

Production and trade

[Literature](#), [Russian Literature](#)



Impact of Financial s on Economic Growth Financial s play an important role in steering economic growth by providing incentive to invest in human capital. Since human capital is integral in economic growth a society that is financially empowered by the financial institutions will experience a high level of human capital and eventually a speedy economic growth. Financial institutions normally encourage savings hence making it easy for the entrepreneurs in the economy to borrow funds and invest thus resulting into a positive spillover effects for the economy. Economies with high level of capital experiences high returns for new investments, which in turn increases the returns to and incentives for higher levels of investment. It is therefore apparent that an economy that lacks adequate financial institutions such as in the developing economies suffers from low savings rate, which in turn leads to low investment hence slow economic growth. Financial institutions also help in reducing poverty traps such as reduction of the information cost that may reduce the level of business investment and furthering slowing economic growth. Developing countries experience low economic growth due to lower rate of investment attributed by low savings and high cost of information.

Financial institutions are very significant in economic development especially to people who utilize them well. It can be argued that developing economies experience slow economic growth contributed by lack of proper financial institution's framework and political interference with the financial systems. However, if the rule, regulations and independency of these financial institutions can be addressed, they can greatly speed up economic growth in the developing countries. Financial institutions undergo serious challenges in

economically repressed areas since low income earners do not normally save. This therefore inhibits growth of the financial institutions and further minimizes investments hence low economic growth.