Role of the Financial System in Economic Development

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Research Objectives

To study the role and importance of the financial system in the economic development of a country.

Introduction

In a country's economic growth, the financial system plays a crucial role. It promotes both investment and savings and also establishes ties between savers and investors and also encourages capital market growth and financial deepening and growth support (Ang James B. 2008). Through the provision of various financial instruments and the effective mobilization of savings, the financial system accelerates the pace and amount of saving. It helps to increase the country's national production by supplying corporate customers with the funds to grow their respective businesses. It also protects investor interests and ensures smooth financial transitions through regulatory bodies such as the Federal Reserve Board (FRB), Securities and Exchange Commission, etc. raising the standard of living of people. By offering powerful financial as well as advisory services , financial institutions help customers make informed financial decisions (Ang James B. 2008). It assists in the increase in financial assets as a percentage of GDP and increasing the number of participants in the financial system.

Methodology and Data Collection

The data and information for this research are collected from secondary sources such as, journals, books, documentaries, and websites.

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Results

Raising Capital

A nation needs more investment and production to achieve the economic growth. This can occur only when there is a savings facility. In the form of investment, such savings are channelized into productive capital. The position of financial institutions is significant here, as they induce the public to save by providing attractive interest rates (Van Homes James 2002). Such savings are channelized by lending to different business firms who are looking to raise capital in order to be more productive.

Government Assistance

The financial system helps the state and central governments, along with tax concessions, to collect both short-term and long-term funds by issuing bills and bonds that bear attractive interest rates. Only with the aid of the state stock market is the budgetary gap filled (Levine Ross 1997). Therefore, the stock market, the money market, the foreign exchange market and the market for government securities enable businessmen, manufacturers and governments to meet their credit requirements. In this way, the development of the economy is ensured by the financial system.

Infrastructure and Growth.

Any country's economic development depends on the available infrastructure facilities in the country. In the absence of main industries such as coal, power and oil, other industries' growth would be hindered. It is here that, by providing funds for the development of the infrastructure sector , financial services play a crucial role. It will be difficult for the private sector to collect the enormous capital necessary to set up the infrastructure industry.

Employment Growth

The presence of the financial system will create more opportunities for jobs in the country. The money market, which is part of the financial system, provides businessmen and manufacturers with working capital because production increases, resulting in more employment opportunities being generated. The service industry, such as distribution , marketing, ads, etc., is also picking up with competition in different industries , leading to more job opportunities (Levine Ross 1997).

Conclusion

In conclusion, it can be stated that, a financial system provides a platform to the lenders and borrowers to interact with one another for their mutual benefits. The ultimate profits of this interaction come in the form of capital accumulation and economic development of the country.

Recommendation

This research states that the financial system contributes to the growth and stability of the economy. I recommend that the Libyan government should understand that it is the time to further develop the financial system, to support the development of financial markets and to develop competent regulative bodies in order to encourage companies and individuals to contribute in the financial market.

References

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