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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/106

10:00 a.m., July 20, 1981

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	H. Alaoui Abdallaoui, Temporary
	J. F. Williams, Temporary
	J. L. Feito, Temporary
	D. E. Syvrud
	O. Üçer, Temporary
	S. R. Abiad, Temporary
	A. Nagashima
	M. V. Carković, Temporary
R. K. Joyce	
	J. R. Gabriel-Peña
B. Kharmawan	V. Supinit
S. Kiingi	F. Sangare
	G. Winkelmann
	M. Michelangeli, Temporary
P. Mentré de Loye	T. Aulagnon
S. Nana-Sinkam	A. Alfidja
	D. L. Kannangara
Y. A. Nimatallah	
J. J. Polak	
A. R. G. Prowse	B. Legarda
	K. V. Jännäri, Temporary
Zhang Z.	

L. Van Houtven, Secretary
J. B. Edgerly, Assistant

Also Present

African Department: J. B. Zulu, Director; P. A. Acquah, J. A. Buyse, A. Jbili, S. M. Nsouli, A. B. Petersen, C. D. Pham. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director. Fiscal Affairs Department: J. C. Tavares. Legal Department: J. V. Surr. Bureau of Language Services: B. Strittmatter. Finance and Development: S. I. Katz, Editor. Advisors to Executive Directors: A. B. Diao, A. K. Mullei. Assistants to Executive Directors: A. F. P. Bakker, F. Guena, P. Kohnert, J. S. Mair, V. K. S. Nair, J. R. Novaes de Almeida, J. G. Pedersen, M. Shadman, T. H. Williams.

1. CAMEROON - 1981 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1981 Article IV consultation with Cameroon together with a proposed decision concluding the 1981 Article XIV consultation (SM/81/129, 6/5/81). They also had before them a staff report on recent economic developments in Cameroon (SM/81/138, 6/17/81).

Mr. Nana-Sinkam made the following statement:

At the outset, I would like to convey to the staff the deep appreciation of my authorities for the excellent reports they have prepared in connection with the 1981 Article IV consultation with Cameroon.

My authorities and I have no difficulties with the staff analysis and appraisal, which we found to be comprehensive, well balanced, and highly thoughtful. The extremely clear presentation of the current economic and financial situation in Cameroon is reflective not only of professional competence but also of the deep knowledge of the country acquired in the course of several missions by the staff and of a fruitful tour of duty by the mission chief as Fund resident representative. This is a clear indication that the existence of a Fund resident representative always enhances a perfect cooperation between the Fund and its member countries.

The performance of the Cameroonian economy is better appreciated when put in the context of the overall growth and development strategy followed by the authorities. For the Cameroonian authorities, the ultimate objective is to achieve a strong and sustainable pace of economic growth and development that would enable the population at large to enjoy significant improvements in their living standards on a stable and sustainable basis. The attainment of this objective requires not only substantial financial resources and manpower but also discipline, integrity, and the full commitment of all those involved in the development process. The Cameroonian authorities have set out to meet these requirements with sustained determination since independence in 1960 and have been quite successful in their battle for economic development.

Indeed, since 1976/77 the Cameroonian economy has performed remarkably well with real GDP growing at an average annual rate of 6 per cent, inflation checked at less than 10 per cent and the public treasury as well as the balance of payments showing enough strength to resist the impacts of world economic turmoil. This strong performance is attributable to the commendable economic and financial policies that the Cameroonian authorities have continued to pursue since independence.

