

AN ANALYSIS OF THE IMPACT OF FINANCIAL SECTOR REFORMS ON ECONOMIC GROWTH IN CAMEROON

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ABSTRACT: *The ultimate task of this study is to examine the nature and extent of the influence which financial sector development, resulting from the financial sector reforms implemented in Cameroon has on the economic growth of the country from 1980 to 2015. The evaluation covers the roles of three key financial sector indicators (the ratio of broad money supply to GDP, the banking assets ratio, and the interest rate spread) each of which reflects a different facet of financial sector development. To achieve the best needed results we tested and adjusted the data to obtain stationarity. Thereafter we proceeded to determining the quantitative relationships between the dependent and the independent variables with the use of the Vector Autoregression (VAR) technique. Parameter estimates were empirically tested. We found out that all the financial sector development variables tested were economically and statistically relevant in at least one of the four VAR equations generated while in two of the four VAR equations the values of the adjusted R^2 indicate that more than 70% of variations in the current real GDP in Cameroon is accounted for by the lagged financial sector development indicators included in the models. Based on the above results we conclude that: there exist a strong positive long run relationship between financial sector development and economic growth in Cameroon. This result confirms that creating the conditions for a deep and efficient financial system can contribute robustly to sustained economic growth in Cameroon. Based on the findings, it is suggested that. Based on the findings of this study, we recommend continuous efforts to enhance financial intermediation, deepen the Douala stock exchange market and fully liberalize interest rates in the country.*

KEYWORDS: Financial Deepening, Financial Liberalisation, Financial System, Financial Repression

INTRODUCTION

The financial repressionist theory developed by Mckinnon, Gurley and Shaw (1973), considers pervasive government intervention and involvement in the financial system through the regulatory and supervisory network, particularly in controlling interest rates and the allocation of credits to priority sectors of the economy in developing countries to inhibit saving mobilization and investment decisions of market participants. This practice impedes the holding of financial assets, capital formation and economic growth contributing to excess liquidity outside the banking system and resulting in a financially repressed economy. A more developed financial system with lower information and transaction cost facilitates a more efficient allocation of resources which leads to a more rapid accumulation of physical and human capital as well as faster technological progress by enabling the identification and funding of better investment projects, mobilizing savings, monitoring managers, and allowing investors to trade, hedge, and diversify risk (Susan et al., 2003; Mohsin and Abdelhak, 2000).

Subsequently, as countries look for ways to jumpstart growth, financial sector reform is usually made a priority. These reforms generally entails a reduction of direct government intervention and strengthen the role of the market forces in the allocation of financial resources, improve the capacity of financial institutions to mobilize domestic savings, enhance competition among banks, as a precondition for economic growth (Nnana and Dogo, 1998). The principal objective of financial sector reform is to boost financial sector development (Goldsbrough et al., 1996). However, in the short-run, countries may be faced with a tradeoff between economic growth and financial sector development. Fast growth can make financial markets vulnerable to shocks, thereby constraining potential output (Bell and Pain, 2000). In particular, rapid credit expansion may, at times, exceed banks capacity to assess risk, thereby leading to reduced asset quality. At the same time, credit expansion can only be a symptom of rapid financial sector development, without contributing to economic growth (Gourchinas and Landerretche, 2001). In a country experiencing rapid credit growth and rapid output growth, the key is to determine whether the credit growth can be interpreted as a structural and positive development.

Cameroon just like many other developing countries operated between the 1960s and the 1980s, a financial system which was heavily controlled; interest rates were set administratively and were usually negative in real terms; monetary policy was conducted primarily through direct allocation of credit and refinancing; the money markets were underdeveloped; while the bond and equity markets were virtually non-existent. Commercial banks were often obliged to lend only to the treasury and to priority sectors with little concern for the lending firms' profitability. Capital flows were tightly regulated; and foreign investment in the financial sector was restricted (Claudio and Martine, 2000). The inefficiencies and distortions of this sort of system became apparent and were exacerbated by the emergence of severe macroeconomic difficulties by the end of the 1980s. This situation triggered in a program of overhauling the entire banking and financial system in Cameroon.

