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DEPARTMENT OF ACCOUNTING

A RESEARCH PAPER IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR BACHELOR OF ART IN ACCOUNTING

THE EFFECT OF INFLATION ON SAVING; THE CASE OF ABYSSINIA BANK

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Abbreviations

BOA	Bank of Abyssinian
Cdt	Certificate of Deposit
ECS	Electronic Clearing System
EMI	Equated Monthly Transfer
ETF	Electronic Fund Transfer
IRAS	Individual Retirement Accounts
NBE	National Bank of Ethiopia
PAN	Permanent Account number
PC	Personal Computer

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Accelerated and sustained economic growth is on the top of Ethiopian Government's policy Agenda. The Government of Ethiopia (GoE) in its various policy and strategic papers has clearly documented that the country's long journey to industrialization and transformation to middle income nation should be led by agriculture. Thus, there is a need to enhance agricultural production and productivity (Getahun, 2008).

Financial systems mobilize scarce financial savings from the public and channel it to productive investments. They reduce risk of investors and thus lessen the barriers to new entry. Similarly, they lower risk of savers and help to raise financial savings. They also facilitate efficient exchange of goods and services by operating the country's payment and settlement systems. It is, therefore, very difficult, if not impossible, to achieve the Government's goal of rapid and sustainable economic growth and development objectives without having vibrant, efficient and strong financial system which is accessible to majority of the population, if not all (Getahun, 2008).

Financial markets and institutions interact and combine in various ways to form a county's financial systems. At the center of the system there are financial instruments in which financial institutions deal in the market. Financial systems evolve over time. They reflect a county's political and economic history. Financial systems in many African countries, for example, evolved from colonial times. Evolution of modern institutionalized financial system in Ethiopia started in 1905 following the establishment of the first bank by historically reminiscent name of Bank of Abyssinia (Belay, 2008 P.69). This Bank introduced for the first time in Ethiopian financial systems history banking services and instruments such as deposit accounts and export financing.

Banks provide largely traditional financial products. Their products mainly include demand; saving and time deposits saving. This may be under taken by Households, firms and even by the

government. The household invest this saving in the capital market in the purchase of bonds, shares, debentures, etc. the business sector borrows funds from the capital market for making investment. And also the government uses the saving to facilitate economic development activities and make away for economy's growth. But inflation has a bad effect up on economic growth; this is because it increases uncertainty and discourages Investment. Saving accounts are offered by commercial banks, savings and loan associations, credit unions, building societies and mutual savings banks. When you begin to save, you should place your money in investments that are as safe as possible. This category includes bank saving accounts and money market mutual funds (Getahun, 2008).

Saving may be under taken by Households, firms and even by the government. The household invested this saving in the capital market in the purchase of bonds, shares, debentures, etc. the business sector borrows funds from the capital market for making investment. And also the government uses the saving to facilitate economical development activities and make away for economy's growth. But inflation has a bad effect up on economic growth; this is because it increases uncertainty and discourages Investment .excess of savings over investment causes inflation. The government can control this situation by regulating investment through its monetary policy.

More over saving has also a vital role on the economy as well as the individual savers saving servers in the creation a nominal capital which later turned to capital through investment this boots the nations real productive assets which useful to achieve economic progress. (ibid)

In addition to that saving is putting away or storing money for future use. Depending on what you want to save for, you can put money away for a short or long time, for example, saving for a fridge can take a number of months, whereas saving for your retirement will take much longer. (http://www.businessdictionary.com/definition/savings.html#ixzz2nYn9btOw)

Whereas, Inflation is characterized by un increase in the general level of price for goods and services as a consequence, the purchasing power of money will fall. Most countries in the world try to sustain on inflation rate between 2%and 3%.Inflation lowers the rate of saving and diminish the purchasing power. Inflation takes place, when too much money is in circulation, in

comparison with the production of goods and services. UN inflationary movement could be b/c of the rise in any single price or a group of prices related goods and services.

This study was tried to see the relationship between inflation pressure and saving by taking the case of Bank of Abyssinia.

1.2. Background of the Organization

February 15, 1906 marked the beginning of banking in Ethiopia when the first Bank of Abyssinia was inaugurated by Emperor Menelik II.

It was a private bank whose shares were sold in Addis Ababa, New York, Paris, London, and Vienna. One of the first projects financed by the bank was the Franco-Ethiopian Railway which reached Addis Ababa in 1917. In 1931, Emperor Haile Selassie introduced reforms into the banking system and the Bank of Abyssinia became the Bank of Ethiopia, a fully government-owned bank providing central and commercial banking services. With the Italian invasion in 1935 came the demise of one of the earliest initiatives in African banking.

On 15 February 1996, ninety years to the day following the establishment of the first Bank of Abyssinia, a new privately-owned bank with this historic name, but otherwise not connected with the older bank, came into existence. The subscribed capital of the new Bank of Abyssinia (BOA) was Birr 25 million and its authorized capital Birr 50 million, with 131 shareholders, all Ethiopian (Bankofabyssinia.com, 2013).

1.3. Statement of the Problem

Financial institution plays an important role for a country's economy development. Under the umbrella of financial institution, many governmental and private banks and other financial intermediaries such as insurance and micro finance institutions are operating in the nation's economy (John, 1999).

One of the services rendered by these financial institutions is provisions of saving account for the society with an interest rate of 4%. The loan is used for the financing of many development activities which is supposed to contribute a lot to the economic development of the nation.

Hence, saving is a key instrument for the development of an economy through increasing banks' ability of lending. Moreover, saving also benefits each and every individual through improvement of living standard of individuals.

There are three motives of saving: transaction motive which is used for day to day expenses, precautionary for unforeseen situations and speculation saving for a return. This showed that saving is very necessary and compulsory for the households to have a good standard of living. However, there are some factors which hinders on people's ability to save. One of the big challenges in developing countries is the rise in the food prices which decreases the real income of the individual and decrease saving. Inflation in many developing countries is rising rapidly; Even though until recently, Ethiopia has shown to become a low inflation country in sub-Saharan Africa. The inflationary pressure has an adverse effect for an individual who deprive them from enjoying basic necessity services such as health, education and sanitation (NBE, 2006/7). The effect of the decreases in saving doesn't only affect individuals. It also affects financial institutions directly by decreasing their financial loan capacity and hence affects the development of the nation. Therefore, understanding the causal relationship between saving and inflation is very necessary. Thus, the study was tried to assess the effects of inflation on saving.

1.4. Research Questions

In order to see the causal relationship between inflation and saving, this paper was answered the following research questions:

- What is the impact of inflation on saving?
- Does the change in saving have effect on the performance of the bank?
- What is the attitude of the society for BOA, compared to other banks?

1.5. Objective of the Study

The general objective of the study is to assess the effect of inflation on saving account particularly by taking the case of bank of Abyssinia.

The specific objectives include;

- Investigating the trend relationship between saving and inflation for a given period of time

- Assessing the attitude of the society for BOA, compared to other banks
- Assessing the effect of inflation on saving and on the loan ability of BOA.

1.6. Scope of the Study

The scope of this study is limited in assessing the effects of inflation on saving by taking Abyssinia bank as a case study. Although Bank of Abyssinia has 42 branches in Addis Ababa and 42 branches abroad, this study takes only one branch of BOA: which is Lafto branch. In line with this the researcher has collected related information from NBE.

Moreover, the study was restricted to investigate the relationship between saving and inflation only for the past five years at BOA.

1.7. Limitation of the Study

The limitation of the study was its sample size. Due to time and money the researcher was enabled to collect information from all customers of BOA and from all its active branches.

1.8. Significance of the Study

Accordingly, the research has the following benefits. First, It helps savers and other interested users to have abutter knowledge about the impact of inflation and its factors on their saving account.

Second, in doing the research, the student researcher will develop research skills. Third the recommendations given at the end will help the organization and the government to decrease its information gap in the study area. And finally, the issues discussed contribute to filling the literature gap on the effect of inflation on saving also it will initiate further studies to grate with and depth.

1.9. Research Design and Methodology of the Study

1.9.1. Research Design

The researcher was used descriptive research design. in which it provides a “picture” of phenomena as they naturally occurred. Also the researcher choose this research design because, the study was concerned with describing the characteristics of particular individual or of a group.

1.9.2. Source of Data

This study was conducted to analyze the effects of inflation on saving habit of the society and on the lending ability of the BOA. The source of data for this study was both primary and secondary data. The primary data was gathered from interview and questioner. And the secondary data included data from annual and quarter report of Ethiopian National Bank and BOA magazines and books.

1.9.3. Method of Data Collection

According to primary data the researcher has used both open and closed ended questions. From the open ended questioner the researcher has collected the qualitative information about inflation and its effect on saving in relation with the respondents experience in that particular area. In addition to that the researcher use closed ended questioner so as to get quantitative data that made the answers of respondents much easier to code and analyze directly from the questioner to save time and money.

The interview was basically prepared to gather some information from the NBE and BOA. Information from the semi structured interview was used to investigate the effect of the change in saving on the loan capacity of BOA and inflation and saving trends.

1.9.4. Sample Size and Sampling Techniques

Having a representative sample size is a crucial substance to obtain a proper and reliable understanding of the savers practice towards inflation. Cost of sampling, variability of the population and the margin of error are some of the factors for the choice of the sample size.

This study tried to analyze the effects of inflation towards saving by taking 151 respondents from BOA customers; the sample size is calculated using the following equation:

$n=N/1+Ne^2$

Where:

n is the required sample size

N is the target population size

e is the desired level of precision

$n=5000/ (1+5000e^2)$

$n=5000/ (1+5000*0.08^2)$

n=5000/33

n=151

The target population size for the study is taken to be the total number of savers who resides in Lafto branches of BOA for the past 5 years and the total number of those savers are estimated to be 5000.

The desired margin of error is set equal to 8%.

This margin of error insures representativeness from the selected population, b/c the general accepted margin of error for representative samples is 10% or less (hosking and preez 2003) accordingly, the sample size can be established to be 151 respondents.

To make this sample more representatives the sample will be stratified to include different segments of the society. The different strata's are investors, import and exporters, traders, small associations and individual savers. Two stage stratified sampling techniques is implemented for this study. In the first stage committed major customers of BOA for the past 5years are selected using purposive sampling in Lafto branch. And dividing this customer in to investors, import and exporter's, traders, small associations and to individual savers. The researcher use purposive sampling b/c this paper only concerned about investigating the casual relation b/n inflation and saving for the past five years. The second stage involves selection of sample respondents. Therefore, the questioner will be distributed trough random sampling to include different amount of deposit by the strata's of segments and in each group of segment,30 respondents will be selected and questioner were distributed for each of the them.

1.9.5. Method of Analysis

The method of analysis for this study was descriptive, exploratory and inference analysis. The descriptive analysis includes simple statistical summary including frequency, ratio and percentages. The aim of this descriptive analysis was to summarize the trend relationship between inflation and saving and to illustrate some demographic and other variables.

In addition, the study tried to use exploratory analysis by which it tried to critically analyze the existing relationship between saving and inflation rate and the effect of inflation on lending capacity of the BOA. Moreover it also critically analyzed societies and customers attitude for services rendered by BOA.

1.10 Organization of the paper

The paper was organized in to four chapters. The first chapter was covered general background of the study, statement of the problem, objectives of the study, significance of the study, delimitation, limitation, and what method applied for the development of the study. While chapter two would cover over view of related literatures. Chapter three is going to show the practical aspect of the paper which is conducted in bank of Abyssinia so we are going to explain the effects of inflation on saving ,whether change in saving have impact on the day to day activity of the bank and also the attitude of the customer relative to other banks. Chapter four includes conclusion, and recommendation of the study regarding the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Overview of Banking

What is a Bank?

2.2. Definition of a Bank

Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."

2.2.1. Introduction

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the back bone of modern business. Development of any country mainly depends upon the banking system. (http://www.filiker.comTardiskey)

The term bank is either derived from Old Italian word *banca* or from a French word *banque* both mean a Bench or money exchange table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging. (http://www.filiker.comTardiskey)

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

Banks have developed around 200 years ago. The natures of banks have changed as the time has changed. The term bank is related to financial transactions. It is a financial establishment which uses, money deposited by customers for investment, pays it out when required, makes loans at interest exchanges currency etc. however to understand the concept in detail we need to see some of its definitions. Many economists have tried to give different meanings of the term bank.

2.2.1.1. Nature of Commercial Banks

Commercial banks are an organization which normally performs certain financial transactions. It performs the twin task of accepting deposits from members of public and make advances to needy and worthy people from the society. When banks accept deposits its liabilities increase and it becomes a debtor, but when it makes advances its assets increases and it becomes a creditor. Banking transactions are socially and legally approved. It is responsible in maintaining the deposits of its account holders.

2.2.1.2. Definitions of Commercial Banks

While defining the term banks it is taken into account that what type of task is performed by the banks. Some of the famous definitions are given below:

According to Prof. Sayers, "A bank is an institution whose debts are widely accepted in settlement of other people's debts to each other." In this definition Sayers has emphasized the transactions from debts which are raised by a financial institution.

According to the Indian Banking Company Act 1949, "A banking company means any company which transacts the business of banking. Banking means accepting for the purpose of lending of investment of deposits of money from the public, payable on demand or other wise and withdraw able by cheque, draft or otherwise."

2.2.3. Characteristics/Features of a Bank

1. Dealing in Money

Bank is a financial institution which deals with other people's money i.e. money given by depositors.

2. Individual / Firm / Company

A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

3. Acceptance of Deposit

A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers.

4. Giving Advances

A bank lends out money in the form of loans to those who require it for different purposes.

5. Payment and Withdrawal**:-**A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts; it also brings bank money in circulation. This money is in the form of cheques, drafts, etc.