With respect to growth and development policies, the authorities have undertaken and will continue to undertake vigorous steps to stimulate production and growth by stepping up their investment efforts, especially in those key sectors of the economy such as agriculture, transportation, energy, and manufacturing. In this endeavor, ample room is given to the private sector to allow the full participation of national entrepreneurs as well as foreign investors. The development process in Cameroon involves the elaboration of development plans. While these plans are only indicative for the private sector, they are rather binding for the public sector. In the Fifth Development Plan covering the 1981/82-1985/86 period, the emphasis is on rural development and the diversification of processing activities based on local raw materials. Because Cameroon is primarily an agricultural country with the bulk of the population living in the rural sector, it is essential that utmost priority be given to agriculture, especially if rural migration is to be checked and if food supplies are to be guaranteed. In this respect, the authorities are committed to the continued adherence to positive agricultural pricing policies--namely, producer prices that are high and remunerative in order gradually to eliminate subsidization of fertilizer uses by farmers--and the strengthening of the extension services provided to farmers. Moreover, efforts will be stepped up to develop the transportation network, especially the construction of feeder roads to disenclave the various villages and other centers producing food and major export crops. With respect to industry, efforts will be directed toward making the industrial sector more competitive.

In the fiscal field, the guiding principle has been and continues to be one of prudence and discipline. Over the period under review total budgetary expenditures increased by an average annual rate of 20 per cent while government revenues grew by 22 per cent annually. Through restrictive fiscal policies and continuous improvement of the tax collection and administration, the authorities have been able to generate significant budgetary surpluses that allowed them to reduce their recourse to the banking system. The authorities are fully committed to the continued adherence to the policy of tight control of government expenditures and greater fiscal discipline with a view to making the fiscal system more efficient. In this connection, the authorities fully recognize the need for greater control and coordination of unbudgeted outlays with the expenditures in the budget so as to preserve the full potential of the budget as a tool of economic policy.

Regarding the monetary sector, Cameroon belongs to the Banque des Etats de l'Afrique Centrale (BEAC), which relies mainly on the rediscount window for credit control and policy. While the authorities feel that the system under the BEAC arrangement has worked satisfactorily thus far, they also recognize the rigidities and institutional difficulties that impede the more efficient application and adaptation of monetary policy. It is widely felt that corrective action should be taken in this field. With respect to interest rates, while recognizing the need for review of the interest rate structure in the BEAC system, the authorities still hold the view that the level of interest rates should be one that does not constitute an impediment to the investment efforts in the various BEAC member countries.

In the energy field, the discovery of relatively significant oil reserves has alerted the authorities to step up their commitment to the cautious policies that have so typically characterized Cameroon. The reasons for increased prudence are manifold. For one thing, the authorities are determined to avoid by all means the bad experience of other oil producing countries, namely, the disruption of the traditional areas of production and the ensuing economic chaos. The authorities are fully committed to the preservation of the crucially important role of the agricultural sector in the Cameroonian economy. Efforts must be made not only to guarantee self-sufficiency in food and even food surpluses for export, but also to make agriculture attractive so as to minimize rural migration and avoid an exponential growth in the population of urban centers with all the attendant problems. The authorities have therefore wisely decided not to budgetize the total revenue from oil because budgetizing the total amount of nonpermanent income (because of its origin) will exacerbate inflationary pressures as well as lead to a false appreciation of the Cameroonian budget's strength and potential. The still small revenue from oil production is being used to maintain and increase producer price levels despite the sharp and continuous decline in the world market prices for cocoa, coffee, cotton, etc. Part of the revenue is also being used to stabilize the rural population in the agricultural sector by bringing the city life-style to the villages (electricity, water, health care, schools, etc.) in order to create an environment conducive to stability. Major justified social and infrastructure projects are also being financed partially from this source of income. Another reason for the added concern by the authorities is the relation between oil discovery and external borrowing. When a country discovers oil, it becomes all too easy for it to secure loans with all sorts of unfavorable terms. Bearing in mind the experience of other oil producing countries, the Cameroonian authorities intend to adopt an extremely cautious stance with respect to external borrowing. Such borrowing will be minimized as much as possible, especially in today's world of escalating and fluctuating interest rates. For its external financing needs, Cameroon will primarily rely on multilateral financial institutions such as the IMF, the World Bank, and the African Development Bank.