Some of the measures involved the setting up of the Banking Commission of Central African States – COBAC which went operational in Cameroon in 1993. The Commission is empowered to exercise its authority in all the signatory States, ensure that credit institutions in member States comply with the provisions of the laws and regulations laid down by the Monetary Authorities, the Bank of Central African States (BEAC), or by the Banking Commission itself as well as guarantying that any institution violating such provisions is punished. With regards to banking legislations, several texts regulating the Banking Sector in Cameroon have been added to the list. Starting with, Ordinance N° 85/002 of 31 August 1985 relating to the establishment of Credit Institutions ratified by Law N° 88/006 of July 1988 and Law N° 90/019 of August 10, 1990 suppressed most of the detestable banking practices, cancelled the preferential discount rate while the minimum lending rate was repealed. In the same year, Ordinance N° 90/6 of October 26, 1990 exempted banking institutions from the payment of registration fees and stamp duties on all Deeds and Judgments relating to transfer and or resale of immovable property. Ordinance no 90/3 of 27 April 1990, barred all proceedings against banks under liquidation while law no 90/19 of August 1990 made it optional henceforth for the state to participate in the capital of credit institutions and lifted the obligation of having only Cameroonians as general managers of credit institutions (Official Gazettes of the Republic of Cameroon, 1980-90).

The main banking regulatory instrument in Cameroon however, is the 1990 banking convention harmonizing banking regulations in the six member States of BEAC. This convention takes

precedence over all the pre-existing national banking laws and spells out for the first time the basic operating conditions of a bank. This text makes provision for licensing, appointment of its key executive members and sanctioning of contravening institutions. It also indicates the minimum paid up capital, capital adequacy and finally, makes provisions on risk coverage and liquidity ratios (COBAC Text of 17 January 1992). By 1996 it became mandatory for banks to ensure that before issuing check booklets to their clients there are two parallel lines on the face of each leaflet (National Council of Credit Report, 1996). The most recent harmonized legislation that governs business activities, in the CFA Zone is the OHADA Treaty. The Treaty became effective in Cameroon in 1998 and lays down conditions for the incorporation, functioning and dissolution of companies (banking and other financial institutions inclusive). An important innovation in this Text is the creation of an arbitration Court for conflict resolution. In 2002, in order to encourage access of the greater majority of Cameroonians who mainly operate outside the traditional banking channels to financial and banking services, the text governing the exercise of micro financial (MFIs) activities in the BEAC zone of issue was promulgated into law (Law No. 01/02/CEMAC/UMAC/COBAC). Regulation COBAC R-2009/02 is also a recent text that reinforces and broadens the legal space of banking in Central Africa previously set by the banking convention of 1990. The Douala stock exchange market was created in 2001 and by the year 2010 the Cameroonian government floated the first treasury bonds in the market.

In the same light, to strengthen monetary policy efficiency and contribute to the reorganization of the banking system, BEAC revised its intervention arrangement. The reforms proposed and encouraged by the International Monetary Fund (IMF) and the World Bank, involved abandoning the previously rigid mechanisms in favour of more flexible regulation methods which were closer to the market. In addition to interest rates policies they concern: Monetary Programming, the Money Market, and Prudential Ratios, (National Council of Credit (NCC) Report of Cameroon, 1995/96). Monetary programming is expected to permit the Central Bank, each year and in advance, to draw the attention of the monetary authorities to the monetary implications of their economic and financial options with a view of enhancing coherence between the monetary and the credit objectives, on the one hand, and the economic situation in the other. Decision No.2/MM/94 of 29 of June 1994 to reorganize refinancing and institute a money market in the six member states of BEAC, ushered in a new BEAC refinancing system (either to place liquidities or to take in liquidities) that is based on a procedure of competitive bidding. The interbank segment of the money market became operational in Cameroon in 1994. Here, banks, financial establishments, public financial institutions and, if need be, BEAC exchange liquidities at the Central Bank with each other, under conditions relating to amount, rate, duration and, guarantees freely (following the law of demand and supply) without the interference of the monetary authorities or the Bank of Issue. The interest rate policy was also adjusted to hence forth maintain a positive rate differential with Cameroon's major foreign partners (France, and West African Monetary Union-UMOA), simplify the structure and liberalize interest rates, as well as to increase the profit margin of banks. Consequently decision No.001/MM/96 of 12 January 1996 made lending and deposits rates to be freely negotiable between credit establishments and their customers while complying with the limits which still falls under the jurisdiction of the governor of BEAC. As regards the minimum capital for commercial banks and other financial establishments in the country, the amount rose from five billion FCFA and one billion FCFA in 2010 to 10 billion FCFA and two billion FCFA respectively in 2014. A recent study by Mbu (2016), argue that the financial reforms implemented over the past three decades in Cameroon have had substantive impact on financial intermediation, development, and the structure of the financial sector of the country.