6. Agency and Utility Serv**ices:-**A bank provides various banking facilities to its customers. They include general utility services and agency services.

7. Profit and Service Orientation**:-**A bank is a profit seeking institution having service oriented approach.

8. Ever increasing Functions**:-**Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank.

9. Connecting Link**:-**A bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money.

10. Banking Business**:-**A bank's main activity should be to do business of banking which should not be subsidiary to any other business.

11. Name Identity:- A bank should always add the word "bank" to its name to enable people to know that it is a bank and that it is dealing in money.

2.2.4. Functions of Commercial Banks

Commercial bank being the financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play very significant role in a process of economic social needs. The functions performed by banks are changing according to change in time and recently they are becoming customer centric and widening their functions. Generally the functions of commercial banks are divided into two categories viz. primary functions and the secondary functions. The following chart simplifies the functions of banks.

2.2.4.1. Primary Functions of Commercial Banks

Commercial Banks performs various primary functions some of them are given below

Accepting Deposits:-Commercial bank accepts various types of deposits from public especially from its clients. It includes saving account deposits, recurring account deposits, fixed deposits, etc. These deposits are payable after a certain time period.

Making Advances: -The commercial banks provide loans and advances of various forms. It includes an over draft facility, cash credit, bill discounting, etc. They also give demand and demand and term loans to all types of clients against proper security.

Credit creation: It is most significant function of the commercial banks. While sanctioning a loan to a customer, a bank does not provide cash to the borrower Instead it opens a deposit account from where the borrower can withdraw. In other words while sanctioning a loan, a bank automatically creates deposits. This is known as a credit creation from commercial bank.

2.2.4.2. Secondary Functions of Commercial Banks

Along with the primary functions each commercial bank has to perform several secondary functions too. It includes many agency functions or general utility functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

Agency Functions: Various agency functions of commercial banks are

- To collect and clear cheque, dividends and interest warrant.
- To make payment of rent, insurance premium, etc.

- To deal in foreign exchange transactions.
- To purchase and sell securities.
- To act as trusty, attorney, correspondent and executor.
- To accept tax proceeds and tax returns.

General Utility Functions: The general utility functions of the commercial banks include

- To provide safety locker facility to customers.
- To provide money transfer facility.
- To issue traveler's cheque.
- To act as referees.
- To accept various bills for payment e.g. phone bills, gas bills, water bills, etc.
- To provide merchant banking facility.
- To provide various cards such as credit cards, debit cards, Smart cards, etc.

2.2.5. Types of Bank Accounts

When you go to a bank to open a new account, you will have a variety of account types and features to choose from. Should you choose the basic checking option or an account that earns interest? Do you want the convenience of a bundled checking and savings account or the higher returns of a money market savings account?

"It's helpful to first understand the differences between the primary bank account types."
To make these decisions, it's helpful to first understand the differences between the most common bank account types. Here are some definitions to help you navigate your banking needs: Checking account: A checking account offers easy access to your money for your daily transactional needs and helps keep your cash secure. Customers can use a debit card or checks to make purchases or pay bills. Accounts may have different options or packages to help waive certain monthly service fees. To determine the most economical choice, compare the benefits of different checking packages with the services you actually need.

Savings account**:** A savings account allows you to accumulate interest on funds you've saved for future needs. Interest rates can be compounded on a daily, weekly, monthly, or annual basis. Savings accounts vary by monthly service fees, interest rates, method used to calculate interest,

and minimum opening deposit. Understanding the account's terms and benefits will allow for a more informed decision on the account best suited for your needs.

Certificate of Deposit (CD): Certificates of deposit, or CDs, allow you to invest your money at a set interest rate for a pre-set period of time. CDs often have higher interest rates than traditional savings accounts because the money you deposit is tied up for the life of the certificate – which can range from a few months to several years. Be sure you do not need to draw on those funds before you open a CD, as early withdrawals may have financial penalties.

Money market account: Money market accounts are similar to savings accounts, but they require you to maintain a higher balance to avoid a monthly fee. Where savings accounts usually have a fixed interest rate, these accounts have rates that vary regularly based on money markets. Money market accounts can have tiered interest rates, providing more favorable rates based on higher balances. Some money market accounts also allow you to write checks against your funds, but on a more limited basis.

Individual Retirement Accounts (IRAs): IRAs, or individual retirement accounts, allow you to save independently for your retirement. These plans are useful if your employer doesn't offer retirement benefits or you want to save more than your employer-sponsored plan allows. These accounts come in two types: the traditional IRA and Roth IRA. The Roth IRA is popular because the funds can be withdrawn tax-free in many situations. Others prefer traditional IRAs because these contributions are tax-deductible. Both accounts have contribution limits and other requirements you may need to discuss with your tax advisor before choosing your account.

Once you understand the types of accounts most banks offer, you can begin to determine which option might be right for you.

2.3. Saving Account in Bank - Meaning, Features, Advantages

Meaning of Saving Account in Bank

Commercial banks (like ICICI, HDFC, etc.), co-operative banks and postal departments accept deposits by way of opening saving bank account with them.

The '**saving account**' is generally opened in bank by salaried persons or by the persons who have a fixed regular income. This facility is also given to students, senior citizens, pensioners, and so on. (http://kalian.city.blogspot.com2011'02/savingaccont meaning and features)

Saving accounts are opened to encourage the people to save **money** and collect their savings.

In Ethiopia, saving account can be opened by depositing 50 birr the saving account holder is allowed to withdraw money from the account as and when required. The interest which is given on saving accounts is sometime attractive, but often nominal. At present, the rate of interest ranges between 4% to 6 per annum in Ethiopia. The interest rates vary as per the amount of money deposited (lying) in the saving bank account, scheme opted, and its maturity range. It is also subject to current trend of banking policies in a country.

2.3.1. Features of Saving Account

The main features of saving account in bank are as follows:
The main objective of saving account is to promote savings.

There is no restriction on the number and amount of deposits. However, in India, mandatory PAN (Permanent Account Number) details are required to be furnished for doing cash transactions exceeding 50, 000.

- Withdrawals are allowed subject to certain restrictions.
- The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
- The rate of interest payable is very nominal on saving accounts. At present it is between 4% to 6% saving account is of continuing nature. There is no maximum period of holding.
- A minimum amount has to be kept on saving account to keep it functioning.
- No loan facility is provided against saving account.

Electronic clearing System (ECS) or E-Banking are available to pay electricity bill, telephone bill and other routine household expenses.

Generally, equated monthly installments (EMI) for housing loan, personal loan, car loan, etc., are paid (routed) through saving bank account.

2.3.2 Advantages of Saving Account

The advantages of saving account are as follows:

- ✓ Saving account encourages savings habit among salary earners and others who have fixed income.
- ✓ It enables the depositor to earn income by way of saving bank interest.
- ✓ Saving account helps the depositor to make payment by way of issuing cheques.
- ✓ It shows income of a salaried and other person earned during the year.
- ✓ Saving account passbook acts as an identity and residential proof of the account holder.
- ✓ It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.
- ✓ It helps to do online shopping via facility like internet banking.
- ✓ It aids to keep records of all online transactions carried on by the account holder.
- ✓ It provides immediate funds as and when required through ATM.
- ✓ The bank offers number of services to the saving account holders.

Saving is a decision to postpone consumption – households, businesses and governments can all opt to save some of their income and decisions about how much to save can have important effects on the economy in both the short and longer term.
(http://kalian.city.blogspot.com2011'02/savingaccont meaning and features).

2.3.3. Globalization and Savings

UK companies now have access to much bigger pool of private sector savings from other countries they can seek finance through bond markets, equity market and the retail credit market (pre credit crunch!)

The UK very opens capital and money markets – capital can come into and out of the economy quickly Possible inflows of 'hot money' into the economy – affects the value of the exchange rate Sovereign wealth funds – able to inject fresh capital into businesses through their investments The domestic economy is now less constrained by the pool of domestic savings Also makes it easier for the government to fund the budget deficit – so less risk of a "crowding out effect" for

the UK (where rising government borrowing might drive up long term interest rates) Savings ratio measured as a % of disposable income.

2.3.4. Some possible reasons for the decline in saving

(i) Lower unemployment and strong economic growth – decreased consumer uncertainty

(ii) Lower inflation rates – leading to a fall in interest rates and less fear of savings being devalued

(iii) Strong asset price inflation – perhaps the boom in house prices has changed people's perceptions about how much they need to save e.g. to finance their retirement

(iv) Easier availability of credit

(v) Micro causes:- Behavioral economists might argue that consumers are suffering from myopia – preferring current consumption to future spending and not appreciating for example the decline in returns on pension funds and the need to save a higher percentage of income to offset this.

2.4. Meaning Characteristics and Features of Inflation

In economics, inflation is a persistent increase in the general price level of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy. (http://enwikipidia.org/wiki/inflation/

Inflation's effects on an economy are various and can be simultaneously positive and negative.

Negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation is rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include ensuring that central banks can adjust real interest rates (to mitigate recessions) and encouraging investment in non-monetary capital projects. (http://enwikipidia.org/wiki/inflation/

Economists generally believe that high rates of inflation and hyperinflation are caused by an excessive growth of the supply. However, money supply growth does not necessarily cause inflation. Some economists maintain that under the conditions of a liquidity trap, large monetary injections are like "pushing on a string". Views on which factors determine low to moderate rates of inflation are more varied. Low or moderate inflation may be attributed to fluctuations in real demand for goods and services, or changes in available supplies such as during scarcities, as well as to changes in the velocity of money supply measures; in particular the MZM ("Money Zero Maturity") supply velocity. However, the consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth.ibd.

Today, most economists favor a low and steady rate of inflation. Low (as opposed to zero or negative) inflation reduces the severity of economic recessions by enabling the labor market to adjust more quickly in a downturn, and reduces the risk that a liquidity trap prevents monetary policy from stabilizing the economy. The task of keeping the rate of inflation low and stable is usually given to monetary authorities. Generally, these monetary authorities are the central banks that control monetary policy through the setting of interest rates, through open market operations, and through the setting of banking reserve requirements.ibd

2.4.1. History of Inflation in the World

Inflation in America

Annual inflation rates in the United States from 1666 to 2004. Increases in the quantity of the money or in the overall money supply (or debasement of the means of exchange) have occurred in many different societies throughout history, changing with different forms of money used.For instance, when gold was used as currency, the government could collect gold coins, melt them down, mix them with other metals such as silver, copper or lead, and reissue them at the same nominal value. By diluting the gold with other metals, the government could issue more coins without also needing to increase the amount of gold used to make them. When the cost of each coin is lowered in this way, the government profits from an increase in seigniorage. (http://enwikipidia.org/wiki/inflation/)

This practice would increase the money supply but at the same time the relative value of each coin would be lowered. As the relative value of the coins becomes lower, consumers would need

to give more coins in exchange for the same goods and services as before. These goods and services would experience a price increase as the value of each coin is reduced.ibd

Song Dynasty China introduced the practice of printing paper money in order to create fiat currency during the 11th century and, according to Daniel Headrick, "paper money allowed governments to spend far more than they received in taxes... in wartime, and the Song were often at war, such deficit spending caused runaway inflation. The problem of paper money inflation continued after the Song Dynasty. Peter Bernholz writes that "from then on, nearly every Chinese dynasty up to the Ming began by issuing some stable and convertible paper money and ended with pronounced inflation caused by circulating ever increasing amounts of paper notes to finance budget deficits.

During the Mongol Yuan Dynasty, the government spent a great deal of money fighting costly wars, and reacted by printing more, leading to inflation. The problem of inflation became so severe that the people stopped using paper money, which they saw as "worthless paper. Fearing the inflation that plagued the Yuan dynasty, the Ming Dynasty initially rejected the use of paper money, using only copper coins. The dynasty did not issue paper currency until 1375. (Daniel Headrick)

Historically, infusions of gold or silver into an economy also led to inflation. From the second half of the 15th century to the first half of the 17th, Western Europe experienced a major inflationary cycle referred to as the "price revolution" with prices on average rising perhaps six fold over 150 years. This was largely caused by the sudden influx of gold and silver from the New World into Spain. The silver spread throughout a previously cash-starved Europe and caused widespread inflation. Demographic factors also contributed to upward pressure on prices, with European population growth after depopulation caused by the Black Death pandemic.ibd
By the nineteenth century, economists categorized three separate factors that cause a rise or fall in the price of goods: a change in the *value* or production costs of the good, a change in the *price of money* which then was usually a fluctuation in the commodity price of the metallic content in the currency, and *currency depreciation* resulting from an increased supply of currency relative to the quantity of redeemable metal backing the currency. Following the proliferation of private banknote currency printed during the American Civil War, the term "inflation" started to appear

as a direct reference to the *currency depreciation* that occurred as the quantity of redeemable banknotes outstripped the quantity of metal available for their redemption. At that time, the term inflation referred to the devaluation of the currency, and not to a rise in the price of goods. Ibd

This relationship between the over-supply of banknotes and a resulting depreciation in their value was noted by earlier classical economists such as David Hume and David Ricardo, who would go on to examine and debate what effect a currency devaluation (later termed *monetary inflation*) has on the price of goods (later termed *price inflation*, and eventually just *inflation*).

The adoption of fiat currency by many countries, from the 18th century onwards, made much larger variations in the supply of money possible. Since then, huge increases in the supply of paper money have taken place in a number of countries, producing hyperinflations – episodes of extreme inflation rates much higher than those observed in earlier periods of commodity money. The hyperinflation in the Weimar Republic of Germany is a notable example.