With respect to technical assistance from the Fund, Cameroon has benefited from such assistance in the fiscal field. Indeed a mission has submitted a report on fiscal reform, which the authorities appreciated fully and whose recommendations have been partially implemented. Several practical difficulties, however, arise with respect to the rapid implementation of all the recommendations of the IMF fiscal mission. In addition to the long process involved in securing a legislative basis and setting up the appropriate units, the question arises as to whether Cameroon, which belongs to a customs union (Union Douanière et Economique de l'Afrique Centrale--UDEAC), can adopt unilaterally some of the measures recommended by the IMF fiscal mission. In any case, the Cameroonian authorities intend to pursue their consultations with the other UDEAC member countries on the full implications of the IMF recommendations, and they hope a solution can be found without too much delay in the implementation of the recommendations.

Mr. Mentré de Loye remarked that Cameroon had experienced very rapid and broad based economic expansion, an achievement that deserved special commendation in light of the difficult situation facing most developing countries, particularly in Africa. During fiscal years 1978/79 and 1979/80 the growth of real GDP had averaged 6 per cent against 3.5 per cent growth during the previous period. However, in the agricultural sector, which provided a livelihood for more than 80 per cent of the population and accounted for about 30 per cent of GDP and 70 per cent of total export earnings, the country had recently faced difficult problems. Page 5 of SM/81/138 showed a decrease in the production of almost all principal foodcrops in 1979/80 compared with 1976/77.

Cameroon was one of the world's leading producers of coffee and cotton, and recently the growth in the volume of cocoa production for export had been particularly encouraging, Mr. Mentré de Loye continued. Unfortunately, the international price of cocoa had weakened significantly, and he hoped that the authorities would have success in establishing an international cocoa agreement. He asked for further information on how the authorities were coping with the overall decline in foodcrop production.

Manufacturing had remained a relatively small part of Cameroon's economy, totaling about 9 per cent of GDP, Mr. Mentré de Loye noted. However, the mining sector had become very important because of the recent oil and gas discoveries. Earnings from expanding oil exports would help Cameroon confront the problems of development and would help to accelerate economic growth. The Cameroonian authorities had wisely met that favorable prospect with cautious policies and were hoping to avoid creating excessive expectations for the future for oil and gas production. The focus of the next five-year plan was an orderly exploitation of Cameroon's diversified national resources in an effort to promote a broadly based and regionally balanced development. Recognizing that the exploitation of the new-found resource would change the economic picture for Cameroon, he asked that the next consultation include a full assessment of the medium-term prospects of oil and gas development.

Cameroon's fiscal policy had been characterized by prudence, Mr. Mentré de Loye considered. The budget for the past three fiscal years had ended in surplus, and fiscal policy for 1981/82 would be implemented in a sound economic environment. Nevertheless, it would behoove the authorities to consolidate all public resources and expenditures so that economic and financial planning might be used as a more effective policy tool.

The balance of payments had recorded a sizable surplus since 1979/80, Mr. Mentré de Loye observed. The favorable development had been primarily due to receipts from petroleum exports; with a cautious fiscal and monetary policy, it would continue over the next few years. Page 45 of the report on recent economic developments (SM/81/138) indicated that the external debt of Cameroon remained moderate; its service represented a very acceptable 14 per cent of total export receipts. As the balance of payments was sound, there did not appear likely to be a problem of external arrears. However, to ensure that the Cameroonian authorities had not backed a policy that was overly committed toward short term borrowing, he asked the staff to provide more information on the maturity of foreign loans.

Mr. Kiingi remarked that the Cameroonian economy had shown steady improvement over the past seven years and that GDP had averaged a 6 per cent annual growth rate from 1978 to 1980. Inflation over the past year had been a very moderate 8 per cent, and private sector investment had induced an increase in employment levels. The growth in public budgetary expenditure had been kept below the growth of revenue, and the balance of payments reflected a substantial surplus in 1979/80.