Based on the above premise, the major objective of this study is to empirically estimate the influence financial sector development resulting from financial sector reforms have on economic growth in Cameroon. This is achieved by taking into consideration the following sub-objectives:

- 1) Evaluate the impact of the relative composition and diversification of the financial sector (represented by the Ratio of Bank Assets to Total Financial Assets) on Economic Growth in Cameroon.
- 2) Investigate the impact of the overall size and depth of the financial system (represented by the Ratio of Broad Money Supply to Real GDP) on Economic Growth in Cameroon.
- 3) Examine the Impact of the degree of financial competition and efficiency (represented by the Interest Rate Spread) on Economic Growth in Cameroon.
- 5) Finally, to make policy recommendations based on the findings of this study

The remainder of the paper is structured as follows: section two briefly reviews literature on financial sector reforms and economic development; section three explains the methodology employed in this study, section four analyses data and presents findings of the study, while section five concludes and offers policy recommendations based on the findings of the study.

REVIEW OF RELATED LITERATURE

Traditionally the financial sector development literature is associated with the works of (Goldsmith, 1969; Mckinnon, 1973; and Shaw, 1973). The Goldsmith – Mckinnon – Shaw analyses emphasize the connection between a country's financial structure and economic development. Though the direction of the causal relationship has never been settled, the argument is that the services of the financial sector in reallocating capital to the most efficient users without substantial risk of loss through moral hazards, adverse selection, or transaction costs are crucial catalyst to economic growth (Levine and Zervos, 1998). Basically, the seminal empirical work that helped establish the growth-finance link is that of King and Levine (1993), which extended the cross-country framework introduced in Barro (1991) by adding financial variables to the standard growth regression. Since then extensive evidence confirms that creating the conditions for a developed and efficient financial system can contribute robustly to sustained economic growth and lower poverty (Beck, Levine, and Loayza, 2000; Honohan, 2004).

In the subsequent decade numerous empirical studies expanded upon this, using both cross-country and panel data sets for the post-1960 period. Gobind (2001), seeks to assess the financial growth nexus and the importance of the financial system in Guyana. The study suggests that there is a strong relationship between economic growth and financial development with economic growth preceding the development of the financial markets. The results are consistent with the studies of Odhiambo (2009, 2010) which concluded that financial deepening resulting from interest rate liberalization Granger causes economic growth in Zambia and Tanzania respectively. Mbadike and Emeka (2009) examined the relationship between financial and economic development in Nigeria between 1986 and 2007 found that the financial development index is low in Nigeria over the years but four of the nine variables used in the study had significant relationships. However, according to Rousseau and Wachtel

(2011) the impact of financial development on growth is not as strong with more recent data as it appeared in the original panel studies of King and Levine, in general, the evidence indicates that financial development and economic growth are significantly related.

METHODOLOGY

The study is designed to cover the period 1980 to 2015. The choice of the range of selected years coincides with the period of major programs and financial reform processes geared towards overhauling the entire monetary and financial sector in Cameroon. The study uses principally time series data from secondary sources, such as the data bank of BEAC, the World Development and the African Development Bank Indicators.