2.4.2. Issues in Measuring Inflation

Measuring inflation in an economy requires objective means of differentiating changes in nominal prices on a common set of goods and services, and distinguishing them from those price shifts resulting from changes in value such as volume, quality, or performance. For example, if the price of a 10 oz. can of corn changes from $0.90 to $1.00 over the course of a year, with no change in quality, then this price difference represents inflation. This single price change would not, however, represent general inflation in an overall economy. To measure overall inflation, the price change of a large "basket" of representative goods and services is measured. This is the purpose of a price index, which is the combined price of a "basket" of many goods and services. The combined price is the sum of the weighted prices of items in the "basket". A weighted price is calculated by multiplying the unit prices of an item by the number of that item the average consumer purchases. Weighted pricing is a necessary means to measuring the impact of individual unit price changes on the economy's overall inflation. The Consumer Price Index, for example, uses data collected by surveying households to determine what proportion of the typical consumer's overall spending is spent on specific goods and services, and weights the average prices of those items accordingly. Those weighted average prices are combined to calculate the overall price. To better relate price changes over time, indexes typically choose a

"base year" price and assign it a value of 100. Index prices in subsequent years are then expressed in relation to the base year price. While comparing inflation measures for various periods one has to take into consideration the base effect as well. (http://enwikipidia.org/wiki/inflation/)

Inflation measures are often modified over time, either for the relative weight of goods in the basket, or in the way in which goods and services from the present are compared with goods and services from the past. Over time, adjustments are made to the type of goods and services selected in order to reflect changes in the sorts of goods and services purchased by 'typical consumers'. New products may be introduced, older products disappear, the quality of existing products may change, and consumer preferences can shift. Both the sorts of goods and services which are included in the "basket" and the weighted price used in inflation measures will be changed over time in order to keep pace with the changing marketplace.ibd

Inflation numbers are often seasonally adjusted in order to differentiate expected cyclical cost shifts. For example, home heating costs are expected to rise in colder months, and seasonal adjustments are often used when measuring for inflation to compensate for cyclical spikes in energy or fuel demand. Inflation numbers may be averaged or otherwise subjected to statistical techniques in order to remove statistical noise and volatility of individual prices.ibd

When looking at inflation, economic institutions may focus only on certain kinds of prices, or special indices, such as the core inflation index which is used by central banks to formulate monetary policy.ibd

Most inflation indices are calculated from weighted averages of selected price changes. This necessarily introduces distortion, and can lead to legitimate disputes about what the true inflation rate is. This problem can be overcome by including all available price changes in the calculation, and then choosing the median value. In some other cases, governments may intentionally report false inflation rates; for instance, the government of Argentina has been criticized for manipulating economic data, such as inflation and GDP figures, for political gain and to reduce payments on its inflation-indexed debt.ibd

2.4.4. Effects of Inflation

2.4.4.1. General Effects

An increase in the general level of prices implies a decrease in the purchasing power of the currency. That is, when the general level of prices rises, each monetary unit buys fewer goods and services. The effect of inflation is not distributed evenly in the economy, and as a consequence there are hidden costs to some and benefits to others from this decrease in the purchasing power of money. For example, with inflation, those segments in society which own physical assets, such as property, stock etc., benefit from the price/value of their holdings going up, while those who seek to acquire them will need to pay more for them. Their ability to do so will depend on the degree to which their income is fixed. For example, increases in payments to workers and pensioners often lag behind inflation, and for some people income is fixed. Also, individuals or institutions with cash assets will experience a decline in the purchasing power of the cash. Increases in the price level (inflation) erode the real value of money (the functional currency) and other items with an underlying monetary nature.

Debtors who have debts with a fixed nominal rate of interest will see a reduction in the "real" interest rate as the inflation rate rises. The real interest on a loan is the nominal rate minus the inflation rate. The formula $R = N\text{-}I$ approximates the correct answer as long as both the nominal interest rate and the inflation rate are small. The correct equation is $r = n/i$ where r, n and i are expressed as ratios (e.g. 1.2 for +20%, 0.8 for −20%). As an example, when the inflation rate is 3%, a loan with a nominal interest rate of 5% would have a real interest rate of approximately 2% (in fact, it's 1.94%). Any unexpected increase in the inflation rate would decrease the real interest rate. Banks and other lenders adjust for this inflation risk either by including an inflation risk premium to fixed interest rate loans, or lending at an adjustable rate. (http://enwikipidia.org/wiki/inflation/)

2.4.4.2. Negative Effect of Inflation

High or unpredictable inflation rates are regarded as harmful to an overall economy. They add inefficiencies in the market, and make it difficult for companies to budget or plan long-term. Inflation can act as a drag on productivity as companies are forced to shift resources away from

products and services in order to focus on profit and losses from currency inflation. Uncertainty about the future purchasing power of money discourages investment and saving. And inflation can impose hidden tax increases, as inflated earnings push taxpayers into higher income tax rates unless the tax brackets are indexed to inflation.ibd

With high inflation, purchasing power is redistributed from those on fixed nominal incomes, such as some pensioners whose pensions are not indexed to the price level, towards those with variable incomes whose earnings may better keep pace with the inflation. This redistribution of purchasing power will also occur between international trading partners. Where fixed exchange rates are imposed, higher inflation in one economy than another will cause the first economy's exports to become more expensive and affect the balance of trade. There can also be negative impacts to trade from an increased instability in currency exchange prices caused by unpredictable inflation.

Inflation**:** High inflation can prompt employees to demand rapid wage increases, to keep up with consumer prices. In the cost-push theory of inflation, rising wages in turn can help fuel inflation. In the case of collective bargaining, wage growth will be set as a function of inflationary expectations, which will be higher when inflation is high. This can cause a spiral. In a sense, inflation begets further inflationary expectations, which beget further inflation.
Hoarding: People buy durable and/or non-perishable commodities and other goods as stores of wealth, to avoid the losses expected from the declining purchasing power of money, creating shortages of the hoarded goods.

Social unrest and revolts Inflation can lead to massive demonstrations and revolutions. For example, inflation and in particular food inflation is considered as one of the main reasons that caused the 2010–2011 Tunisian revolution and the 2011 Egyptian revolution, according to many observers including Robert Zoellick, president of the World Bank. Tunisian president Zine El Abidine Ben Ali was ousted, Egyptian President Hosni Mubarak was also ousted after only 18 days of demonstrations, and protests soon spread in many countries of North Africa and Middle East.

Hyperinflation: If inflation gets totally out of control (in the upward direction), it can grossly interfere with the normal workings of the economy, hurting its ability to supply goods. Hyperinflation can lead to the abandonment of the use of the country's currency, leading to the inefficiencies of barter.

Allocateive efficiency: A change in the supply or demand for a good will normally cause its relative price to change, signaling to buyers and sellers that they should re-allocate resources in response to the new market conditions. But when prices are constantly changing due to inflation, price changes due to genuine relative price signals are difficult to distinguish from price changes due to general inflation, so agents are slow to respond to them. The result is a loss of allocative efficiency.

Shoe leather cost: High inflation increases the opportunity cost of holding cash balances and can induce people to hold a greater portion of their assets in interest paying accounts. However, since cash is still needed in order to carry out transactions this means that more "trips to the bank" are necessary in order to make withdrawals, proverbially wearing out the "shoe leather" with each trip.

Menu costs:-With high inflation, firms must change their prices often in order to keep up with economy-wide changes. But often changing prices is itself a costly activity whether explicitly, as with the need to print new menus, or implicitly, as with the extra time and effort needed to change prices constantly.

Business cycles: - According to the Austrian Business Cycle Theory, inflation sets off the business cycle. Austrian economists hold this to be the most damaging effect of inflation. According to Austrian theory, artificially low interest rates and the associated increase in the money supply lead to reckless, speculative borrowing, resulting in clusters of malinvestments, which eventually have to be liquidated as they become unsustainable.

2.4.4.3. Positive Effect of Inflation

Labor-market adjustments:-Nominal wages are slow to adjust downwards. This can lead to prolonged disequilibrium and high unemployment in the labor market. Since inflation allows real

wages to fall even if nominal wages are kept constant, moderate inflation enables labor markets to reach equilibrium faster.

Room to maneuver**:-**The primary tools for controlling the money supply are the ability to set the discount rate, the rate at which banks can borrow from the central bank, and open market operations, which are the central bank's interventions into the bonds market with the aim of affecting the nominal interest rate. If an economy finds itself in a recession with already low, or even zero, nominal interest rates, then the bank cannot cut these rates further (since negative nominal interest rates are impossible) in order to stimulate the economy – this situation is known as a liquidity trap. A moderate level of inflation tends to ensure that nominal interest rates stay sufficiently above zero so that if the need arises the bank can cut the nominal interest rate. http://enwikipidia.org/wiki/inflation/)

Mundell–Tobin effect**:-**The Nobel laureate Robert Mundell noted that moderate inflation would induce savers to substitute lending for some money holding as a means to finance future spending. That substitution would cause market clearing real interest rates to fall The lower real rate of interest would induce more borrowing to finance investment. In a similar vein, Nobel laureate James Tobin noted that such inflation would cause businesses to substitute investment in physical capital (plant, equipment, and inventories) for money balances in their asset portfolios. That substitution would mean choosing the making of investments with lower rates of real return. (The rates of return are lower because the investments with higher rates of return were already being made before. The two related effects are known as the Mundell–Tobin effect. Unless the economy is already overinvesting according to models of economic growth theory, that extra investment resulting from the effect would be seen as positive.

Instability with deflation**:-**Economist S.C. Tsaing noted that once substantial deflation is expected, two important effects will appear; both a result of money holding substituting for lending as a vehicle for saving.[48] The first was that continually falling prices and the resulting incentive to hoard money will cause instability resulting from the likely increasing fear, while money hoards grow in value, that the value of those hoards are at risk, as people realize that a movement to trade those money hoards for real goods and assets will quickly drive those prices up. Any movement to spend those hoards "once started would become a tremendous avalanche,

which could rampage for a long time before it would spend itself." Thus, a regime of long-term deflation is likely to be interrupted by periodic spikes of rapid inflation and consequent real economic disruptions. Moderate and stable inflation would avoid such a seesawing of price movements.ibd.

Financial market inefficiency with deflation:-The second effect noted by Tsaing is that when savers have substituted money holding for lending on financial markets, the role of those markets in channeling savings into investment is undermined. With nominal interest rates driven to zero, or near zero, from the competition with a high return money asset, there would be no price mechanism in whatever is left of those markets. With financial markets effectively euthanized, the remaining goods and physical asset prices would move in perverse directions. For example, an increased desire to save could not push interest rates further down (and thereby stimulate investment) but would instead cause additional money hoarding, driving consumer prices further down and making investment in consumer goods production thereby less attractive. Moderate inflation, once its expectation is incorporated into nominal interest rates, would give those interest rates room to go both up and down in response to shifting investment opportunities, or savers' preferences, and thus allow financial markets to function in a more normal fashion.

2.4.5 Causes for Inflation

Historically, a great deal of economic literature was concerned with the question of what causes inflation and what effect it has. There were different schools of thought as to the causes of inflation. Most can be divided into two broad areas: quality theories of inflation and quantity theories of inflation. The quality theory of inflation rests on the expectation of a seller accepting currency to be able to exchange that currency at a later time for goods that are desirable as a buyer. The quantity theory of inflation rests on the quantity equation of money that relates the money supply, its velocity, and the nominal value of exchanges. Adam Smith and David Hume proposed a quantity theory of inflation for money, and a quality theory of inflation for production. http://enwikipidia.org/wiki/inflation/)

Currently, the quantity theory of money is widely accepted as an accurate model of inflation in the long run. Consequently, there is now broad agreement among economists that in the long run, the inflation rate is essentially dependent on the growth rate of money supply relative to the

growth of the economy. However, in the short and medium term inflation may be affected by supply and demand pressures in the economy, and influenced by the relative elasticity of wages, prices and interest rates. The question of whether the short-term effects last long enough to be important is the central topic of debate between monetarist and Keynesian economists. In monetarism prices and wages adjust quickly enough to make other factors merely marginal behavior on a general trend-line. In the Keynesian view, prices and wages adjust at different rates, and these differences have enough effects on real output to be "long term" in the view of people in an economy.

Keynesian economics proposes that changes in money supply do not directly affect prices, and that visible inflation is the result of pressures in the economy expressing themselves in prices.
There are three major types of inflation, as part of what Robert J. Gordon calls the "triangle model"
Demand-pull inflation is caused by increases in aggregate demand due to increased private and government spending, etc. Demand inflation encourages economic growth since the excess demand and favorable market conditions will stimulate investment and expansion.
Cost-push inflation, also called "supply shock inflation," is caused by a drop in aggregate supply (potential output). This may be due to natural disasters, or increased prices of inputs. For example, a sudden decrease in the supply of oil, leading to increased oil prices, can cause cost-push inflation. Producers for whom oil is a part of their costs could then pass this on to consumers in the form of increased prices. Another example stems from unexpectedly high Insured Losses, either legitimate (catastrophes) or fraudulent (which might be particularly prevalent in times of recession).ibd
Built-in inflation**:** - is induced by adaptive expectations, and is often linked to the "price/wage spiral". It involves workers trying to keep their wages up with prices (above the rate of inflation), and firms passing these higher labor costs on to their customers as higher prices, leading to a 'vicious circle'. Built-in inflation reflects events in the past, and so might be seen as hangover inflation.
Demand-pull theory states that inflation accelerates when aggregate demand increases beyond the ability of the economy to produce (its potential output). Hence, any factor that increases aggregate demand can cause inflation. However, in the long run, aggregate demand can be held

above productive capacity only by increasing the quantity of money in circulation faster than the real growth rate of the economy. Another (although much less common) cause can be a rapid decline in the *demand* for money, as happened in Europe during the Black Death, or in the Japanese occupied territories just before the defeat of Japan in 1945.