The authorities had indicated that fiscal discipline would not be relaxed under the 1981/82 budget, Mr. Kiingi continued, and that capital outlays would be restricted to projects of genuine development value that were both feasible and economically viable. In an effort to increase public sector savings, the authorities were beginning to monitor the financial performance of public enterprises and joint ventures that used public funds. He welcomed the intention described in the new development plan to pursue a strategy of balanced growth with emphasis on the development of mineral resources, agriculture, forestry, and industries based on local raw materials. The authorities were also wise to develop the country's hydroelectric potential concurrently with the production and export of oil.

While the increase in revenues from oil production would provide financing for the plan, the authorities were correct in keeping tight control over government current expenditure, Mr. Kiingi noted, and they should continue to pursue noninflationary policies. The development plan appeared to be financially feasible, but its overall size would have to take into account infrastructural limitations.

Mr. Joyce characterized the recent performance of the Cameroonian economy as a success story that was the result of policies that had been soundly conceived and soundly executed. Gross domestic product had grown at an average rate of 6 per cent a year, and inflation had remained at about 10 per cent. The Cameroonian authorities currently faced a rather unique challenge as a result of the substantial increase in revenues that had come from the recent development of oil production. They had continued their pursuit of prudent and cautious policies aimed at promoting broadly based and regionally balanced economic development. Even with the increase in government revenues from taxes and participation in production, there was a continuing need for prudent policy.

Government revenue projections included only royalty and profit tax payments and excluded income from the production-sharing arrangements that were being reserved for major projects called for in the development plan, Mr. Joyce observed. He cautioned that the budget would be weakened as a policy tool if all the revenues and accompanying outlays were not included in fiscal calculations.

Special consideration also had to be given to the limitations of the economy's absorptive capacity, both monetary and physical, Mr. Joyce noted. In 1979/80, after a sudden increase in appropriations, there had been considerable underspending due to slippages in the execution of the budget plan and administrative delays in the implementation of increased transfer payments. In that light, it would be wise for the Cameroonian authorities to pursue cautious and prudent policies so that expansion did not get out of hand; furthermore, monetary and fiscal policies had to be coordinated so that the desired level of investment could be attained without accelerated inflation. While the authorities clearly had fiscal affairs under control, management of monetary policy would be a more difficult matter.

The fact that Cameroon was a member of the Banque des Etats de l'Afrique Centrale (BEAC) during a period of rapid economic development presented a number of interesting questions, Mr. Joyce remarked. With oil revenues rapidly increasing, and extensive economic development being implemented, Cameroon would best be able to control inflationary pressures by pursuing a fairly tight monetary policy; however, the general sentiment in the BEAC was to follow a relatively easy monetary policy. Furthermore, the decision-making process in the BEAC might inhibit the Cameroonian authorities from taking possible contingency measures to avoid inflationary pressures. He noted that the common currency arrangement also restricted effective control over credit creation, interest rates, and exchange rates; and he asked the staff whether the Cameroonian authorities had considered what steps must be taken to offset those policy constraints. Of course, a number of countries participated in common currency arrangements and therefore did not command a full range of macroeconomic instruments; however, the Cameroonian case was somewhat unique because of the difference that had suddenly opened up in the relative position of the participants in the currency union.

Noting that the staff papers referred to the creation of a money market for the currency area, Mr. Joyce asked for additional information on the development and role of that market. Finally, with regard to the current status of Cameroon, he asked what the Fund practice had been regarding countries that adhered to Article XIV while appearing to be fully capable of an immediate shift to Article VIII status.

Mr. Winkelmann, also referring to the progress made in Cameroon as a success story, said that growth rates during the fourth four-year plan had reached 6 per cent. That growth had been coupled with a marked increase in investment that had been encouraged on both an official and a private basis. Furthermore, there was a surplus in both the overall balance of payments and in the government budget, as well as an acceptable inflation rate based on the consumer price index.

Regarding the inflation rate, Mr. Winkelmann noted that Cameroon had administered prices whereby the Government, from time to time, increased prices for both domestic goods and exports. That policy appeared to have been quite successful in promoting growth; however, he questioned the effect that the administered price policy had had upon supply and demand. On another point, since 80 per cent of the population lived in rural areas and 70 per cent of the population earned its income from agriculture, he wondered to what extent the index reflected the actual cost of living in Cameroon.

