REPUBLIC OF CAMEROON

PEACE - WORK- FATHERLAND

CIRCULAR No. 001 /CAB/PRC OF 23 AOUT 2022 relating to the preparation of the State budget for the 2023 financial year

THE PRESIDENT OF THE REPUBLIC,

TO

- THE PRIME MINISTER, HEAD OF GOVERNMENT;
- MINISTERS OF STATE;
- MINISTERS;
- MINISTERS DELEGATE;
- REGIONAL GOVERNORS.

1. This circular concerns the preparation of the State budget for the 2023 financial year.

2. It presents the macroeconomic context, defines the objectives of public action, lays down general budget policy orientations as well as practical measures for preparing the State budget for the 2023 financial year.

3. While taking into account the global and local macroeconomic context, the preparation of the State budget for the 2023 financial year fall within the framework of the implementation of the Nation's economic, social and cultural development policy, underpinned by the 2020-2030 National Development Strategy (SND30) which operationalizes the second phase of Vision 2035. It also takes into account efforts to combat the negative effects induced by the war in Ukraine on the national economy and the continuation of the implementation of the post-COVID-19 economic recovery plan, as well as the prior measures and structural benchmarks of the new Economic and Financial Programme concluded with the International Monetary Fund (IMF).

4. Specifically, it lays special emphasis on: (i) finalization and commissioning of the remaining major first-generation projects; (ii) continuation of the preparation of major second-generation projects; (iii) strengthening of social cohesion and decentralization; (iv) continuation of the implementation of the import substitution policy through the actions aimed at boosting local production and reducing dependence on imports; (v) continuation of the reconstruction of crisis-affected regions, particularly the North-West; South-West and Far-North; and (vi) maintaining security and health monitoring.

5. The preparation of the budget for the 2023 financial year should build on the activities contained in the Comprehensive Public Finance Management Reform Plan in order to reinforce the use, preparation, presentation, execution, monitoring and evaluation of the programme budget.

I. MACROECONOMIC CONTEXT

6. The State budget for the 2023 financial year is being prepared amid an international environment marked by a slowdown in the global economy as a result of the Russia-Ukraine conflict, with negative consequences for market supply and an increase in product prices.

7. According to the International Monetary Fund (IMF), the global economy will grow by 3.6% in 2022, compared with 6.1% in 2021. Growth in advanced economies is expected to slow to 3.3% in 2021, down from 5.2% in 2021, due to higher energy prices, unfavourable financial conditions and supply chain disruptions. This trend will also be visible in the group of emerging and developing countries where growth is expected to decrease from 6.8% in 2021 to 3.8% in 2022.

8. An additional obstacle in sub-Saharan Africa is the decline in demand from major trading partners due to the global slowdown. Furthermore, security threats are putting a number of countries in the region in a vulnerable position. Economic growth in the region is expected to fall from 4.5% in 2021 to 3.5% in 2022. According to BEAC, economic growth will in the CEMAC zone will be 3% in 2022, up from 1.9% in 2021. This trend will be sustained primarily by non-oil activities, fuelled by policies aimed at diversifying and improving local production in the zone.

9. Inflation is expected to be significantly higher in 2022 than initially projected. It is driven not only by the pressures induced by the consequences of the conflict in Ukraine, but also by the slow pace of adaptation of supply to the post-COVI-19 global demand pick-up. It is therefore expected to be 7.4%, compared with 4.7% globally in 2021. It would be 5.7% in advanced countries, compared with 3% in 2021, 8.7% in emerging and developing countries, as against 6% in 2021, and 12% in sub-Saharan Africa, compared with 11% in 2021. Inflation in the CEMAC zone is projected to be 3.6%.

10. According to IMF projections, economic activity in 2023 will at least be the same as in 2022, with a global economic growth rate of 3.6%. This trend would a result of the contraction of the international capital market and the continuance of counter-cyclical policies in advanced countries in order to contain inflation whose effect would be cushioned by the gradual waning of the pandemic in developing economies, particularly China. The consequences of the conflict in Ukraine are expected to subside by 2023.