The effect of money on inflation is most obvious when governments finance spending in a crisis, such as a civil war, by printing money excessively. This sometimes leads to hyperinflation, a condition where prices can double in a month or less. Money supply is also thought to play a major role in determining moderate levels of inflation, although there are differences of opinion on how important it is. For example, Monetarist economists believe that the link is very strong; Keynesian economists, by contrast, typically emphasize the role of aggregate demand in the economy rather than the money supply in determining inflation. That is, for Keynesians, the money supply is only one determinant of aggregate demand.

Some Keynesian economists also disagree with the notion that central banks fully control the money supply, arguing that central banks have little control, since the money supply adapts to the demand for bank credit issued by commercial banks. This is known as the theory of endogenous money, and has been advocated strongly by post-Keynesians as far back as the 1960s. It has today become a central focus of Taylor rule advocates. This position is not universally accepted – banks create money by making loans, but the aggregate volume of these loans diminishes as real interest rates increase. Thus, central banks can influence the money supply by making money cheaper or more expensive, thus increasing or decreasing its production.

A fundamental concept in inflation analysis is the relationship between inflation and unemployment, called the Phillips curve. This model suggests that there is a trade-off between price stability and employment. Therefore, some level of inflation could be considered desirable in order to minimize unemployment. The Phillips curve model described the U.S. experience well in the 1960s but failed to describe the combination of rising inflation and economic stagnation (sometimes referred to as *stagflation*) experienced in the 1970s.

Thus, modern macroeconomics describes inflation using a Phillips curve that shifts (so the trade-off between inflation and unemployment changes) because of such matters as supply shocks and inflation becoming built into the normal workings of the economy. The former refers to such events as the oil shocks of the 1970s, while the latter refers to the price/wage spiral and inflationary expectations implying that the economy "normally" suffers from inflation. Thus, the Phillips curve represents only the demand-pull component of the triangle model.

Another concept of note is the potential output (sometimes called the "natural gross domestic product"), a level of GDP, where the economy is at its optimal level of production given institutional and natural constraints. (This level of output corresponds to the Non-Accelerating Inflation Rate of Unemployment, NAIRU, or the "natural" rate of unemployment or the full-employment unemployment rate.) If GDP exceeds its potential (and unemployment is below the NAIRU), the theory says that inflation will *accelerate* as suppliers increase their prices and built-in inflation worsens. If GDP falls below its potential level (and unemployment is above the NAIRU), inflation will decelerate as suppliers attempt to fill excess capacity, cutting prices and undermining built-in inflation.

However, one problem with this theory for policy-making purposes is that the exact level of potential output (and of the NAIRU) is generally unknown and tends to change over time. Inflation also seems to act in an asymmetric way, rising more quickly than it falls. Worse, it can change because of policy: for example, high unemployment under British Prime Minister Margaret Thatcher might have led to a rise in the NAIRU (and a fall in potential) because many of the unemployed found themselves as structurally unemployed (also see unemployment), unable to find jobs that fit their skills. A rise in structural unemployment implies that a smaller percentage of the labor force can find jobs at the NAIRU where the economy avoids crossing the threshold into the realm of accelerating inflation.

Unemployment with inflation

A connection between inflation and unemployment has been drawn since the emergence of large scale unemployment in the 19th century, and connections continue to be drawn today. However, the unemployment rate generally only affects inflation in the short-term but not the long-term.[ibd] In the long term, the velocity of money supply measures such as the MZM ("Money Zero

Maturity," representing cash and equivalent demand deposits) velocity is far more predictive of inflation than low unemployment.(http://en.wikipidia.org/wiki/inflation/)

2.4.6. Monetarist View on Inflation

Monetarists believe the most significant factor influencing inflation or deflation is how fast the money supply grows or shrinks. They consider fiscal policy, or government spending and taxation, as ineffective in controlling inflation.[54] The monetarist economist Milton Friedman famously stated, *"Inflation is always and everywhere a monetary phenomenon."* Some monetarists, however, would qualify this for very short-term circumstances.ibd]

2.4.7. Controlling Inflation

A variety of methods and policies have been proposed and used to control inflation.

- ✓ **Monetary policy**

The U.S. effective federal funds rate charted over fifty years.

Main article: Monetary policy

Governments and central banks primarily use monetary policy to control inflation. Central banks such as the U.S. Federal Reserve increase the interest rate, slow or stop the growth of the money supply, and reduce the money supply. Some banks have a symmetrical inflation target while others only control inflation when it rises above a target, whether express or implied.

Most central banks are tasked with keeping their inter-bank lending rates at low levels, normally to a target annual rate of about 2% to 3%, and within a targeted annual inflation range of about 2% to 6%. Central bankers target a low inflation rate because they believe deflation endangers the economy.

Higher interest rates reduce the amount of money because less people seek loans, and loans are usually made with new money. When banks make loans, they usually first create new money, then lend it. A central bank usually creates money lent to a national government. Therefore, when a person pays back a loan, the bank destroys the money and the quantity of money falls. In the early 1980s, when the federal funds rate exceeded 15 percent, the quantity of Federal Reserve dollars fell 8.1 percent, from $8.6 trillion down to $7.9 trillion.

Monetarists emphasize a steady growth rate of money and use monetary policy to control inflation by increasing interest rates and slowing the rise in the money supply. Keynesians emphasize reducing aggregate demand during economic expansions and increasing demand during recessions to keep inflation stable. Control of aggregate demand can be achieved using both monetary policy and fiscal policy (increased taxation or reduced government spending to reduce demand).

- ✓ **Fixed exchange rates**

Main article: Fixed exchange rate

Under a fixed exchange rate currency regime, a country's currency is tied in value to another single currency or to a basket of other currencies (or sometimes to another measure of value, such as gold). A fixed exchange rate is usually used to stabilize the value of a currency, vis-a-vis the currency it is pegged to. It can also be used as a means to control inflation. However, as the value of the reference currency rises and falls, so does the currency pegged to it. This essentially means that the inflation rate in the fixed exchange rate country is determined by the inflation rate of the country the currency is pegged to. In addition, a fixed exchange rate prevents a government from using domestic monetary policy in order to achieve macroeconomic stability.

Under the Bretton Woods agreement, most countries around the world had currencies that were fixed to the US dollar. This limited inflation in those countries, but also exposed them to the danger of speculative attacks. After the Bretton Woods agreement broke down in the early 1970s, countries gradually turned to floating exchange rates. However, in the later part of the 20th century, some countries reverted to a fixed exchange rate as part of an attempt to control inflation. This policy of using a fixed exchange rate to control inflation was used in many countries in South America in the later part of the 20th century (e.g. Argentina (1991–2002), Bolivia, Brazil, and Chile).

2.5. Ethiopia Inflation Rate

The inflation rate in Ethiopia was recorded at 7.80 percent in January of 2014. Inflation Rate in Ethiopia is reported by the Central Statistical Agency of Ethiopia. Inflation Rate in Ethiopia averaged 20.18 percent from 2006 until 2014, reaching an all time high of 64.20 percent in July

of 2008 and a record low of -4.10 percent in September of 2009. In Ethiopia, the inflation rate measures a broad rise or fall in prices that consumers pay for a standard basket of goods. This page provides - Ethiopia Inflation Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. 2014-02-06

Actual	Previous	Highest	Lowest	Forecast	Dates	Unit	Frequency
7.80	7.70	64.20	-4.10	4.89 |	2006 - 2014	Percent	Monthly

Inflation Rate | Notes the data given on this page shows an annual change in the Consumer Price Index. The CPImeasures changes in the price level of consumer goods and services purchased by households. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and services and averaging them. The items weight according to their importance. Depending on the country, the highest weights are usually given to the food, energy, housing, clothing, medical care, transportation and household equipment.

2.6. The Relationship Between Saving and Inflation

It has often been observed, especially in recent years, that high rates of inflation tend to be associated with high rates of personal savings. As usual in economics, numerous.

Theories have been proposed to explain this phenomenon, and none of them has been conclusively eliminated Milton Friedman (1953, p. 11) the first explanation that we shall consider is that the observed relationship between Inflation and the savings rate is largely a statistical mirage. The observed relationship arises because, in times of inflation, measured income and measured savings, even when deflated by the appropriate price index, tend to overestimate real income and Real savings, as perceived by consumers. Income, as measured in the national accounts, Includes interest payments on financial assets. The higher the rate of inflation, the Higher is the fraction of these payments which is not really income at all, but simply Compensation to the asset-holder for the decline in the real value of his or her assets.

Interest and dividend income (in times of high inflation perhaps a very large part) is simply an inflation premium, and hence cannot be used to finance consumption if asset holders Wish to maintain the real value of their wealth. Thus measured savings, which is the difference between measured income and consumption, will tend to rise with the Rate of inflation. This explanation has been suggested by several economists, including Siegel (1979) and Jump (1980). Using UK data, Hendry and von Ungern-Sternberg (1980) find evidence to support it.

Numerous macroeconomic factors affecting economic growth like inflation, savings, foreign exchange rate, etc. have widely varying values across these nations and so also their economic growth. However, almost all these nations are growing at relatively fast rate. Since the growth in some of these economies is often considered resource intensive rather than technology intensive (see, Rosegrant and Evenson, 1992; The World Bank, 2007), savings are likely to play a very important role in promoting real growth. Several empirical studies found a positive effect of the saving rate on the long term growth (Page, 1994; Cardenas and Escobar, 1998; Motely, 1994; and Krieckhaus, 2002) though the neo-classical growth theory predicted only temporary positive effect of increased saving rate on the growth rate in the economy due to corresponding negative effect on capital productivity. The endogenous growth theory (see, Barro and Sala-i-Martin, 1995; and Romer, 2006) de-linking the capital productivity from the savings, explained such

positive relationship between long term growth and saving rate. Even the life cycle theory for savings would explain the positive relationship between savings and income growth (Loayza et al., 2000). It is, then, important for the policy makers to know what determines the saving rate in order to formulate appropriate policies to promote economic growth. Edwards (1996) found that the level and rates of growth of the GDP were important determinants of savings and discussed the possibility of a bi-directional relationship. The possibility that some other factor affects both growth and savings cannot be ruled out. Literature suggests inflation as one such factor (see, Deaton, 1977; Chopra, 1988; Haslag, 1997; Heer and Suessmuth, 2006; etc.). Does the stability of macroeconomic environment as reflected by inflation play a substantial role in promoting the saving rate and the growth rate?

The effect of inflation on savings, however, is ambiguous both in theory and practice (Heer and Suessmuth, 2006; and Deaton and Paxson, 1993). Empirical evidence about the relationship of inflation and growth differs with some studies finding a negligible effect of inflation on growth (e.g. Chari et al., 1996), some finding a negative effect (Chopra, 1988; Fischer, 1993; Gylfason and Herbertsson, 2001) and some studies providing an evidence of positive effect (Dholakia, 1995; Mallik and Chowdhury, 2001). The effect of inflation on economic growth in theory is largely through the sub-optimal use of resources and distorted investment decisions due to inflation (Miller and Benjamin, 2008; Paul et. al., 1997). However, economic growth leading to high inflation through overheating of the economy is also found in practice. In a supply constrained closed economy, on the other hand, higher growth can lead to reduced inflation. *(Page No.3* **W.P. No. 2008-07-01** IIMA ̣INDIA ***Research and Publications)***

Most of the studies examining the relationship between inflation and growth end up focusing on the effect of inflation on savings and investments and thereby on the growth of the economy, assuming independence of the incremental capital output ratio (ICOR) from inflation. Except Chopra (1988), the ICOR channel of the effect of inflation on growth is not seriously examined in the literature. Thus, if inflation leads saving rate to increase and ICOR to decrease, inflation will definitely promote growth, but the reverse would be true if saving ratio decreases and ICOR increases with inflation. If both these variables increase or decrease simultaneously as a result of inflation, the magnitude of the statistical impact of inflation on these two variables would determine the sign of the relationship between inflation and growth. Chopra (1988) argued that

inflation would affect the ICOR by changes in the composition of output produced as a result of households shifting from financial savings to physical savings or consumer durables in an economy. This would lead to shifts of investment from low capital intensive industries to high capital intensive industries, increasing the capital output ratio in the economy. Thus, inflation is likely to increase the ICOR.

The effect of inflation on savings depends on the way households react to increase in inflation (Chopra, 1988). If households direct their savings from financial to physical assets and consumer durables, then due to consumption associated with these consumer durables, present savings will decline. Also, due to increased uncertainty, the utility from holding wealth declines leading to increased consumption and decreased savings. On the other hand, wealth owners interested in maintaining the real value of their wealth would increase their savings in an inflationary scenario to maintain the desired amount. In the context of the life cycle theory of savings, if the economy does not have a detailed and well established institutional structure or network for social security, healthcare, etc., inflation would induce higher savings in the system (Chopra, 1988).

Most of the models analyzing the effect of inflation on savings find a considerably negative effect (Heer and Suessmuth, 2006). If the incomes are not indexed, unanticipated inflation will cause unanticipated cuts in the real income and hence decreased the saving rates (Deaton, 1977). Also, high inflation can increase the opportunity cost of holding money and increase the rewards for the search activities in shopping wasting real resources and thereby reducing savings (Miller and Benjamin, 2008). As against this, another theory proposes that if the real income is correctly anticipated either by indexation or wage inflation, unanticipated inflation will increase the saving rate. Inflation is a good proxy for macroeconomic uncertainty. Higher uncertainty induces people to save a larger portion of their money for precautionary motives.

Thus rise in inflation should have a positive coefficient. Savings will also increase if there are lifecycle factors promoting savings (Deaton and Paxson, 1993). If, however, one believes in the super-neutrality of money in the ultimate sense, inflation cannot have any effect on savings in the long run (Heer and Suessmuth, 2006).

CHAPTER THREE

OVERVIEW

3.1. Data Presentation, Analysis and Interpretation

This chapter presents the data collected through questionnaires and interview and the analysis made on such data .The questionnaire were utilized to collected primary data from saving account customers of the bank. In such endeavor 151 questionnaires were distributed for 151 customers of the bank located in lafto branch.