The economic policies that had brought increased growth rates, surpluses, and investments had aimed not only at increasing per capita income but also at improving income distribution and promoting balanced development, Mr. Winkelmann observed. While the success of those policies could be partially attributed to the expansion of petroleum production, which had brought increased revenues and foreign exchange earnings, the Government had also played a commendable role by remaining prudent and not neglecting the traditional basis of the economy. Specifically, the authorities had continued to emphasize the agricultural sector; the volume of agricultural production had increased; and food imports had declined. It was in fact possible that Cameroon would become a significant exporter of foodstuffs. Furthermore, Cameroon produced cash crops--cocoa and coffee--and had been able to maintain earnings during the period of declining prices by increasing production levels. Overall, the policy could be characterized as one that had encouraged balanced growth in traditional sectors while following prudent policies in both fiscal and monetary areas.

Cameroon had learned from the less successful experiences of other developing countries, Mr. Winkelmann continued. He hoped that the authorities would be able to stick with their prudent policies, and he was encouraged by the fact that, to fill the country's energy needs, the authorities had chosen not to rely solely on the new source of petroleum but rather simultaneously to develop the country's more permanent resources, particularly in the hydroelectric field. The economy appeared to be broadening and intensifying, and officials had forecast an annual increase in oil production; however, the necessary instruments of fiscal and monetary policies had yet to be developed.

In a rapidly growing country like Cameroon, formulation of both fiscal and monetary policies had to include adequate consideration of the limitations on the economy's absorptive capacity, Mr. Winkelmann said. The Government was becoming aware of the need for a more comprehensive banking system and better allocation and control of deposits and credit. Money markets similar to that proposed for Cameroon had been generally used in industrial countries to serve the banking sector rather than to promote the development of the crude structure of the economy. Apparently, the money market envisioned would be for the broader currency union; the national economy alone would not provide sufficient basis for the establishment of a traditional money market.

Mr. Prowse remarked that the Cameroonian economy had achieved impressive progress in the recent past. Most commendable was the successful implementation of the conservative fiscal policy and the general intention of the five-year plan to achieve a balance in development between the emerging oil and hydrocarbon sector and the traditional, agricultural sector. All fiscal operations should be consolidated; if extensive government activity was carried on outside the budget, authorities would lose their ability to control the aggregate level of domestic demand. Finally, as the staff had said, it was time to activate the obligatory reserve requirement on the commercial banks.

Mr. Syvrud commended the Cameroonian authorities for their prudent and effective management of the economy, and attributed part of that success to the priority given to the agricultural sector. Emphasis on agriculture was wise from both the economic and social points of view, because it not only guaranteed self-sufficiency in food but also minimized rural migration.

Referring to Table 2 on page 5 of SM/81/138, Mr. Syvrud noted that in the past two years production of most of the dozen or so foodcrops had dropped off, and production of six of the major foodcrops had declined to about half the level for the previous year. He asked the staff for additional information on that very sharp decline in foodcrop production.

In order to ensure that expenditure both inside and outside the budget remained within the economy's capability, Mr. Syvrud suggested that the authorities establish a more coherent policy regarding expenditure of public sector resources. There was also a need for continued examination of the interest rate structure. Noting that Cameroon had been limited in its use of policy instruments by its membership in the BEAC, Mr. Syvrud suggested that the authorities would benefit from examination of the forthcoming staff study on the effectiveness of membership in monetary unions.

Mr. Zhang congratulated the Cameroonian authorities for their economic achievements in recent years. Cameroon was one of the few developing countries that had attained high growth rates without excessive inflation and without balance of payments difficulties. To a large extent, that achievement was due to the successful implementation of public sector investment programs, which again was quite contrary to the experience of many developing countries.