The first step in this investigative process is to compile a set of key indicators that encompass all the qualities of the state of development of the financial sector expected to result from the financial sector reforms in Cameroon and which are to be used as variables in this study. This section draws particularly on the World Bank – IMF experience in conducting the Financial Sector Assessment Program (FSAP) introduced in 1999. These variables include:

- Broad money supply as percentage of Real Gross Domestic Product $[(M_2/RGDP)*100]$, included to observe the changes in the overall size of the financial system relative to the size of the economy. It provides information on the depth and access of the population to saving facilities (Mikes, Colin, 2002).
- The interest rate spread (lending rate minus deposit rate, %) is a standard measure of the degree of financial competition and efficiency, in a financial system (IMF, 2004).
- Ratio of Bank Assets as a percentage of Total Financial Sector Assets $[(BA/TFSA)*100]$ referred here simply as the bank asset ratio is meant to establish the relative composition, breadth and system diversification of the financial sector.
- Real Gross Domestic Product (RGDP) represent the dependent variable and consist of the sum of gross value added by all resident producers in Cameroon plus any product taxes and minus any subsidies not included in the value of the product.

To establish the impact of the financial sector reforms on economic growth in Cameroon we have adopted the Vector Autoregressive (VAR) method of estimation. VAR serves as an alternative to the traditional Simultaneous Equations System Approach. The structural model is therefore designed to contain four main finite equations namely; the Economic Growth equation; the Broad Money Supply equation; the Bank Asset Ratio equation and the Interest Rate spread equation. The variables of the models are restricted based on the conditionality of the VAR methodology. Sequel to studies (Goldsmith 1969, Mckinnon 1973, Shaw 1973, King and Levine 1993, Beck et al. 2000, Honohan 2004, Odhiambo 2009, 2010) all cited above, the VAR models can be presented thus:

$$Y_t = \int (M_{2t}, BA_t, INRS_t) \dots \dots \dots (1)$$

$$M_{2t} = \int (Y_t, BA_t, INRS_t) \dots \dots \dots (2)$$

$$BA_t = \int (Y_t, M_{2t}, INRS_t) \dots \dots \dots (3)$$

$$INRS_t = \int (Y_t, M_{2t}, BA_t) \dots \dots \dots (4)$$

These equations can be explained quantitatively based on the Vector-Auto-regressive method as;

$$\Delta LY_t = A_0 + A_1 \Delta LM_{2t} + A_2 \Delta LM_{2t-1} + A_3 \Delta LM_{2t-2} + A_4 \Delta LBA_t + A_5 \Delta LBA_{t-1} + A_6 \Delta LBA_{t-2} + A_7 \Delta INRS_t + A_8 \Delta INRS_{t-1} + A_9 \Delta INRS_{t-2} + A_{10} \Delta LY_{t-1} + A_{11} \Delta LY_{t-2} + \sum_{t=1}^2 \dots \dots \dots (5)$$

$$\Delta LM_{2t} = B_0 + B_1 \Delta LY_t + B_2 \Delta LY_{t-1} + B_3 \Delta LY_{t-2} + B_4 \Delta LBA_t + B_5 \Delta LBA_{t-1} + B_6 \Delta LBA_{t-2} + B_7 \Delta INRS_t + B_8 \Delta INRS_{t-1} + B_9 \Delta INRS_{t-2} + B_{10} \Delta LM_{2t-1} + B_{11} \Delta LM_{2t-2} + \sum_{t=2}^2 \dots \dots \dots (6)$$

$$\Delta LBA_t = C_0 + C_1 \Delta LY_t + C_2 \Delta LY_{t-1} + C_3 \Delta LY_{t-2} + C_4 \Delta LM_{2t} + C_5 \Delta LM_{2t-1} + C_6 \Delta LM_{2t-2} + C_7 \Delta INRS_t + C_8 \Delta INRS_{t-1} + C_9 \Delta INRS_{t-2} + C_{10} \Delta LBA_t + C_{11} \Delta LBA_{t-1} + C_{12} \Delta LBA_{t-2} + \sum_{t=3}^2 \dots \dots \dots (7)$$

