition, the pursuit and finalization of IT interconnection between financial administrations, the international profit transfers' capping and the increase in sanctions related to fraud represent new deterrent tools against tax evasion.



Particular attention to depressed areas

FAD 2020 provides an important support device for companies investing for the first time in "economically depressed areas". They could take advantage of significant exemptions during 3 years period of installation, other tax incentives for another 7 years of activity or even a 75% discount on tax arrears closed on 12/31/2018.



Support for local production

Cameroon provides support to its local production through an appropriate tax system, including an increase in customs duties on export of raw products. Conversely, locally processed products would benefit from an exemption from export duties. Similarly, imports of products used as raw materials for domestic industrial production would be exempt from excise duty*.

* Indirect tax on consumption applicable on quantity rather than price

... TAX MEASURES WHICH SET PRIORITIES AND NOVELTIES



Import-Export main measures

| Application fields | Adjustement | Comment |
|---|--|---|
| Processed or manufactured products in Cameroon including : bananas, animal, vegetable and mining products | Exemption from exit-fee on exportation | Incentives to export processed products |
| Diamond, gold, rice, crude palm oil, millet, sorghum, gum arabic, cola nut, gnetum africanum | Raising the exit fee from 5% to 10% on the taxable value | Increasing the taxation of unprocessed products |
| Wood | -35% taxation of wood exported as logs -10% taxation on milled and semi-milled wood | Incentives to export processed products |
| Hydroquinone (depigmentation) | Application of a 50% excise duty | Taxation of products harmful to health |
| Cigars, cigarettes and other tobacco | Application of a 30% excise duty | Taxation of products harmful to health |
| Inputs used as raw materials for local industrial production | Exemption from excise duty if these are not already locally produced | Support to local industry |
| New vehicles for public transport | Application of a 5% of Common External Tariff (CET) for the years 2020 and 2021 | Incentives for investment in public transport |
| Companies carrying out foreign trade operations | Exemption from fines related to the correction of errors found on customs declarations within one year | Customs amnesty |

Source : Cameroon's Directorate General of Budget

... TAX MEASURES WHICH SET PRIORITIES AND NOVELTIES



Main Corporation Tax and Income Tax measures

| Application fields | Adjustement | Comment |
|--|--|---|
| Headquarter's general expenses | 2.5% cap on taxable profit Limitation set at 1% of turnover for construction businesses and 5% for design offices | Fight against tax evasion |
| Companies recruiting young Cameroonian graduates under 35 years old | Exemption for 3 years from tax burden and employers' contributions on wage bill | Employment incentives |
| Sales of goods and services effected through electronic means | VAT application | Tax base broadening |
| Contracts and commissions on life insurance products with a savings' component | Exemption from VAT | Encouraging savings and promoting the financial markets |
| Taxpayers making and economic transaction | Obligation to carry the Unique Identifier number on all documents | Tax base broadening |



Other tax measures

| Application fields | Adjustement | Comment |
|---|--|---|
| Companies newly investing in economically depressed areas | <p>Installation (3 years) :</p> <ul style="list-style-type: none"> -Exemption from customs duties on equipment & materials and from licensing tax, VAT on acquisitions, registration fees and property tax <p>Operating (7 years) :</p> <ul style="list-style-type: none"> -Application of a customs duty's reduced rate to 5% and exemption from VAT on imports - Exemption from exit-fee on exports of manufactured products -Exemption from licensing tax, VAT on input purchases, corporate tax, tax burden and employers' contributions on wages <p>75% discount on tax arrears closed on 12/31/2018</p> | The zones which are mainly targeted are the North-West and the South-West |

Source : Cameroon's Directorate General of Budget

ATTIJARI GLOBAL RESEARCH

CHIEF ECONOMIST

Abdelaziz Lahlou
+212 5 29 03 68 37
ab.lahlou@attijari.ma
Casablanca

SENIOR ASSOCIATE

Lamyae Oudghiri
+212 5 29 03 68 18
l.oudghiri@attijari.ma
Casablanca

ASSOCIATE

Mahat Zerhouni
+212 5 29 03 68 16
m.zerhouni@attijari.ma
Casablanca

FINANCIAL ANALYST

Asmaa Lamich
+212 5 29 03 68 19
a.lamich@attijari.ma
Casablanca

FINANCIAL ANALYST

Josiane Ouakam
+237 233 43 14 46
j.ouakam@attijarisecurities.com
Douala

HEAD OF STRATEGY

Taha Jaidi
+212 5 29 03 68 23
t.jaidi@attijari.ma
Casablanca

SENIOR ASSOCIATE

Maria Iraqui
+212 5 29 03 68 01
m.iraqui@attijari.ma
Casablanca

ASSOCIATE

Meryeme Hadi
+212 5 22 49 14 82
m.hadi@attijari.ma
Casablanca

SENIOR ANALYST

Ines Khouaja
+216 31 34 13 10
khouaja.ines@attijaribourse.com.tn
Tunis

FINANCIAL ANALYST

Jean-Jacques Birba
+225 20 21 98 26
jean-jacques.birba@sib.ci
Abidjan

Equity

BROKERAGE - MOROCCO

Abdellah Alaoui
+212 5 29 03 68 27
a.alaoui@attijari.ma

Rachid Zakaria
+212 5 29 03 68 48
r.zakaria@attijari.ma

Anis Hares
+212 5 29 03 68 34
a.hares@attijari.ma

Kaoutar Sbiyaa
+212 5 29 03 68 21
k.sbiyaa@attijari.ma

Alae Yahya
+212 5 29 03 68 15
a.yahya@attijari.ma

ONLINE TRADING - MOROCCO

Nawfal Drari
+212 5 22 49 59 57
n.drari@wafabourse.com

Sofia Mohcine
+212 5 22 49 59 52
s.mohcine@wafabourse.com

Mohamed Lemridi
+225 07 80 68 68
mohamed.lemridi@sib.ci

Abdelkader Trad
+216 71 10 89 00
trad.@attijaribank.com.tn

WAEMU - CÔTE D'IVOIRE

BROKERAGE - TUNISIA

CEMAC - CAMEROON

Naoufal Bensalah
+237 2 33 43 14 46
n.bensalah@attijarisecurities.com

Bonds / Forex / Commodities

MOROCCO

Mehdi Mabkhout
+212 5 22 42 87 22
m.mabkhout@attijariwafa.com

Mohammed Hassoun Filali
+212 5 22 42 87 24
m.hassounfilali@attijariwafa.com

Amine Elhajli
+212 5 22 42 87 09
a.elhajli@attijariwafa.com

Btissam Dakkouni
+212 5 22 42 87 74
b.dakkouni@attijariwafa.com

Dalal Tahoune
+212 5 22 42 87 07
d.tahoune@attijariwafa.com

EGYPT

Mahmoud Bahaa
+202 27 97 04 80
mahmoud.bahaa@barclays.com

TUNISIA

Abdelkader Trad
+216 71 80 29 22
trad.abdelkader@attijaribank.com.tn

MIDDLE EAST - DUBAI

Serge Bahaderian
+971 0 43 77 03 00
sbahaderian@attijari-me.com

WAEMU - CÔTE D'IVOIRE

Abid Halim
+225 20 20 01 55
abid.halim@sib.ci

CEMAC - GABON

Youssef Hansali
+241 01 77 72 42
youssef.hansali@ugb-banque.com

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