The staff representative from the African Department gave three reasons for the decline in the figures for foodcrop production that appeared on Table 5 of SM/81/138. First, he noted that agricultural production in Cameroon had to contend with a very diversified climate; export crops were produced in one area, while foodcrop production was concentrated in another. The decline in production was partially a reflection of the adverse weather conditions that had prevailed in the producing areas. It might have been much sharper, but the authorities had maintained their support for the agricultural sector by allowing the market to determine food prices and by giving fertilizer and other variable inputs to producers through established development institutions. Second, there was a large amount of trade across the border that was not registered and that could fluctuate substantially. Finally, data on agricultural production were usually subject to a large margin of error, and that had to be taken into consideration.

Monetary policy had dominated the discussion with the authorities, the staff representative continued. The staff had consulted with both the central bank--the agency responsible for overall developments in the monetary union--and the Direction Nationale--the agency responsible for monetary affairs in Cameroon. During the discussions it had become clear that monetary policy would play an important role in the near future and that the present monetary system was insufficient in a number of areas. It would be possible to control the growth of liquidity, even within the current framework, if the obligatory reserve requirement was activated.

Another issue in the discussion had been the placement of government deposits within the banking system, the staff representative recalled. In the past, when the economy had been dominated by insufficient liquidity, the Government had supported bank lending operations by spreading government deposits evenly throughout the commercial banking sector. At the present time, a substantial portion of government deposits remained in commercial banks, and in light of the emerging circumstances of the Cameroonian economy, it had been suggested that the Government should modify its policy regarding official deposits.

The proposed money market would take a rudimentary form and would allow the authorities to pool all the excess reserves of the commercial banks into the central bank, the staff representative from the African Department remarked. That arrangement would bring the commercial banks into closer contact with the central bank permitting the authorities to monitor the day to day activities of the commercial banking system. Furthermore, the establishment of the money market would link commercial rates with market and central bank rates in a way that would bring increased flexibility to the interest rate structure. The money market would also eliminate the cheap money policy that had been an integral part of the monetary system up to the present time. Such a money market arrangement might emerge in the future, contingent, of course, on the approval of the BEAC. In the meantime, certain adaptations might be made with the present monetary system.

Mr. Nana-Sinkam explained the decline in figures for foodcrop production (SM/81/138) by noting the unique position of Cameroon in the Central African region with regard to agricultural production. Foodcrops consumed in the Central African Republic, Nigeria, Chad, and Gabon usually came from Cameroon. Producers were aware that if their output went through normal channels, their earnings would be quantified and subject to government taxes. To avoid the tax payment, producers, on occasion, had gone across the border to sell their products in foreign markets. In fact, the outflow of agricultural production to neighboring countries had occasionally caused a scarcity on the domestic market and had resulted in a price rise on food products. The decline in food production, shown in Table 2 of the paper on recent economic developments, was definitely not as threatening to the Cameroonian economy as the numbers might indicate. The declines were partially explained by weather conditions, but they were primarily the result of the outflow of agricultural products to neighboring countries.

Responding to the request for a fuller assessment of the potential growth and impact of the oil sector on the occasion of the next consultation, Mr. Nana-Sinkam noted that the authorities were well aware that they were obtaining relatively significant revenues from the oil sector. However, their policy was not to budget all the oil revenues, but rather to include just a portion in the budget and utilize the bulk of the revenues to finance major investment projects outside of the budget. Inclusion of all oil revenues within the budget would give an improper impression of the actual size of official expenditure.

Oil revenues, especially in a newly developing situation, were entirely unpredictable, Mr. Nana-Sinkam noted. Oil exporters were known for the inaccuracy of their projections on annual output. In the future, when the Cameroonian authorities were able to project more accurately the income from oil production, it was likely that more and more of the revenue from oil would be included in the budget. The authorities had been following a cautious and restrained budgetary policy so that the general public would not generate excessive expectations. The oil revenue had been primarily used to support the agricultural sector and improve living conditions in the rural areas; it was hoped that the policy would help to restrain migration to the cities and the resultant problems of unemployment.