11. Based on this assumption, the group of advanced countries is expected to achieve a 2.4% growth in 2023, including 2.3% in the United States and 2.3% in the Euro zone. In the group of emerging and developing countries, growth is expected to be 4.4%, driven by China (5.1%) and India (6.9%). Growth is expected to reach 4.0% in sub-Saharan Africa and 2.6% in the CEMAC zone.

12. Oil prices on the international market are expected to fall to 90 dollars per barrel in 2023, from an average of 102 dollars per barrel in 2022.

13. **At the national level,** growth projections have been revised to 4% in 2022, down from 4.2% initially due to the deterioration of the global economic outlook. On the supply side, the oil sector is expected to contract by 2.3% due to gradual depletion of oil fields. This should be offset in part by gas production. Non-oil sector growth is expected to be 4.2% in 2022, driven primarily by the buoyancy of agri-food industries and the continuation of major development projects.

14. On the demand side, household consumption and investment will continue to sustain growth. Final household consumption, which represents 70% of GDP, would increase by an average of 5.2%, contributing 3.8 percentage points to economic growth. Private investment is expected to experience a more robust growth of 6.7% owing to the measures implemented by the Government in order to promote access to credit by enterprises. The same will also be true for public investment sustained by the implementation of post-COVID recovery measures and SND30 projects and programmes, as well as the increase in budget revenue due to the resumption of economic activity.

15. Regarding prices, inflation would be kept below 3% in 2022 thanks to the ongoing implementation of measures to combat high cost of living, despite rising import product and ex-factory prices.

16. Based on the assumption that the effects of the Ukraine crisis will be reduced, projections show that the Cameroonian economy will grow by 4.6% in 2023, with the non-oil sector growing by 4.8% and the oil sector by 0.5%. Growth in the non-oil sector will be primarily driven by domestic production, thanks to the continued implementation of the import substitution policy. Inflation should remain below the CEMAC zone's 3% target.

II. PUBLIC POLICY OBJECTIVES

17. In 2023, the objective will still be to consolidate economic recovery and accelerate structural transformation, while strengthening inclusive growth in order to steer the country back to the path of emergence.

As a result, security, economic, fiscal, social, and governance action levers should be prioritized.

18. In terms of security, the priority will be to:

- maintain security monitoring;
- strengthen the disarmament, demobilization and reintegration process.

19. On the economic front, the Government will undertake to:

- pursue the reconstruction of the North-West, South-West and Far-North Regions;
- complete the commissioning of major first-generation projects;
- ensure the rehabilitation and maintenance of existing infrastructure;
- orient public procurement of goods and services toward local production, particularly the "wood" sub-sector, by purchasing a significant amount of furniture fittings for government services from local production entities;
- strengthen support for enterprises investing in SND30 priority sectors, particularly agri-food;
- accelerate the implementation of the import substitution policy, particularly through the implementation of the support plan for the production and processing of the main import products (rice, corn, wheat, soybean, millet, sorghum, fish, milk, and pharmaceutical products);
- facilitate access to land in order to promote the implementation of second-generation agriculture;
- strengthen energy infrastructure to meet the needs of industry and the population, particularly by operationalizing hydroelectric dams and solar power plants;
- implement the actions of the SND30 Initial Stimulus Plan (P21) in a coordinated manner by ensuring greater processing of local raw materials and continuing the maturation of SND30 sector development plans;
- promote regional integration, free movement of goods and people, intra-zone trade, and optimize new market opportunities in CEMAC, ECCAS and AfCFTA;
- develop transport infrastructure and open up production basins in order to facilitate trade and market supply under the best possible conditions;
- continue to develop the digital economy by strengthening the telecommunications network and infrastructure;
- identify measures to control cryptocurrency-related activities;
- enhance the competitiveness of the Cameroonian economy by reducing the cost of factors of production (transport, energy, etc.);

- accelerate the policy of national champions while promoting the values of economic patriotism;
- implement mechanisms for promoting climate finance in Cameroon as part of efforts to develop carbon finance and achieve eligibility for the Green Fund;
- continue inflation control by:
    - increasing the local supply of goods and food products;
    - strengthening food storage, packaging and distribution channels;
    - making agricultural inputs and high-yielding seeds available to producers and facilitating access to agricultural equipment.