$$\Delta INRS_t = D_0 + D_1 \Delta LY_t + D_2 \Delta LY_{t-1} + D_3 \Delta LY_{t-2} + D_4 \Delta LM_{2t} + D_5 \Delta LM_{2t-1} + D_6 \Delta LM_{2t-2} + D_7 \Delta LBA_t + D_8 \Delta LBA_{t-1} + D_9 \Delta LBA_{t-2} + D_{10} \Delta INRS_t + D_{11} \Delta INRS_{t-1} + D_{12} \Delta INRS_{t-2} + \sum_{t=4}^2 \dots \dots \dots (8)$$

$\sum_{t=1}^2$ to $\sum_{t=4}^2$ are the stochastic error terms for equations 4 to 8 which are assumed to have zero means, constant variances, uncorrelated with the other explanatory variables with the other properties expected to be normal.

A_0 to A_{11} are the structural parameters for equation 5 as it is the case with B_0 to B_{11} , C_0 to C_{11} and D_0 to D_{11} representing structural parameters for equations 6, 7 and 8 respectively.

Where: ΔLY_t is the first difference of the log of real Gross Domestic Product in current Period.

ΔLY_{t-1} is the first difference of the log of Real Gross Domestic Product in one year lag.

ΔLY_{t-2} is the difference of the log of Real Gross Domestic Product in the two year lags.

ΔLM_{2t} is the first difference of the log of Broad Money Supply in the current period.

ΔLM_{2t-1} is the first difference of the log of Broad Money Supply in one period lag.

ΔLM_{2t-2} is the first difference of the log of Broad Money Supply in two periods lag.

ΔLBA_t is the first difference of the log of Bank Assets Ratio in current period.

ΔLBA_{t-1} is the first difference of the log of Bank Assets Ratio in one year lag.

ΔLBA_{t-2} is the first difference of Bank Assets Ratio in the two years lag.

$\Delta INRS_t$ is the first difference of the Interest Rate Spread in current period.

$\Delta INRS_{t-1}$ is the first difference of the Interest Rate Spread in one year lag.

ΔINRS_{t-2} is the first difference of Interest Rate Spread in two year lags.

This system is therefore complete in that it contained 4 equations with 4 endogenous variables. Adopting the system estimation approach reduces the incidence of multicollinearity and equally eliminates the effects of simultaneous equation bias. This study has decided to log the variables because log-linear form equations permit a direct estimation and interpretation of the associated coefficients of the models as elasticities.

Given that the data used for this study (Appendix 1) are time series, in testing for stationarity, the Augmented Dickey Fuller (ADF) and the Philips Perron (PP) unit root tests are employed. These two tests are further reinforced by the Unit Root Circle Rule. The Johanson Co-integration test is employed to find the point of integration between the variables under study. The Akiake Information Criteria (AIC) and the Schwarz Information Criteria (SIC) are the criteria under which the number of lag degrees of freedom of the variables are denoted. Serial correlation is tested in the VAR model using the Breusch Pagan test, LM statistics and the Portmanteau test. The t-statistics is used to test for the statistical level of significance of the various estimated parameters while the Adjusted Residual Squared (Adjusted R^2) statistics will be very important in indicating the level of multiple determinations by all the variables included in the model. The F-statistics is the statistical test used to determine the reliability of the models specified in the study.

RESULTS AND DISCUSSION

Based on the Augmented Dickey Fuller (ADF) and the Phillip - Peron (PP) Test, our variables (Y, BA, M_2 , and INRS) are all found non-stationary at level and stationary after taking their first difference at 1% level of significance. We therefore conclude that our endogenous variables are integrated of the order 1, denoted as I (1) [Appendix 2]. A summary of the VAR results generated by the VAR equations is presented in Table 1 below: The asterisks marked against each coefficient indicate the level at which that variable is significant. That is *, **, *** for 1%, 5%, and 10 % significant levels respectively.