Private borrowing had been increasing primarily because in Cameroon, unlike most of the other countries in Africa, an individual could borrow from a market--whether in Africa, Europe, or the United States--without the assistance of the Government, Mr. Nana-Sinkam explained. Recently, for example, a group of individuals had decided to establish a brewery in Cameroon that required a total of SDR 100 million in investment. A total of SDR 40 million was obtained outside the country, without the assistance of the Government. That was not a surprising undertaking, and he expected that within three or four years the investors would be able to reimburse all funds borrowed from outside the country.

The money market proposed for the Central African region would not be the conventional type of money market found in industrial countries, Mr. Nana-Sinkam remarked. It had been proposed in light of the high degree of cooperation that already existed among countries in the region, particularly among members of the monetary union. It was expected that there would soon be excess liquidity in Cameroon, the Central African Republic, and Gabon and the money market would give other countries, specifically Chad and Congo, access to it. The Cameroonian authorities did not tend to deposit excess liquidity outside the country, although they could earn up to 19 per cent. They preferred to deposit money in banks within the country and thereby provide the opportunity for additional credit to be extended within Cameroon. With a further expansion of liquidity, the establishment of a money market would enable other countries in the region to gain access to the available financial resources.

A money market would also allow authorities to establish an improved monetary policy because interest rates under the new arrangement would reflect the interest rates of industrial countries that had banking systems in Cameroon or Gabon, Mr. Nana-Sinkam commented. Branches of Chase Manhattan, First Boston National, and Citibank were currently operating in Cameroon and Gabon. Once the money market was created, interest rates prevailing in Central Africa would be comparable to rates in France and the United States--the major market areas--as well as in other European and African countries. The authorities had been fully convinced of the viability of the money market, and it was only for administrative reasons that it was not yet in operation.

Since independence, Cameroon had moved far along the path to economic, social, and cultural development, a situation that had given the people of the country rising expectations and gained for Cameroon well-earned esteem in Africa and the world, Mr. Nana-Sinkam declared. The authorities' ambition was to build a just society that offered equal opportunities to all citizens. Progress would be spread throughout the whole territory in order to correct social, natural, and historical inequalities. The intention of the Government's policy of social justice was to ensure that, based on a framework of permanent consultation between labor and management, the progress that resulted from the national development effort would contribute to an improvement in the living conditions of all citizens. In that connection, Cameroonization of positions of responsibility in business remained a fundamental and irreversible policy of the Cameroonian Government.

The authorities were firmly resolved not to become reliant upon income from the oil sector, Mr. Nana-Sinkam concluded. While fully realizing the significance of the sector, they did not want to detract from the development of agriculture, which was to remain the focal point of the Cameroonian economy. It was felt that without a strong agricultural sector, industrial development would be both worthless and unachievable. The authorities had also made it clear that it was only agricultural development that could sustain authentic industrial development because the purchasing power of the population increased as agriculture developed. The basic strength that would bring Cameroon through its difficult economic situation was not the new-found wealth in hydrocarbons, but rather the capacity to exploit the country's agricultural potential and to revitalize the rural areas. The President had indicated that revenue from oil production would be shared by all regions, and with the support of the authorities in Cameroon he was determined to avoid the type of economic development that generated prosperity and development in one area of the country, while leaving poverty and stagnation in another.

The Deputy Director of the Exchange and Trade Relations Department explained that the Fund had taken a relaxed attitude toward the status of Article XIV countries such as Cameroon that did not maintain restrictions on payments and transfers. Generally, the decision on whether or not to apply for Article VIII status was left up to the authorities of the member country. In practice, whether a country did not apply restrictions under Article XIV or accepted the obligations of Article VIII membership made little difference; in either case, if a country did introduce a restriction on current payments, it would have to come before the Fund for approval under Article VIII.