From those 130 were dully filled and returned. The interview is made with the branch manager and saving account pc operator of the bank .the data gathered is then presented in tables showing frequency distribution, percents and analyzed using descriptive analysis technique. The data, the analysis and interpretation made on the data are presented here with.

3.2. Data Presentation and Analysis of Questionnaires

One of the basic primary data gathering tools that the researchers use is a questionnaire. This section presents and discusses the data gathered from primary source of questionnaires.

3.2.1 Background of the Respondents

3.2.1.1. Sex Distribution of Respondents

Table 1. Sex Category

Sex	Respondents	
	No	**Percentage**
Male	82	63%
Female	48	37%
Total	**130**	**100%**

Table 1. Source: Primary Data

As it can be seen from the table above, the majorities (63%) of the respondents are male while the rest 37% are female's .In the researchers view, having male customers dominating in a

country, where female-male ratio is almost equal is surprising. However, this may be partially resulted from the fact that most males are recruited and hence have relatively more earning than females, or it may be due to fact that females be further aware about the impact of inflation on saving and preferred to save their money in a form of jewelry made of gold or other valuable items, or in most cases since females are more responsible in the family care specially in home management, they spend most of their income on homemade issues. Thus they might get shortage for extra saving.

3.2.1.2. Age Category

Saving is motivated by age. There is a difference among individuals for the custom of saving with age .In this regard the researchers gathered the following data regarding the age category of the respondents and summarized it in the table below:-

Table 2. Age Category

Age	Respondents	
	No.	**Percentage**
18-25	20	15%
25-35	44	33%
35-45	55	43%
Above 45	11	9%
Total	**130**	**100%**

Table 2. Source: Primary Data

As it can be seen from the table 2 above 44% of the respondents are between the age categories of 25-35,followed by 20% of them are between the age category of 18-25and the rest 9% and 55% are among the categories of above 45 and between 35-45 respectively.

In the researchers view, saving has preferential expectancy on age accordingly, this individual set to make saving in younger age than older ones. Affording the basic necessity greatly influenced by saving .this perfectly reflects the Ethiopian productive age as people get older their productivity declines and so are their income and apparently their saving.

3.2.1.3. Working area of the respondent

With regard to the working area of the customers, the researcher gathered the following data.

Table 3. Working area

Employment Status	No	Percentage
Investors	6	5%
import and exporters	20	15%
Business man	31	24%
from Micro and small institution	38	29%
Employed/individuals	35	27%
Total other	**130**	**100%**

Table 3. Source: Primary Data

As it can be seen from table 3 above, the majority of the respondents 27% are employed. In the researcher view, the employed customers and typically the business man, including the micro finance institutions have strong intensity .hence are more or less similar significantly affected by nations inflation .therefore, the researcher expected that they are the perfect study population to assess the impact of inflation on their saving .furthermore all citizens whatever are their saving capacity must acquire the necessity of saving.

3.2.1.4. Education Level

Education directs and guides through the approaches of saving through creating awareness. That is the merits of saving are clearly comprehended through education. In this regard the researcher gathered the following data regarding the education level of the respondents as summarized in the table below:-

Table 4. Education Background of the Respondents

Education level	Respondents	
	No.	Percentage
Less than 12	5	4
12 completed	16	12
Certificate	19.	15
Diploma	52	40
1st Degree and above	38	29
Total	130	100

Table 4. Source: Primary Data

As it can be seen from table 4 above 40% of the respondents are diploma holder, while 29% have 1st degree and above and very few number of respondents are below 12.

In the researchers view, educational back ground advocates and share critical reason for having the customs and accomplishment of the behavior of saving .as a result it can be concluded that the respondents are in perfect situation to address the issue regarding the impact of inflation on their saving .

3.2.2. Saving Account Information of Customers in BOA

Knowing the saving account information of customers helps the researcher to draw useful conclusion as to which type of account is commonly used by the customers and to address customers preference of normal saving accounts .This knowledge of saving accounts information also tell the level of knowledge of the customer towards the nature of the account types and the trade of associated with saving accounts.

3.2.2.1. Types of Saving

There are 3 types of saving account in the bank. The 1st one is special saving and the 2nd one is normal saving. Checking account under special saving, checking up to 3 month account and/or, and, cooperative, individual account, current without any interest, checking Current saving account Both time deposit, cdt. In this regard the researchers gathered the following data regarding types of saving account a respondent has, as summarized in table 6 below:-

Table 6. Types of Saving Accounts

Types	Respondents	
	No	**Percentage**
Special	82	37%
Normal Saving Account	48	50%
Both	17	13%
Total	**130**	**100%**

Table 6. Source: Primary Data

As it can be seen from the table 5 above, 37% of them has a special saving type only however, 13%of the respondents have both type of account at the same time .this shows that a majority of the respondents have a normal saving account.

In the researchers view because of flexibility nature of entering and withdrawing their saving amount most of the respondents have normal saving account .However, due to the inflexibility nature and number of requirements in the special saving account no one has opened only this account from our respondents.

3.2.2.2. Objective of Saving

Objective of saving may be viewed as a multi dimensional entity. Someone may save money in the bank due to safety reasons and other may save due to return they can get from the bank regardless of the above facts, it is true that some intellectuals may save money in the bank due to their good reason that the money can do much return to the country if it is collectively manipulated by the government or some larger business firms than individuals in this regard the researchers gathered the following data as summarized in the table below:-

Table 9. Objective of Saving

Objective of Saving	Respondents	
	No.	**Percent**
Return	28	21%
Safety	40	30%
Both	22	17%
Other	10	7%
Total	**130**	**100%**

Source: Primary Data

As it can be seen from the table 6 above, 40%of the savers deposit their money with the aim of earning relative high return .On other hand 28%of savers have an aim of having safety. The other 22%of the respondents have an aim of both return and safety; the remaining 10% of the savers stated other reasons as manage their money properly when risk happens and also for future requirement of their needs.

In the researchers view, most of savers opened on account to get return from the bank in a form of interest and this may contradict with the above interpretation that states the customers are aware of the inflationary effect on saving as most of them replied that they are not satisfied with the current rate but argue that they brought their money in seek of return. The bank has to advise an appropriate tool to maximize the return position of its customers especially in maximizing the return that left over after inflationary effects.

3.2.2.3. Duration of being Customers in BOA

The customers experience of saving in the bank helps the researchers to analyze and investigate the peoples habit of saving a money it also helps to develop the awareness to create local strategies in a country accordingly ,the researchers gathered the following data regarding durations of saving customer the respondent have with the bank ,as summarized in the table below :-

Table 10. Durations of Being Customer Of BOA

Period	Respondents	
	No.	Percentage
Less than 5 years	22	17%
Exactly 5 years	60	46%
Greater than 5 years	18	14%
Total	**130**	**100%**

Source; Primary Data

As it can be seen from the table above, most of the respondents are exactly 5 years customers. Since BOA opened the Lafto branch in 2009G.C, from this we can say that most of the current customer's of BOA in Lafto branch are very committed, and this may be due to their good service delivery system.

3.2.2.4. Attainment of Customer's Objective

As it is stated in section 3.3.3 every customer has his own objectives in saving money in the bank regardless of the interest of the customer the banks should carefully consider the attainment level of the objectives of their customers. Table 9 summarizes the response of respondents up on the issue.

Table 11. Attainment of Customer's Objective

Response	Respondent	
	Number	Percentage
Yes	48	37%
No	65	50%
Do not know	17	13%
Total	**130**	**100%**

Source: Primary Data

It can be seen from table 9 above; 37% of the respondents were agreed on the issue. Because primarily, their predetermined goals was safety or getting protection from bank. In addition to this they are satisfied by the services which are served by the bank. In other side those 50%customers are not agreed with question since their objective was not achieved due to different reasons. As they stated, the return that added on the saving account in the form of

interest is very insignificant even it is discouraging. Moreover, 13% of the respondent did not known reason if their objective attained or not.

The other reason may be due to fluctuation of inflation rate that makes them to do not save more as they expected from the beginning, and also it may be due to the unsatisfactory interest rate that the individual needs to earn from the bank. As they said in their comment the return that is generated from their saving is unsatisfactory.

3.2.2.6. Response of Company for Customers Comment

Any business should accept customers comment, suggestions and ideas to exist in the business world and to improve the existing service providing style. In this regard the company responsibility for customer comments is summarized below:-

Table 13. Response of the Company

Response	Respondent	
	Number	**Percentage**
Good	17	13%
Very good	105	81%
Poor	8	6%
Not response	0	0%
Total	**130**	**100%**

Source: primary data

As it can seen in the table 11 above 13% of the respondent said it is good, 81% of the respondent said it is very good, 6% of the respondent said it is poor and non of the respondents said no response is given by the company.

In the researcher view, the company's responsibility is fantastic to the customer's comment. The restoration of peoples admiration originates on gratified aspiration of enhanced for future assortments.

3.2.3. Customer Awareness of Inflation

Inflation affects different people differently. This is because of fall in the value of money. When the value of money falls, some groups of the society gain, some lose and some stand in between. Being affected or not goes in line with people's awareness towards inflation. To know the attitude of customers, the researchers gather the following data.

3.2.3.1. Awareness of Customer on the Current Inflation Rate

Knowing the customer awareness about the current inflation rate helps the researchers to measure the awareness level of customer on the issue of inflation rate currently on the nation. Customers response summarizes in a proper manner must have deep consideration. To summarize the awareness of customers on the current inflation rate, the table below presents the following.

Table 14. Awareness of the Customers

Response	Respondents	
	No	Percentage
Yes	108	83%
No	22	17%
Total	**130**	**100%**

Source: - Primary Data

As it can be seen from table 13 above, 83% of the respondents have awareness, but17% of the respondents were not aware about the current inflation rate.

In the researchers view, most of the respondents are aware of the current inflation rate of the nation. Therefore, the bank must also be aware and able to restore the harmony of the established relationships with its customers taking timely measures relationship.

3.2.3.2. Consideration of Customer to Open the Account

The number of account holders reached 401,816 recording an increase of 10% from the same period the last fiscal year; 5%from the preceding quarter and 8%from that of June. The customers consider a wide range of applications as emphasized through the data on the following table. The data is summarized on the consideration of customers in respect of two rates (i.e inflation rate and saving rate).

Table 15. Consideration of Customer to Open the Account

Response	Respondents	
	No	Percentage
Yes	66	52%
No	64	49%
Total	**130**	**100%**

Source: - Primary Data

As it can be seen in the table 13 above52% of the respondents predetermined the inflation rate assumed with the available interest rate before opening an account. However 49%of the respondents insisted on not making such comparisons in opening in the account.

3.2.3.3. Level of Awareness on the Relation on Inflation and Saving

Knowing level of awareness help the researchers to identify most of customers are which awareness. This build up awareness of respondents on the basis of inflation and saving.

The table below summarizes the level of awareness on the relation of inflation and saving.

Table 16. Level of Awareness on the Relation of Inflation and Saving

Response	Respondent	
	No	Percentage
Poor	40	31%
Fair	70	54%
Very good	20	15%
Total	**130**	**100%**

Source: - primarily Data

As it can be seen from table 14, 31% of the respondents indicated their level of awareness to be poor,54% of the respondents confirm it as fair, and 15% of the respondents indicated as they have a very good awareness.

In the researchers view, BOA customers have fair awareness on the issue and this implies that how inflation became more burning issue throughout nations as it touches each and every individual's life. And this leads them to be conceit on the area .in the contrary, some savers are

simply saves their money by not encountered the risk that happens to it; it means savers didn't relate saving and inflation may be due to poor awareness on the issue of inflation.

3.2.3.4. Saver Action during Inflation Period

Savers action differs with respect to the occurrence of inflation. The prescribed the value of transaction is dependable on buying power of money. In the occurrence of inflation, saving distort to a minimum extent, transactions capacity to facilitate business actions. In order to know the respondents implication the table below is presented.

Table 17. Saver Action during Inflation Period

Response	Respondent	
	No	**Percentage**
Withdraw	80	62%
Nothing done	20	15%
Any other	30	23%
Total	**130**	**100%**

Source: - Primary Data

As it can be seen from table 16 above, 62% of the respondents took action on withdrawing their money, 15% of the respondents remained on keeping their saving account, and 23% of the respondents specify alternative reasons i.e. lending for others with some additional earning, having more stocks that are suspected to increase price within short period of time, or acquiring some valuable goods which appreciates their value through time.

In the researchers view, savers awareness on inflation is very magnificent, they could do anything which is best about their saving deposits during inflation happened. Developing a technique and disclosing any relevant information about inflation and its impact on their saving account may help savers to increase their awareness level so as to decrease impacts of inflation beyond the customers to the nations.

3.2.3.5. Is Customer's Savings Growing during Inflation Period?

Customers think differently based on the level of awareness about the matter. To know the customers thinking the following table summarized below:-

Table 18. Are Customers Savings Growing during Inflation Period?

Response	Respondents	
	No	**Percentage**
Yes	34	26%
No	96	74%
Total	**130**	**100%**

Source: - Primary Data

As it can be seen from table 17 above,26% of the respondents think that saving amount is growing during an inflation period. However 96% of the respondent did not think the customers saving amount grew.

In the researchers view, most of the customers have a great awareness on the impact of the inflation consequently they are aware of their saving deposit decrease while inflation happens and it is great for future safety to take some measures to their account. In other side, few savers think the amount is growth during inflation period, since those savers didn't have knowledge of what inflation means. They simply think, the amount of their saving will grow on times of inflation occurrence. But it decline in real term.