Table: 1 Summary of VAR Results for Cameroon

Equations	1.1	1.2	1.3	1.4
Variables	Y	BA	M_2	INRS
Constant	0.0336**	-0.0790	0.0152	0.0561
Y-1	-0.2395	-4.4484**	0.8656	-0.7404
Y-2	0.6879**	5.6103**	-0.7534	-0.0021
BA-1	-0.1866*	-1.4029**	0.4412**	0.2334
BA-2	-0.2131*	-0.4240*	0.4158	0.2159
M_2 -1	-0.5005*	-0.8713	1.2276*	0.5150
M_2 -2	0.5415*	2.8466**	0.5415**	-1.1940
INRS-1	-0.1538*	0.5629	0.3462	0.1650
INRS-2	0.03603	0.3626	-0.4475	-0.4070
ADJ. R ²	0.70288	0.95181	0.3552	0.4486
F-Statistics	6.02702	42.979	2.1710	0.34188
Critical Values	3.02	3.02	3.02	3.02
DF	10	10	10	10

Source: Compiled by Author from VAR Results

We set out at this stage to examine whether or not the ratio of bank assets to total financial assets (BA) has a significant quantitative negative relationship with economic growth in Cameroon. Our VAR results in equation 1.1 which is our real GDP equation indicate that, both the first and second periods of BA has the expected and significant negative relationship with economic growth. The magnitude is such that if the one and two years lagged ratios of BA in Cameroon reduces by 1%, the levels of current real economic growth increases by 18.6% and 21.3% respectively. These results for both periods are statistically significant at 5 percent level giving a 95% degree of reliability on the parameter estimates in explaining current real GDP in Cameroon within the period under study. Given that in this study, BA serve as proxy for financial system diversity, the result implies that the relative composition, breadth and the process of system diversification of the financial sector in Cameroon stimulates economic growth in the country. The insinuation of the results is that the financial structures as obtained in Cameroon before the financial sector reform period where banking institutions tended to dominate the financial system overwhelmingly and where bank deposits and loans constituted the traditional forms of savings and credit failed to stimulate economic growth. Efforts towards introducing a wide range of vibrant non-bank financial intermediaries, particularly micro financial institutions, pension funds, insurance companies and financial markets play a substantial role in the efficient domestic asset allocation in the country. In addition equations 1.2 and 1.3 indicate that both periods of the bank asset ratio were statistically significant though theoretically insignificant. This makes BA a viable policy option when designing overall economic growth packages in Cameroon.

With respect to whether or not the ratio of broad money supply to real GDP (M_2) has any statistical significant positive impact on the real economic growth in Cameroon, empirical evidence of our VAR estimates show that in equation 1.1 which is again our real GDP equation, both periods of M_2 are statistically significant at 1% level with however, only M_{2-2} meeting the additional theoretical a priori test. The magnitude is such that a percentage increase in the M_{2-2} will cause a 54.1 percent increase in real GDP in Cameroon. In equation 1.2, M_{2-2} is again statistically significant at 5% level but with the wrong sign. In equation 1.3 both periods of M_2 have the expected and statistically significant positive relationships. The magnitude is such that a percentage increase in M_{2-1} and M_{2-2} will cause a 122.7 and a 54.1 percent increase in its own current value. The results are statistically significant at 1 and 5 percent level making M_2 more than 95 percent reliable as a determinant of its own current value in Cameroon within the period under review.

Given that in this study, M_2 is meant to capture the significance of the role played by the overall size, depth, and scope of the financial system in stimulating economic growth in Cameroon within the period under review the results suggest a strong positive and expansionary effect of the stock of money on higher levels of real output growth in Cameroon. This demonstrates that the effectiveness and extent with which the financial structure in Cameroon provides access to savings facilities and mobilizes financial resources from households and firms for productive investments, the higher is economic growth in Cameroon. This implies that monetary policy can significantly influence economic behaviour (Simatele, 2003).

