

ABSTRACT

The role of commercial banks in facilitating the flow of funds and effectively allocating financial resources for the promotion of economic development is needs to be widely recognized. The main aim of the present study was to investigate the role of commercial banks on the economic development of Tanzania. The researcher employed secondary time series data comprising 32 yearly observations from 1990 to 2021 to investigate the potential existence of a long-term association between the variables. The data employed in this study was acquired from the World Bank Development Indicators. To achieve the study objectives, the researcher employed a causal research design to capture the cause-effect relationship that exists among the variables. The results of the study indicate a significant and enduring relationship between measures of commercial bank development, such as bank liquidity reserves, bank credits, and interest rates, and economic growth. A negative long-term relationship has been observed between liquidity reserves and interest rates, as well as their impact on economic growth. In contrast, a significant and enduring positive relationship was detected between credit extended by commercial banks and the growth of real gross domestic product (GDP). The coefficients of the short-run relationship were also generated by the VECM. However, it was found that these coefficients were statistically insignificant throughout the entire duration of the study. Therefore, the research indicates that it is crucial to perform a comprehensive assessment of interest rates. This will enable lenders to ascertain the suitable loan amount, which is contingent upon the prevailing interest rate for lending. Moreover, it is crucial to maintain a suitable liquidity reserve requirement to avert disruptions to the economy and mitigate unfavorable outcomes. Finally, it is crucial to enhance the level of consciousness among commercial entities regarding the substantial impact that bank credits have on promoting economic growth within the country.