Table 19. Annual Deposit Mobilization of the Banking System

	2008/09	*2009/10*	*2010/11*	*2011/12*	*2013*
Demand	1223.199	1219.361	1591.371	4,392.72	2,058.34
Saving	3037.853	3783.281	4422.862	4,923.71	5,896.34
Time	233.134	136.204	61.028	217.04	541.47
Total	**4494.186**	**5138.846**	**6075.261**	**9,533.46**	**8,496.15**

Table 19. Source: BOA Annual Report

3.3. Data Presentation and Analysis of Interview

Interview method is a direct method of collecting data. It is a verbal method of securing data in the field of surveys. This section presents and discuses the data gathered from primary sources of interview.

3.3.1 Overview

This section presents the data collected through interview during the data collection. The researchers focused on how the bank tolerates inflation to saving and also understands the controlling mechanism of BOA through interviewing the pc operators and managers.

The data obtained was analyzed through descriptive techniques in an attempt of filtering basic finding which answers questions of the research data gathered and the analysis made.

3.3.2. Bankers Emphasis on Relationship between Inflation and Saving

The PC operator of the bank handles all saving activities of the bank and mainly their focus on saving accounts transaction it doesn't focus on the relationship of them.

In the researcher view, most of the banker's i.e. the operators function on routine account transaction. It doesn't relate and doesn't emphasize deeply on the issue.

3.3.3. Bankers Recommendation when Inflation Occurs

The banker cannot give recommendation for issues as well as raise an idea.

In the researcher view, because of the bank cannot emphasize the relationship of inflation and saving. It has an example of recommending savers at the occurrence of inflation. This is to mean the bank must assign professional to recommend upon raising such issue.

3.3.4. Control Mechanisms of the Bank during the Occurrence of Inflation

The bank didn't have any control mechanism upon inflations. As the bankers it doesn't have an adverse effect on the banks saving account service. There is no control mechanism in the bank system.

In the researcher's view, for developing controlling mechanisms of such problem, first the problem must be identified and research must be carried out. Since the relationship of inflation and saving are not identified on the bank, the organization doesn't have a controlling mechanism in the future this may affect the banks good will. Thus, it must emphasize and device control mechanism.

Since one of the specific aim of this paper is Assessing the effect of inflation on saving and on the loan ability of BOA, The researchers provide the following table to investigate the effect of inflation on the day to day performance of the bank.

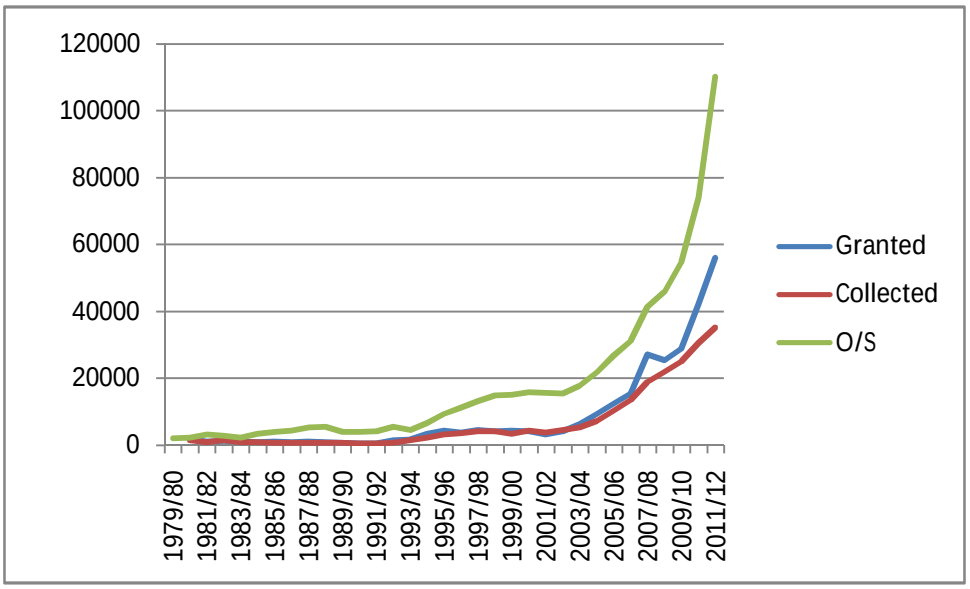
Table 20. Saving Rate and Lending Rate

Particulars	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012
Minimum Saving Deposit	3	3	3	4	4	4	5	5
Time Deposit								
Average	3.5	3.6	3.7	4.1	5.2	5.0	5.5	5.6
upto 1 Year	3.4	3.4	3.4	4.5	4.8	4.8	5.4	5.4
1 - 2 Year	3.7	3.8	3.7	4.2	5.3	5.1	5.5	5.6
over 2 Year	3.4	3.5	4.0	3.8	5.4	5.2	5.6	5.7
Demand Deposits (Simple Average)	0.4	0.4	0.4	0.4	0.1	0.1	0.3	0.3
Lending Rate								
Average lending	10.50	10.50	10.50	11.50	12.25	12.25	11.88	11.88
Minimum	7	7	7	8	8	8	7.5	7.5
Maximum	14	14	14	15	16.5	16.5	16.25	16.25

Source: NBE

As it can be shown in the above table:- saving rate is too much small as it compared to the lending rate ,this implies to most investors are discouraged by the loan rate which is provided by the bank. Since they incur high interest expense, they are fear of lending and investing

Graph 1. The Relation between garanted Collected and Outstanding Loan

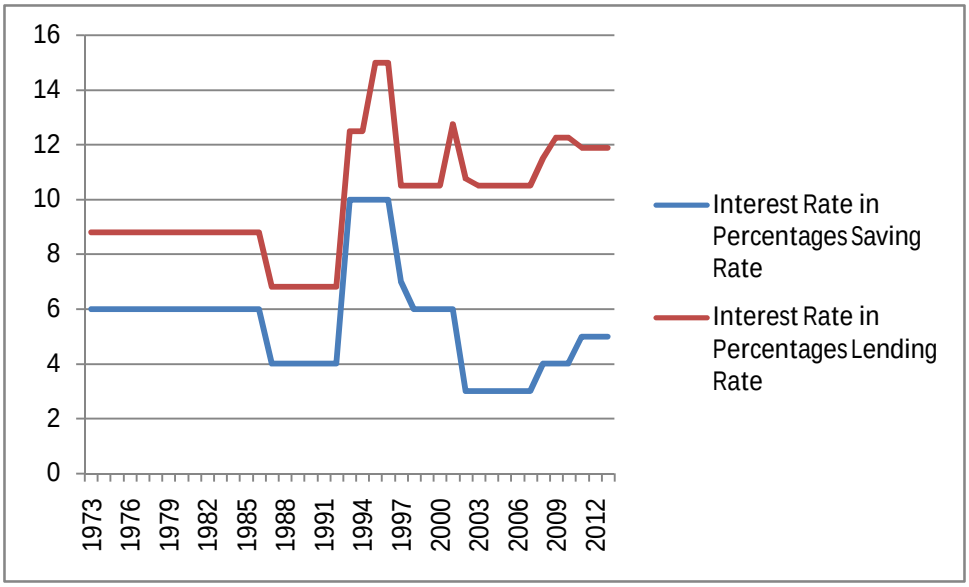


The above graph shows that the relationship of guaranteed, collected and outstanding loan rate In the researchers view inflation has its own impact on the above mentioned amounts especially on the collected once, since investors may have problems in repaying the lent amount from the bank on time. This may be due to the decline on the purchasing power of the money; additionally the appreciation of the loan rate over time plus the increment of labor wage and also the high cost of living may lay impact on the repaid amount which is on the collected amount.

Table 21: Tabular representation of Relation between Saving Rate and Lending Rate

Interest Rate in Percentages		
Year	**Saving Rate**	**Lending Rate**
2007/1999	3	10.5
2008/2000	4	11.5
2009/2001	4	12.25
2010/2002	4	12.25
2011/2003	5	11.875
2012/2004	5	11.875
2013/2005	5	11.875

Graph 2: The Relationship between Saving Rate and Lending Rate



The above Graph shows the relationship between saving rate and lending rate. Even if the two lines Shares similar trend, there is a high difference in distance .this implies that the lending rate is much greater that the saving rate.

3.3.5. Raising questions on the issue of customers

Most customers raise questions about the issue of inflation. and they said that it is too hard to achieve their desired goals because all the time there is change in price in every items starting from very small house consumable items up to large machines, especially those import exporters mentioned that the current inflation effect is even beyond their capacity it is creating problems in each and every transaction because since there is no sufficient currency in the country at all it disables them to do not perform to their fullest capacity. As a result their income shrinking over time and this lay impact on their day to day activity up to decreasing their number of employees and taking any measures which is best for them to survive in business.

In the researchers view; most of the savers aware of what inflation means and its impact. They rise it all the times to the respective bodies even the bank itself at least to increase the interest rate on their saving to contribute something in compensating it .

3.3.6. Separate department of the Bank linked to Bank Service

The banks have separate departments to assess the bank service and associated problem. This termed as “operation department” the bank also has a corporate planning research and business development to analyze such things like, market conditions, environmental condition and the like.

In the researcher view, the bank did not identified inflation as a problem of savers on their saving account, so that it doesn’t raise it in the department as an important issue.

3.3.7. Interest Rate of the Bank

The bank has an interest rate of 4% for normal saving account. But also pays above for a time period of certificate of deposit for special saving on 6 month, 6 - 9 month, 9 - 12 month, 12 - 18 month an 18 - 24 month fixed deposits. There also, the interest rate increase when the deposit are higher i.e. 25000 - 1000000, 1 - 2 million and above 2 million. The bank pays above 4% i.e. 4% up to 5%.

In researcher view, the banks different interest rate consider some criteria, like duration and deposits amount of savers

3.4. Data Presentation and Analysis of Secondary Data

3.4.1. The Current Inflation Rate

As Ethiopians is a small opus economy, it faces so many risks at the international market condition and pass through the effect of current high inflationary pressure the general inflation of the country is composed of food and non-food inflation. The four years general inflation rate of the nation is as follow:-

Table 22. Annual Average Inflation

Addis Ababa			
Year	General	Food	Non-food
1982	7.3	4.8	13.4
1983	3.9	6.8	-0.6
1984	-0.3	-1.1	-1.5
1985	16.4	23.4	4.4
1986	6.5	8.4	4.8
1987	-9.6	15.9	5.7
1988	2.3	-1.3	6.1
1989	9.6	10.8	6.1
1990	5.2	4.4	8.6
1991	20.0	17.9	12.2
1992	21.9	31.0	17.2
1993	7.7	9.2	10.1
1994	3.3	0.02	4.7
1995	13.4	16.8	2.6
1996	0.9	2.3	5.0
1997	-6.4	-8.1	-3.9
1997/98*	1.0	-0.1	1.7
1998/99**	1.1	4.3	-3.5
1999/00**	4.2	7.2	0.6
2000/01**	-1.4	-7.8	5.6
2001/02**	-5.5	-10.7	-0.8
2002/03**	4.6	9.4	0.9
2003/04**	5.6	8.6	3.0
2004/05**	7.2	5.7	7.6
2005/06**	8.4	13.0	4.6
2006/07**	19.2	25.4	14.0
2007/08	20.8	32.1	12.7
2008/09	29.4	41.5	19.2
2009/10	10.1	4.1	16
2010/11	19.4	14.8	23.5
2011/12	24.8	29.6	21.4

Source: Central Statistical Agency, NBE

As shown in the above table in the inflation rate is increased as the year increased

3.4.2. Correlation between Inflation and Saving Deposits

Correlation uses the correlation coefficient to determine the relationship between two properties. To show the relationship of general inflation and national gross saving of the country. The following table is presented bellow:-

Table 23. Comparisons of Inflation and Saving Deposits

Correlation Coefficient 0.70895818	General Inflation Rate	National Gross Saving
1999/00**	4.2	13,209
2000/01**	-1.4	14,980
2001/02**	-5.5	12,555
2002/03**	4.6	14,672
2003/04**	5.6	22,062
2004/05**	7.2	25,441
2005/06**	8.4	28,934
2006/07**	19.2	46,748
2007/08	20.8	57,103
2008/09	29.4	76,376
2009/10	10.1	93,973
2010/11	19.4	137,510
2011/12	24.8	196,013

Source: NBE

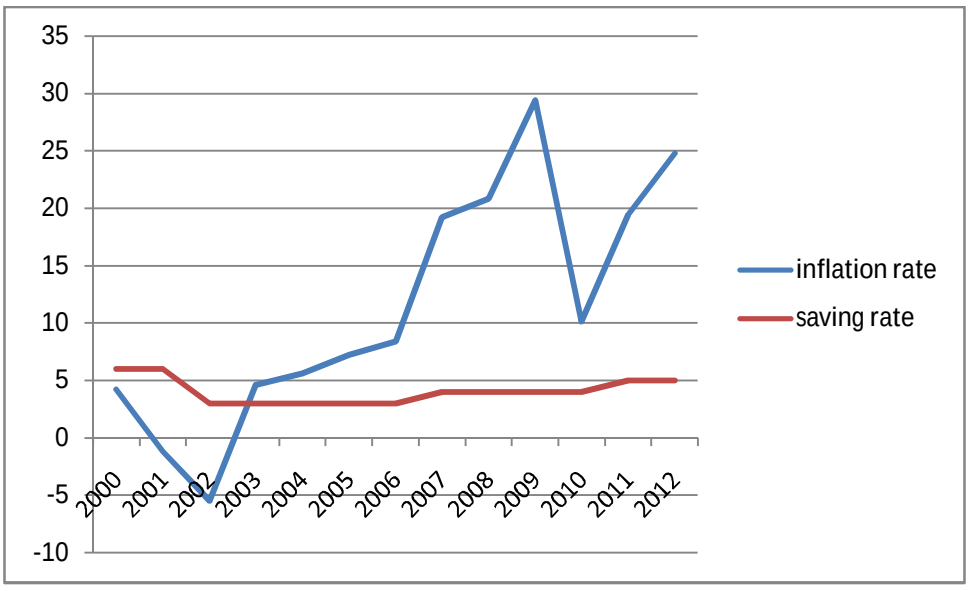
Table and graph of inflation and saving interest rate. As shown is the Table 19 above, the correlation coefficient of inflation and interest rate is approximately 0.7 This shown the two i.e. the general inflation rate and saving deposits are similar and positively correlated. That indicates both are increasing throughout the researchers time taking period of data.