Our observations also indicate that the interest rate spread (INRS) has the expected economic and statistically significant negative effect on economic growth in at least one equation which is our current real GDP equation 1.1. The magnitude is such that a percentage reduction in the one year lagged (INRS) will lead to a 15.3 percentage increase in current real GDP in Cameroon. This result is consistent with a priori theoretical expectations and statistically

significant at 1 percent level making the interest rate spread variable 99 percent reliable as a determinant of current real GDP in Cameroon within the period under investigation. Again given that in this study the INRS was employed to capture the influence of competition and efficiency in the financial system of Cameroon which is expected to lead to lower cost of financial services in the country, the implication of our result is that the extent to which financial markets are contestable and the extent to which consumers can choose a wide range of financial services from a variety of providers at the lowest cost possible in the country, the more economic growth is stimulated. This supports the fact that the extent to which the financial system of Cameroon provides support to the real sector depend to a large extent on the efficiency with which intermediation occurs.

The results also indicate that in two of the four VAR equations (i.e. 1.1 and 1.2) the values of the adjusted R^2 are 0.70288 and 0.95181 respectively implying that more than 70% of variations in the current real GDP in Cameroon is accounted for by the lagged financial development indicators included in the models. This statistical predictability ability of the independent variables for these two equations is further validated by the F-statistics test. Comparing the F-calculated against their critical value of 3.02 respectively we conclude that the overall equations and their parameter estimates taken together are statistically significant. Based on this and the above results we have reason to believe that financial sector development resulting from the on-going financial sector reforms in Cameroon is a source for economic growth in the Country. This findings reflect extensive evidence confirming that creating the conditions for a developed and efficient financial system can contribute robustly to sustained economic growth (Beck, Levine, and Loayza, 2000; Honohan, 2004; World Bank, 2001). A

CONCLUSION AND RECOMMENDATIONS

The main task of this study is to examine the nature and extent of the influence financial sector reforms carried out in Cameroon has on the economic growth of the country from the period 1980 to 2015. The evaluation covers the roles of key financial sector indicators each of which reflects a different facet of financial sector development. To achieve the best needed results we tested and adjusted the data to obtain stationarity. Thereafter we proceeded to determining the quantitative relationships between the dependent and the independent variables with the use of the Vector Autoregression (VAR) technique. Parameter estimates were empirically tested. We found out that all the financial sector development variables tested were economically and statistically relevant in at least one of the four VAR equations generated while in two of the four VAR equations the values of the adjusted R^2 indicate that more than 70% of variations in the current real GDP in Cameroon is accounted for by the lagged financial sector indicators included in the models.

Based on the above results, further reforms are needed in the following directions:

- Policy designers in the country should ensure measures to enhance further competition regulations among banks, privatize all remaining state interest in financial institutions and interest rates be fully liberalized.
- There is the urgent need to substantially improve on financial intermediation in Cameroon. Branch network of banks should be made to extend to the rural areas, vibrant non-bank financial intermediaries be encouraged while MFIs in the country be made to

operate first in the remote rural areas before reaching the urban poor rather than the reverse as it mostly obtains presently with most of them concentrating business on money transfers for obvious quick gains (MFIs Report, 2006).

- One big challenge currently facing Cameroon relates to the on-going integration of its capital markets both within the region and globally, (Boubakari and WouonoOgnaligue, 2011). Efforts to deepen the financial market should focus on introducing new instruments and updating stock market legislations. It is time for Cameroon to come up with financial policies that will encourage companies, develop the financial stock market culture and to initiate Initial Public Offerings (IPOs) instead of bank loans when money is needed to increase their investments.
- To promote long-term financing of investments, regulatory reforms should lay groundwork for the development of mutual funds, brokerage houses, investment banks and investment advisory institutions to help corporations become familiar with innovative long-term financing instruments.
- As liberalization and deregulation of financial activities allow market participants to assume greater risk, a strengthening of prudential regulations and bank supervision in line with international standards become imperative. New banking laws granting increased autonomy to BEAC should be intensified.

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