

Role of commercial banks in economic development assignment

[Sociology](#)



The Banking Sector has for centuries now formed one of the pillars of economic prosperity. Indeed history provides us with some starting information regarding how banks provided finance for imperialist ventures in newly acquired colonies. Over time banks have formed an important part in providing an avenue for both savings and investments. Land, Labor, capital and entrepreneurs are the basic economic resources available to business. However, to make the use of these resources, a business requires finance to purchase of the land, hire labor, pay for capital goods and pay for individuals with specialized skills.

Detail role of commercial banks in economic development is given below:

Trade Development The commercial banks provide capital, technical assistance and other facilities to businessmen according to their need, which leads to development in trade. **Agriculture Development** Commercial banks finance the most important sector of the developing economics I. E. Agriculture, short, medium and long-term loans are provided for the purchase of seeds and fertilizer, installation of tube wells, construction of warehouses, purchase of tractor and thresher etc.

Industrial Development The countries, which concentrated on industrial sector made rapid economic placement. South Korea, Malaysia, Taiwan, Hong Kong and Indonesia have recently developed their industrial sector with the help of commercial banks. **Capital Formation** Commercial banks help in increasing the rate of capital formation in a country. Capital formation means increase in number of production units, technology, plant and machinery. They finance the projects responsible for increasing the rate of

capital formation. Development of Foreign Trade Commercial banks help the traders of two different countries to undertake business.

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The banks also arrange foreign exchange. Transfer of Money Commercial banks provide the facility of transferring funds from one place to another which leads to the growth of trade. More Production A good banking system ensures more production in all sectors of the economy. It increases the production capabilities of the economy by strengthening capital structure and division of labor Development of Transport The commercial banks financed the transport sector.

It has reduced unemployment on one hand and increased the transport facility on the other hand. Remote areas are linked to main markets through developed transport system. Safe Custody The business concerns and individuals can make themselves tension free by depositing their surplus money in banks. The banks also provide them the facility of lockers to keep their precious articles and necessary documents safe. Increase in Saving Commercial banks persuade the people to save more. Different saving schemes with attractive interest rates are introduced for this purpose.

Number of bank branches is opened in urban and rural areas. Construction of Houses Commercial banks provide credit facilities to their customers for the purchase or construction of houses. Assistance to Government By providing funds to government for development programs, the commercial banks share the government for economic stability. Increase in Employment A country's economic prosperity depends on the development of trade,

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commerce by the commercial banks and employment opportunities are increasing. Saving in Metallic Reserve Cheques and drafts etc works like money.

In this way the need of precious metals to make coins reduces and metallic reserve of the country can be utilized on other important matters Credit Creation Commercial banks are called the factories of credit. They advance much more than what they collect from people in the form of deposits. Through the process of credit creation, commercial banks provide finance to all sectors of the economy thus making them more developed than before. Proper use of Money People deposit their saving in the banks, so the scattered money becomes a huge amount in the way, which can be used for different projects in a proper way.

Financial Advices Commercial banks also give useful financial advices to promote the business of their customers, besides credit facilities. Increase in Investment Commercial banks immobile savings of the people. They make them available to the farmers, traders and industrialists for the development of agriculture, trade and industry. Success of Monetary Policy Under the supervision of central bank, all scheduled commercial banks make effort for the success and objectives of monetary policy.

This joint effort of commercial banks makes the economic development possible. Use of Modern Technology The use of modern technology in less developed countries is only possible in the presence of developed commercial banking as it can be the main source of their funds. These funds are utilized for the import of modern technology from developed Export

Promotion Cells In order to boost the exports of the country, the banks have established export promotion cells for the information and guidance to the exporters.

Economic Prosperity Economic prosperity of a country depends on number of factors including the development of commercial banking. A sound banking system promotes the economic status of the people by providing them short, medium and long-term loans. Training Center Commercial banks established many trading centers for their employees to modernize the banking system of a country. In this way the banking experts enhance their abilities and contribute towards the development of country.