Table 24. Shows The Relationship Between Inflation Rate And Saving Rate

Years	Inflation Rate	Saving Rate
2000	4.2	6
2001	-1.2	6
2002	-5.5	3
2003	4.6	3
2004	5.6	3
2005	7.2	3
2006	8.4	3
2007	19.2	4
2008	20.8	4
2009	29.4	4
2010	10.1	4
2011	19.4	5
2012	24.8	5

Graph shows the relationship between general inflation rate saving rate which is provide commercial banks with in the country for the past 13years.by basing the above table the following graph try to show the relationship between the general inflation rate and saving rate.

Graph 3: The Relationship between Inflation and Saving Rate



As it can be seen from the graph above; the saving rate line found far from inflation rate and looks stable where as the inflation rate line looks very unstable and fluctuating over time. From this the researcher's observe that even if the two lines have direct relation (positively correlated) the amount that increase through period to period very different for example if calculate the range for this sample is;

Range =max-min

Rang of saving rate =3

Range of inflation rate =34.9

From this we can say that the return that is paid in the form of interest to the customers is unrecompensed.

In the researchers view, having cross sectional line graph implies that the one can affect the other and it implies that during the researchers taking period of data's the one that affects saving deposit i.e. inflation did affect the saving deposits of the bank. This arises due to the following reasons;-

A. Due to awareness of customers (BOA) about inflation

As shown in the table 21and22 above, awareness of customers about the relationship of inflation and saving is much matured and most customers think their saving amount is affected by the fluctuation of inflation rate at the inflation period. These lead customers to decide right and to action which is best for them. I.e. having knowledge of inflation, customers with draw his/her money from the bank by remind the inflation decreases its real interest rate. While the interest rate is arrived at by subtracting the rate of inflation from the rate of interest. To elaborate the above idea, the following depicts below:-

For example: A customer has birr 100 to his saving account on the bank, the current inflation rate on that period is 10% and the current interest rate of saving is 5% to calculate the real interest rate.

Real interest rate= Rate of interest – rate of inflation

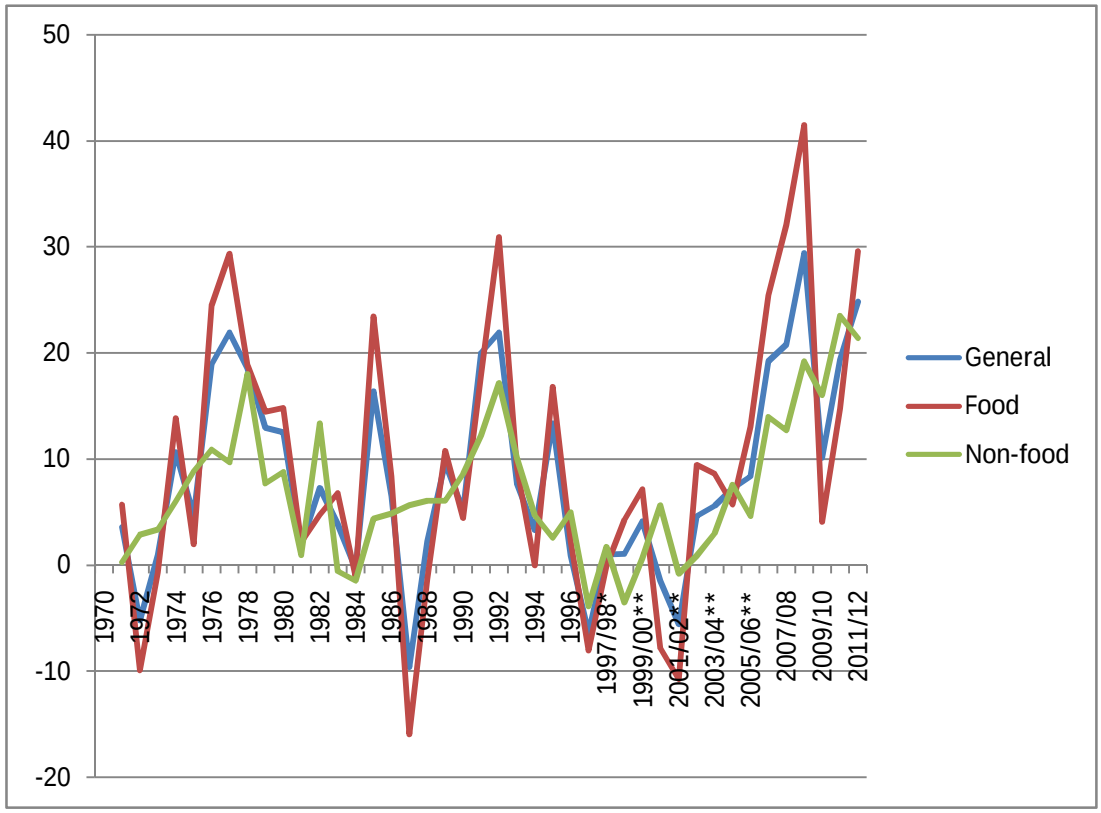
5%-10%

= (5%)

This shown the customer losses 5% from his saving deposits rather than getting return. If the customers have knowledge about the relationships may he, she decide other alternatives rather it deposits. Therefore BOA'S customer awareness about inflation is very appreciable.

The following graph shows that the relationship between general inflation rate food inflation and None -food inflation rate that exists though out in country.

Graph 4: The Relationship between General Inflation food and Non Food Inflation Rate



B. Economical Development of the country

Since Ethiopia is under developing country, mostly the country is dependent on developed countries. This leads the domestic economy not to grow faster and it is barrier to face their problems. in addition the inflation has an adverse effect on economic growth. So that it increases uncertainty and discouragement of investment. Hence people have not a choice to invest; they put their money to bank and this may contributes to increase a saving deposit in the BOA.

C. Due to an increasing of a saving habit on the people

Table 25. Shows Domestic Information

1999	2000	2001	2002	2003	2004
2006/07	2007/08	2008 /09	2009 /10	2010 /11	2011 /12
Gross National Savings	57,103	76,376	93,973	137,510	196,013
Rate of gross Saving (as % of GDP)	23.2	23.0	24.8	27.2	26.5
Rate of Investment (as % of GDP)	24.5	24.9	27.0	27.9	33.1
Mid-year Population (in Million)	74.9	76.8	78.8	80.7	82.7
Per Capita GDP (Birr) (Nominal)	3,282	4,318	4,803	6,267	8,926
Per Capita GDP (Birr) (Real)	4,597	4,934	5,317	5,761	6,088
Average Exchange Rate (Birr/USD)	9.24	10	13	16.12	17.50
Per Capita GDP (USD) (Nominal)	355	414	373	389	510
Per Capita GDP (USD) (Real)	204	217	238	357	353
Percentage Change in GDP Deflator	30.3	24	2	20.2	34.2
	803.2	1,075.0	1,299.5	1,746.0	2,954.3

Source; national bank of Ethiopia

D. Branch Expansion of the bank

The opening of number of branches during the years, has contributed towards the growth of saving deposits of the bank. Currently BOA has 44 branches in the city and 46 out laying branches.

CHAPTER FOUR

SUMMARY AND CONCLUSION

4.1. Summary

This research paper summarizes the main topic of the major findings. To search out such findings, the researcher use both primary and secondary source of data collecting mechanisms for primary data questioner and interview are used. Questioners provide to customer to know their saving habits, their saving information and to level their awareness about inflation on the other hand interviews are conducted to know the bankers attitude towards inflation. Secondary data are used to know the effect of inflation over saving deposit in bank of Abyssinia .based on this collected data the following findings are reached.

In regard to customer back ground information majority of respondents are male and ages b/n 25-35 about employment status most of them are employers and business man and they are diploma holders and above.

BOA as a bank provides a saving service .The bank has normal/regular, special, current /checking and deposit /cdt account. Furthermore the bank classify saving account in to individual saving account ,cooperative saving account ,saving account for plc and for associations additionally under special saving account:- and ,and/or minor for less than 18 years children's. And other titled accounts are also found in this special account. For the normal saving account it provide a 4 % interest rate but for this interest most of savers are not satisfied however the bank provide different interest rate to the special saving accounts holders based on the duration that they put the amount in the bank without withdrawing.

Inflation affects the trend of saving deposit and the habits of savers by deducting the interest rate of saving. However its effect could not show in the bank savings deposit of BOA at the researchers time taking period of this data.

4.2. Conclusion

The researcher aimed to identify the impact of inflation on saving trend of commercial banks in order to accomplish the researcher's objectives by using primary and secondary data source and reached in to the following conclusion.

Hence the deposit mobilization activity is performed by engaging the executive management, branches; and head office deposits mobilization committee with day to day and bi-weekly follow up in a coordinated manner. The market share of the bank in the industry is somehow competitive in terms of the total deposits loan and advances and branch expansion activities. The current coordinated effort should further be enhanced to attain the target set for the fiscal year. The remaining task of core banking solution and the implementation card and mobile banking system is under way with the concerted effort of the top management and all work units to expand the banks service delivery channel. Also during the inflation happens, the bank also amplify its saving deposit. From this we conclude that both saving deposit and inflation rate are increasing on the study period. Also they are positively correlated. Their trend is similar.

As we have discussed, the trend in the above paragraph, both the inflation rate and saving deposit are increasing. The two are directly related, i.e. they are positively Cole related this means they are in similar direction.

The majority of respondents are aware about inflation but they didn't relate and compare the saving interest rate with the current inflation rate except entering and withdrawing the saving amount. But they are sure that their saving amount decreased while inflation occurs.

From this we conclude that most of savers are aware of inflation which affects their saving deposit.

The bank did not emphasize on the relationship of inflation and saving; also the pc operator is not emphasized such things. Simultaneously the bank done nothing to cope with the effect of inflation to their customer's .This means the bank does not contribute anything to decrease its effect for the entire nation..

In addition the bank does not have professionals to analyze and recommend savers on such issue.

The researchers found that any change in saving account affects the entire activity of the bank including its loan capacity, since deposited is the back bone of any financial sector.

The customers provide different reasons for their selection to be committed customer in BOA specially those5and greater than 5years customers, But the bank is not assessing the special need of its customers and tried to satisfy their special needs.

4.3. Recommendations and the way forwarded

→ As the researchers found that inflation and saving has similar trend, the bank also has to think about this. Also find and take remedial measures so as to minimize the effect of inflation from the entire nation beyond its customers. like

- Motivating peoples to deposit their excess cash
- Increasing interest rate
- cultivating and encouraging the society to buy long term bonds and securities
- Taking more effort in strengthening our local currency.

→ The bank has to invite all interested customers to deposit their requirements of special saving account so as to benefit themselves from different interest rates which are provided by the banks plus reviewing appreciable interest rate policy so as satisfy customer's interest,at the same time to contribute something in controlling inflation from the nation.

→ Despite the prevailing challenges facing the banking industry, BOA in its parts should try to exert unreserved efforts to accelerate the growth momentum of the expanding the non-wide network of branches justified by the demand of the public and business to support the deposit mobilization activity.

→ Integrating credit and foreign currency allocations is needed to optimize the bank deposit mobilization effort.

→ Endorsement of better plan policies of interest restores the ultimate responses from all interested respondents. So the bank as to device appreciable interest policies.

→ The bank have ample experience about the service of the bank ,however the number of its customers who stay as a customer more than five years are very few as compared to total customers .Therefore the bank must review the test of customers and its provision of services.

→ The restoration of people administration originates on the gratified aspiration of enhance for the future assortments.

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12.

Appendixes

St. Mary's University

Faculty of Business

Department of Accounting

Questionnaire For Customer Of Saving Accounts On Bank Of Abyssinia

ON

Effect of inflation on Saving Accounts in the case of Bank of Abyssinia for partial fulfillment of the Bachelor of Arts Degree in Accounting.

March, 2014

TO RESPONDENTS: The Effect of Inflation on Saving Accounts study is being conducted in financial institution in Ethiopia taking bank of Abyssinia as a case considering the strategic importance of the study to the country's development endeavor, the significance of this particular study cannot be over emphasized. However, the effect of this questionnaire study is highly dependent upon your cooperation to the enumerators who visit your institution to go through the questionnaire with you. Therefore, we kindly request your kind cooperation in filling out of the questionnaire. We confirm you that all the data gathered will be held confidential. We would like to express our esteemed gratitude in advance for your cooperation.

Questionnaire

Part I demographic characteristics of the customer

1. Sex
   - ☐Male ☐Female
2. Age
   - ☐18-25 ☐25-35
   - ☐35-45 ☐Above 45
3. Employment States
   - ☐Employed ☐In employed
   - ☐Businessman ☐Other
4. Educational Level
   - ☐Less than 12 Grade ☐12 Grades Complete
   - ☐Certificate ☐Degree and Above ☐Diploma

Part II

5. What kind of saving is opted by you?

Saving Type	Yes	No
Special Saving		
Normal Saving		
Both		
Other		

6. Do you believe that the interest that you earn on your saving account satisfactory?

   ☐Yes ☐ No

7. If your answer for the above question is yes, will you please tell us the reason?

   _____

   _____

8. If your answer for above question is no, will you please tell us the reason?

   _____

   _____

9. Why do you save money?

   ☐Return ☐Safety ☐Other (specify)_____

10. How long have it been since you open your account?

    ☐Less than 5 years ☐ above 5Years

    ☐Exactly 5 years

11. Did you meet your objective as a result of opening an account and saving?

    ☐Yes ☐Do not know

    ☐No ☐Other (Specify)_____

12. Do you think any problem would arouse on your saving account?

    ☐ Yes ☐ No

13. Response of the company when problem arises?

    ☐ Good ☐Very Good

    ☐ Poor ☐No Response

14. Are you aware about the current inflation rate of the nation?

    ☐Yes ☐ No

15. Have you ever compared the inflation rate with the available interest rate when you make a decision to open in bank of Abyssinia?