20. **Regarding internal taxation,** new measures adopted for the 2023 financial year should, in addition to optimizing internal non-oil revenue, promote a tax environment conducive to business development, **by streamlining procedures and tracking taxpayers**, notably:

- establishing an appropriate tax regime for small- and medium-size enterprises, particularly with regard to individual entrepreneurs;
- continuing to strengthen environmental taxation, in line with the international commitments made by our country;
- **pursuing the import substitution policy by increasing tax incentives for investments in the production and processing of local raw materials;**
- **supporting the financing of the economy by clarifying the tax regime for releasing transactions and factoring;**
- **supporting the financing of the economy by clarifying the tax regime for leasing and factoring;**
- **clarifying the tax regime for business restructuring;**
- **enhancing VAT neutrality;**
- continuing to align legislation with the dematerialization of tax procedures.

21. **Concerning import taxation,** the Customs Administration will strive to effectively implement actions that contribute to achieving its economic, fiscal and assistance missions with respect to institutional and private actors. Priorities in this regard will include:

- pursuing the implementation of the import substitution policy, particularly by reducing the tax burden on imported capital and production goods that do not have a local equivalent to develop priority primary and tertiary subsectors, and readjusting customs duties and taxes on some imported goods to encourage their gradual replacement with locally manufactured products.

- implementing, in collaboration with the General Directorate of Taxation and the relevant government services, a tax incentive policy that promotes the use of local raw materials and inputs at the expense of imported raw materials and inputs;
- implementing an export tax policy that takes into account the actual level of processing of goods so as to further encourage exports of "Made in Cameroon" finished products to the detriment of those exported in crude state;
- implementing solutions to clear the tax and customs exemptions previously granted within the framework of the implementation of some major projects;
- eliminating import exemptions for products manufactured locally or with local substitutes, as well as those that hinder the development of some sectors in order to boost local production and competitiveness;
- continuing the implementation of a plan for ensuring land, air, and water border surveillance, which includes the acquisition and use of modern surveillance means (drones, cameras, dogs, scanners, etc.), as well as combating smuggling, forgery, piracy and other forms of illicit trafficking in order to promote the integration of Cameroon Customs into the National Defence and Security Community;
- implementing the safeguard measures and the customs and economic regimes provided for by the new CEMAC Customs Code to protect sectors facing unfair competition from imported products that benefit from subsidies or other forms of support in their country of export in order to make local enterprises more competitive;
- continuing advocacy with CEMAC to adapt the Common External Tariff rates to the new industrial configuration of member countries, and with ECCAS to accelerate the establishment of a Customs Union conducive to increased trade between this Community's eleven member countries;
- continuing efforts to facilitate goods clearance, particularly by establishing and coordinating single control points integrating all services in charge of goods control in order to significantly reduce border crossing costs and delays, in collaboration with other competent bodies, the National Trade Facilitation Committee (CONAFE) and the Cameroon Business Forum (CBF);
- establishing, in accordance with relevant international instruments, a legal framework for the seizure of prohibited goods.

22. **On the social front,** the aim will be to:

- reinforce the inclusiveness of economic growth, particularly by giving greater consideration to labour-intensive (HIMO) approaches and local content in investment project design;
- continue to strengthen the Social Safety Nets project by broadening the scope of its beneficiaries and diversifying the type of direct support provided (monetary/in kind);
- continue to operationalize the National Book and Textbook Policy by drafting and applying the implementing instruments of Law No. 2021/24 of 16 December 2021 to organize and promote the book sector in Cameroon;
- step up the implementation of the policy of matching technical and vocational training to local market needs according to socio-economic realities;
- continue to implement universal health coverage with focus on disease management, particularly among pregnant women and under-five children;
- continue to ensure health monitoring in the context of the fight against epidemics and pandemics, particularly COVID-19;
- set up the single social register by merging the various systems for identifying needy people;
- continue to fulfil commitments contained in the National Gender Policy (NGP) and extend such policy to other vulnerable people (persons with disabilities and economically fragile persons).