The Chairman said that he had visited Cameroon prior to the Interim Committee meeting in Gabon. On that occasion he had met with the President, the Minister of Finance, and the Minister of Planning and had been impressed by their determination and by the soundness of their views.

The authorities had been extremely prudent with regard to the impact of the oil discovery, the Chairman observed. They were very aware that oil was a finite resource, and, acknowledging the lack of information on the extent of their oil endowment, they had been careful not to promote an artificial boost in consumption. They hoped not to cause excessive expectations in the urban sector and sought to spread the benefits of the finite resource according to the objectives of their development plan, which were essentially geared toward the development of agriculture. The authorities' efforts to stifle a desire for large public expenditure following the discovery of oil reserves was both uncommon and constructive.

Cameroon was a country worthy of commendation, the Chairman concluded; it maintained open borders and the free transferability of currency; the authorities had remained prudent in their management of the budget, had reinforced the balance of payments position, and had promoted growth without excessive inflation.

The Chairman made the following summing up:

Executive Directors have noted that Cameroon has followed a generally prudent approach toward development. The economy has been well managed in recent years, and the country has benefited from substantial financial assistance in implementing its fourth five-year plan. The pursuit of sound fiscal policies and the provision of strong incentives for investment, especially in agricultural production, have helped the country to achieve rapid, broadly based economic expansion at a relatively low rate of inflation. The emergence of oil exports also had provided a timely impetus to growth and had bolstered the economy against balance of payments pressures associated with the deterioration in the terms of trade of traditional agricultural exports.

Directors stressed that the Cameroonian authorities now faced the special challenge of exploiting and utilizing the additional resources from oil in their effort to promote an orderly and balanced development. The Cameroonian authorities recognized that the growing oil wealth could pose its own difficulties, and it was reassuring that they considered it essential to continue to maintain financial discipline and to use the oil revenues for the most productive economic investments, especially in the rural sectors. Directors noted with satisfaction that, in the past, it had been possible to achieve such discipline by keeping the budget broadly in balance or even in surplus. However, with substantial revenues to be derived from oil, it would also be crucial to ensure that government expenditure would be kept in line with the economy's absorptive capacity. In this regard Directors stressed the need for a coherent policy regarding public sector resources and spending, both within and outside the budget, and for consolidated financial planning. It would also be important to undertake a closer coordination of budgetary and monetary policies. In this area, Executive Directors noted that, in the framework of the Monetary Union, the Central Bank's regulatory instruments could be strengthened so that monetary control could be adopted to changing circumstances.

Directors generally considered the authorities' economic strategy for the medium term to be appropriate, and especially noted the integrated approach to development and the emphasis placed on rural and domestic resource-based projects. Such an approach could help improve the standard of living of the population and avoid the disruptive effect of unduly rapid urbanization.

The Executive Board then took the following decision:

Decision Concluding 1981 Article XIV Consultation

1. The Fund takes this decision in concluding the 1981 Article XIV consultation with Cameroon, in light of the 1981 Article IV consultation with Cameroon conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Cameroon continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 6917-(81/106), adopted
July 20, 1981

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/81/105 (7/15/81) and EBM/81/106 (7/20/81).

2. BORROWING - RESERVE BANK OF AUSTRALIA

The Executive Board authorizes the conclusion of a borrowing agreement between the Fund and the Reserve Bank of Australia as set out in the attachment to EBS/81/149 (7/10/81) and Correction 1.

Decision No. 6918-(81/106), adopted
July 15, 1981

3. SEMINARS FOR NONOFFICIALS IN UNITED KINGDOM AND FRANCE

The Executive Board approves the proposal set forth in EBAP/81/225 (7/14/81).

Adopted July 17, 1981

4. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 81/20 and 81/21 are approved (EBD/81/181, 7/9/81).

Adopted July 15, 1981

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/81/227 (7/15/81), EBAP/81/228 (7/15/81,) and EBAP/81/229 (7/16/81) is approved.

APPROVED: January 6, 1982

JOSEPH W. LANG, JR.
Acting Secretary