☐ Yes ☐No

16. How do you rate the level of awareness on the relation of inflation and saving?

☐ Poor ☐ Fair ☐Very good

17. How do you manage your money when inflation happens?

☐ Withdraw ☐Nothing done ☐Any other (Specify)_____

18. Your saving deposit for the past five years?

☐<5000 ☐ 50000≤10000 ☐ 100000≤1000000 ☐≥1000000

19. Do you think your saving amount is **growing during** inflation period?

☐ Yes ☐No

Is there any potential reason that affects your saving practice? If there, please explain?

_____

_____

_____.

20. Do you think that BOAs loan capacity is satisfactory? Why?

_____

_____.

21. Why you prefer BOA compared to other banks?

_____

_____

_____.

22. Do you have any more opinion relevant for this study? Please explain

_____

_____

Thank you!

ቅድስት ማርያም ዩኒቨርስቲ

ቢዝነስ ፋካለቲ

አካውንቲንግ ዲፓርትመንት

በደንበኞች የሚሞላ መጠይቅ

ውድ መላሻችን

ይህ መጠይቅ በቅድስት ማርያም ዩኒቨርስቲ ለመጀመሪያ ዲግሪ መሚያነት የሚውል ጥናት ነው፡፡ የጥናቱ አጠቃላይ አላማ "የዋጋ ንረት /Inflation/ ወይም የኑሮ ውድነት በቋጠባ ባህል ላይ የሚያመጣውን ተፅኖ" ማጥናት ነው፡፡ ይህን መጠይቅ በመሙላት እና በወቅቱ ለመመለስ የሚያደርጉልኝ ድጋፍና ትብብር በከፍተኛ ሁኔታ የሚደነቅ ነው፡፡ እርስዎ የሚሰጡኝ ምላሽ የኑሮ ውድነት በቁጠባ ባህል ላይ ያመጣውን ተፅዕኖ ለማወቅ እና የሚያስፈልጉ ማሻሻያዎች ለመረዳት ከፍተኛ አሰተዋፅኦ ያለው ሲሆን እንዲሁም ጥናቱን ለማጠናቀቅ ከፍተኛ ፋይዳ አለው፡፡

በዚህ መጠይቅ ውስጥ ምላሽ የሚያስፈልጋቸው በርካታ ጥያቄዎች የተካተቱበት ሲሆን ለሁሉም ጥያቄዎች ምላሽ እንዲሠጡን በአክብሮት እንጠይቃለን፡፡ በመጨረሻም ጊዜዎን ስለሰጡን ምስጋናችንን እያቀረብን እርስዎ የሚሠጡኝ ምላሽ በሚስጥር የሚያዝ መሆኑን ላረጋግጥልዎ እንወዳለሁ፡፡

በቅድሚያ የከበረ ምስጋናችንን አናቀርባለን፡፡

አጠቃላይ መመሪያ

1. **ስምዎን መፃፍ አያስፈልግም፡፡**
2. **በሚመረጡት የምላሽ ሳጥን ውስጥ የ"✓" ምልክት ያስገቡ፡፡**

1. ***ፆታ***

   ☐***ሀ***. ሴት ☐**ለ**. ወንድ

2. **እድሜ**

   ☐***ሀ***. 18 – 25 ☐ **ለ**. 26 – 35

   ☐**ሐ**. 36 – 45 ☐ ***መ***. ከ46 **በላይ**

3. **የስራ ሁኔታ**

☐ **ሀ. ቅጥረኛ** ☐ **ለ. የግል**

☐ **ሐ. ነጋዴ** ☐ **መ. ሌላ**

4. **የትምህርት ደረጃ**

☐ **ሀ.** ከ12ኛ ክፍል በታች ☐ **ለ.** 12ኛን ያጠናቀቀ

☐ **ሐ. የሰርተፊኬት ተመራቂ** ☐ **መ. ዲኘሎማ** ☐ **ሠ. ዲግሪ እና ከዛ በላይ**

5. **ምን አይነት የቁጠባ ዘዴ ይጠቀማሉ**?

☐ **ሀ. ልዩ የቁጠባ ሂሳብ** ☐ **ለ. መደበኛ የቁጠባ ሂሳብ**

☐ **ሐ. ሁለቱንም** **መ. ሌላ ከሆነ ይጥቀሱ**_____

6. **በመቆጠቡዎ የሚያገኙት ወለድ አመርቂ ነው ይላሉ**?

☐ **ሀ. አዎ** ☐ **ለ. አይደለም**

☐ **ሐ. ብዙም አይደለም** **መ. ሌላ ካለ ይጥቀሱ** _____

7. **ከላይ በተጠየቀው ጥያቄ መልስዎን አዎ ከሆነ እባክዎ ቢያብራሩት**?

_____

_____

8. **ከላይ በተገለፀው ጥያቄ መልስዎ አይደለም ከሆነ እባክዎ ለምን እንዳሉ ቢያብራሩልን**?

_____

_____

9. **ለምንድነው የምቆጥበው ብለው ያስባሉ ወይም ለምን አላማ ነው የሚቆጥቡት**?

☐ **ሀ. ከወለዱ ተጠቃሚ ለመሆን** ☐ **ለ. ለጥንቃቄ**

ሐ. ሌላ ካለ ይግለፁ_____

10. **በአቢሲኒያ ባንክ ይህንን የቁጠባ ሂሳብ ከከፈቱ ምን ያህል ጊዜ ሆኖታል**?

☐ **ሀ.** ከ5 አመት በታች ☐ **ለ.** ከ5 አመት በላይ ነኝ

☐ **ሐ.** በትክክል 5 አመቴ ነው

11. **ይህንን የቁጠባ ሂሳብ በመጠቀምዎ ለመቆጠብ የተነሳሱበትን አብይ አላማ ያሳኩ ይመስሎታል**?

☐ **ሀ. አሳክቻለሁ** ☐ **ለ. አላሳካሁም**

ከላይ በተጠቀሰው ጥያቄ ላይ መልስዎ አላሳካሁም ከሆነ እባክዎን ምክንያቶን ቢገልፁልን?

_____

_____

_____

12. የቁጠባ ሂሳብዎን ችግር ያጋጥመዋል ብለው ያሰጋሉ?

▢ሀ. አዎ ▢ለ. አላሰብም ሐ. ሌላ ካለ ይግለፁ_____

13. የተለያዩ ችግሮች በባንኩ ውስጥ ሲያጋጥምዎ የባንኩ ችግሩን የመፍታት አቅም እንዴት ይገመግሙታል?

▢ሀ. በጣም ጠንካራ ▢ለ. ጠንካራ

▢ሐ. ደካማ ▢መ. በጣም ደካማ

▢ሠ. ጭራሽ ለችግሩ ምላሽ አይሰጥም

14. አሁን በአገሪቱዋ ውስጥ ስላለው የዋጋ ንረት የሚያውቁት ነገር አለ?

▢ሀ. አዎ ▢ ለ. የለም

15. እስከዛሬ ድረስ ባንክ ውስጥ ለመቆጠብ ሲያስቡ በቅድሚያ ያለው የሀገሪቱ የዋጋ ንረት በፐርሰንት ሲሰላ እና ባንኮች የሚሰጡት ወለድ በፐርሰንት አወዳድረው ያውቃሉ?

_____

_____

_____

16. የእርስዎን እውቀት ባለው የሀገሪቱ የዋጋ ንረት ላይ እና የቁጠባ ባህል ላይ እንዴት ይገመግሙታል?

▢ሀ. በጣም ጥሩ ▢ ለ. ጥሩ

▢ሐ. ብዙም እውቀት የለኝም ▢ መ. በፍፁም አወዳድሬ አላውቅም

17. በሀገሪቱ ውስጥ ከፍተኛ የዋጋ ንረት በተከሰተ ጊዜ ባንክ ውስጥ የቆጠቡት ገንዘብዎ ምን ያደርጉታል?

▢ሀ. ከባንክ አውጥቼ እጠቀማበታለሁ ▢ለ. ለሌላ ሰው በወለድ አበድራለሁ

▢ሐ. ምንም አላደርግም መ. ሌላ ካለ ይግለፁ_____

18. ባለፉት 5 አመታት እቆጥባለው ብለው ያስቡትን የገንዘብ መጠን ቆጥበዋል?

▢ሀ. ቆጥቤአለሁ ▢ለ. አልቆጠበኩም

19. **ቀደም ብለው በተጠቀሰው ጥያቄ መልስዎ አልቆጠበኩም ከሆነ ለምን እንዳልቆጠቡ ቢገልፁልኝ**?

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20. **በሀገሪቱ ውስጥ የዋጋ ንረት በተከሰተ ጊዜ የቁጠባ ሂሳብዎን አሳድጋለሁ ብለው ያስባሉ እባክዎትን ለመልስዎ ማብራሪያ ቢሰጡን**?

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21. **የቁጠባ አቅሜን ያሳንሰዋል የወይም እንዳልቆጥብ ያደርገኛል የሚሉት ምክንያት ካለ ቢጠቅሱልን**?

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22. **አቢሲኒያ ባንክ የተጠየቀውን ብድር** /Loan/ **ይሰጣል ብለው ያስባሉ ለምን**?

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23. **አቢሲኒያን ከሌሎች ባንኮች በምን ይመርጡታል**?

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24. **እባክትን ሌላ ለጥናቱ ይጠቅማል የሚሉትን ሃሳብ ካለ ቢጠቁሙን**?

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ስለደረጉልን ትብብር ከልብ እናመሰግናለን!

Table 1: Performance in outstanding deposit by type at the end of December 2013

(inmillions 0f birr)

Types of deposit	Dec. 2013			Sept. 2012	Dec. 2012	Variation			
	Actual A	%Share	Budget B		Actual C	Absolute A-B	A-C	%age A/B	A/C
Demand	1691.72	20.7	2367.46	1774.73	1667.96	(675.74)	23.76	(28.54)	1.42
Saving	5868.29	71.1	6105.56	5824.20	5230.63	(237.27)	637.66	(3.89)	12.19
Time	630.00	7.7	653.99	630.64	378.31	(23.99)	251.69	(3.67)	66.55
Total	8190.01	100	9127.01	8229.58	7276.90	(937.00)	913.11	(10.27)	12.55

Source: financeand Accounts Department

Table 2: Number of account holder

Type of deposit	Dec. 2013(A)	Sep. 2013	Dec. 2012(B)	Absolute (A-B)	% Change
Demand	25,159	24,486	23,872	1,287	5.39
Saving	376,219	358,532	340,489	35,730	10.49
Time	203	383	158	45	28.48
Total	401,581	383,401	364,519	37,062	10.17

Table 4: outstanding loans and advances as at end of December 2013

(in million of birr)

Types of deposit	Dec. 2013		Sept. 2013	Dec. 2012	Variation			
	Actual A	Budget B		Actual C	Absolute A-B	A-C	%age A/B	A/C
Term loan	4188.37	4116.49	4200.79	3616.03	71.88	572.34	1.75	15.83
Overdraft	784.75	1041.51	664.92	713.39	(256.76)	71.36	(24.65)	10.00
Advances	174.10	386.00	220.19	137.04	(211.90)	37.06	(54.90)	27.05
Total	5147.23	5544.01	5085.89	4466.46	(396.78)	680. 77	(7.16()	15.24

Source: Credit review, workout and profit Mgt. department andCPMD

Table 13: 10 branches registered highest deposit balance as at December 2013 (in birr)

1	BOLE	1,320,318,273
2	FILUHA	680,980,268
3	URAEL	353,769,688
4	ABA MELA	325,641,988
5	GUENET	313,324,890
6	NEGADRES	292,488,553
7	RAGUEL	222,474,168
8	ARADA	206,548,807
9	BAHIR DAR	206,091,693
10	GOFFA	189,896,136
	Total	4,111,534,464
	Total deposit	**8,190,011,647**
	% age out of the total deposits	**50%**

Top ten branches registered the highest profit at the end of December 2013 are depicted as follow:

Table 14: 10 branches on profitability as at end of December 2013 (in birr)

1	FILUHA	26,466,015
2	NEGADRAS	18,495,780
3	HAWASSA	18,201,535
4	NAZARETH	12,376,217
5	TEMENJA YAJ	10,006,403
6	GUENET	9,824,083
7	BOLE	6,516,497
8	GERJI	6,019,924
9	AIR PORT	5,577,576
10	BULLE HORRA	5,537,119
	TOTAL	119,021,149
	Total Profit	**172,021,149**
	% age out of the total Profit	**69%**

Birr 119 million constituting about 70% of the total profit generated is registered by top 10 performing branches enumerated above.

Correlation Coefficient Between General inflation rate and outstanding loan

0.69626103	General inflation rate	outstanding loan
1999/00**	4.2	15,101.8
2000/01**	-1.4	15,968
2001/02**	-5.5	15,748
2002/03**	4.6	15,543
2003/04**	5.6	17,750
2004/05**	7.2	21,749
2005/06**	8.4	26,751
2006/07**	19.2	31,103
2007/08	20.8	41,340
2008/09	29.4	46,005
2009/10	10.1	54,692
2010/11	19.4	73,971
2011/12	24.8	110,201