23. **Regarding governance,** the actions already initiated should be continued. To that end, efforts to enhance transparency and streamline public finance management should be pursued through the following measures:

- continue the drafting of the implementing instruments of the General Code of Regional and Local Authorities and establishment of a local public service;
- complete the operationalization of regions and build their public policy planning, programming and budgeting capacity;
- reinforce land governance promotion and supervision incentive measures to enable the emergence of second-generation agriculture;
- continue to implement the comprehensive public finance management plan;
- as part of performance contracts, implement actions to ensure greater socio-economic profitability to avoid the systematic use of State subsidies;
- carry out an overall review of public policies in order to streamline State intervention, including the alignment of the portfolios of public establishments and corporations with the country's actual needs;

- as part of government communication, validate and implement the preliminary draft inter-ministerial plan to raise awareness on , monitor and repress hate speech, as well as promote living together and citizenship;
- in pursuance of the provisions of law of 24 December 2019 on the promotion of official languages, plan and budget new activities to promote the national bilingualism policy;

24. Against this backdrop, the 2023 budget should be prepared based on the following assumptions:

- a 4.6% real GDP growth;
- a 1.6 GDP deflator
- an overall budget deficit, including grants, of 1.2% of GDP.
- a current account deficit of about 2.5% of GDP.

III. GENERAL BUDGET POLICY GUIDELINES

25. The budget policy objective of the 2023 financial year is to continue fiscal consolidation with a view to providing the State with a healthy medium-term fiscal space to ensure debt sustainability and the financial viability of its expenditure programmed backed by NDS30. To this end, emphasis will be on increasing mobilization of non-oil revenue, as well as controlling and improving public spending efficiency.

26. Domestic tax revenue mobilization should be pursued by broadening the tax base, securing revenue and revenue collection channels and intensifying the fight against tax evasion and fraud. These measures should be concretized through actions aimed at:

(a) Concerning the broadening of the tax base

- pursuing the streamlining of tax expenditure by abolishing ineffective exemptions or applying reduced rates;
- strengthening environmental taxation through optimal taxation of illegal exploitation of natural resources, in line with Cameroon's international commitments;
- continuing to seek innovative sources to broaden the tax base;
- consolidating the integrated tax partner reform in order to broaden the tax base by facilitating informal sector taxation;
- regulating the taxation of informal activities through measures to limit cash transaction.

(b) Regarding the promotion of tax compliance and monitoring of taxpayers

- continuing to simplify the taxation of individuals in order to encourage greater tax compliance by this category of taxpayers;
- promoting taxpayer compliance by instituting a voluntary regularization programme;
- extending the scope of the tax clearance certificate to transactions not yet concerned by this requirement;
- generalizing the tax identifier requirement to all economic transactions in order to ensure better data collection;
- continuing the automation of tax procedure monitoring;
- pursuing the reorganization of services to ensure more efficient management of tax risks.

(c) With respect to local taxation

- establishing a reformed local taxation mechanism to ensure optimal financing of decentralization.

(d) Concerning revenue protection

- generalizing e-payment to all enterprises;
- establishing an electronic mechanism for monitoring economic transactions to improve consumer tax yield;
- finalizing the automation of the monitoring of the collection of some taxes, such motor vehicle stamp duty.

(e) Regarding the control of and fight against fraud

- continuing to align the domestic mechanism with international standards for fighting against tax base erosion and profit shifting practices;
- strengthening the mechanism for collecting, processing and developing data for tax purposes;
- resorting to external (international and local) tax audit expertise.

27. The optimization of customs revenue should result in the following actions:

- improved quality of goods handling, taxation bases (value, origin, tariff type), payment of customs duties and taxes, collection and protection of customs duties and taxes, especially on procurement-related imports;
- continued application of excise duties on luxury goods, products with negative externalities for the environment and health, as well as goods for which Cameroon has comparative advantages;
- continued implementation of the adapted taxation policy for import goods, depending on their local processing level, their domestic production volume