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**SCHOOL OF GRADUATE STUDIES**

**ASSESSING FACTORS INFLUENCING RESOURCE  
MOBILIZATION: THE CASE OF ABAY BANK S.CO**

**By**

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**Addis Ababa**

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**Addis Ababa**

## **Declaration**

I hereby declare that this thesis prepared by DagimDenekeBalcha, entitled: *Assessing Factors Influencing Resource Mobilization: the Case of ABAY BANK S.CO.* Submitted in partial fulfilment of the requirements for the degree in master of Business Administration, complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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### ***List of Abbreviations***

*ADIR* Average deposit interest rate of Abay Bank

*BR* branches of Abaybank

*CLRM* Classical Linear Regression Model

*CSA* Central Statistics Authority

*DIR* Deposit Interest Rate

*GDP* Gross Domestic Product

*GINF* General Inflation

*MOFED* Ministry of finance & Economic Dev't

*NBE* National Bank of Ethiopia

*SPSS* Statistical Package for Social Science

*YOYPC* Year on year percentage change

## ***Abstract***

*The main objectives of commercial banks are collecting money/mobilizing resources) from the public and lend it back. This two mutual duties are interdependent, as the main income of commercial banks is generated from interest income. To survive in the industry the bank must mobilize more money than before. The bank's management should formulate good strategies for this duty based on findings that influence their deposit. This paper tries to investigate factors influencing the deposit mobilization of Abay Bank S.co. Data were collected from primary and secondary sources to examinedeterminants of deposit mobilization. Data were analyzed using SPSS software. Results reveal that branch expansion and general inflation are the most significant factors of deposit volume. Deposit interest rate was found to have moderate influence on deposit volume, but real GDP growth did not have statistically significant influence. The researcher recommends the bank should keep on opening branches in potential areas of the country and improve service excellence.*

*Key Words: Deposit Mobilization, influential factors of deposit Mobilization*

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the Study**

The financial sector in Ethiopia includes banks, insurance companies, Microfinance Institutions, Saving and Credit Cooperatives and the Informal Financial Sector. The banking industry accounts for about 95% of the total financial sector assets, implying that the financial sector is undeveloped (Zerayesus, 2013). The banking sector is the largest component of the financial system, and it plays great role on all aspects of the national economy (Falkena et al, 2004).

The Ethiopian banking sector was first introduced in 1906, when the first Bank of Abyssinia was inaugurated by Emperor Menelik II. It was a private bank whose shares were sold worldwide until Emperor Haileselassie I introduced reforms into the banking system in 1931. The Bank of Abyssinia was liquidated and newly established Bank of Ethiopia, a fully government owned bank, taking over management, staff and premises of the ceased bank. The Bank of Ethiopia provided central and commercial banking services to the country until the second Italian invasion of Ethiopia.

Briefly summarizing the history of modern banking in different era; during the imperial era different banks was allowed to function in the country both domestic and foreign banks. But after the socialist regime took over power in 1974, it nationalized all private banks and restricted the ownership of any bank by polices (Geda, 2007). Only three state owned banks were running the banking sector in the country. Namely: the National Bank of Ethiopia, the Commercial Bank of Ethiopia and Agricultural and Industrial Development Bank.

A new era after 1991, when EPRDF came in to power and allowed private ownership through licensing and supervision of banking business proclamation no. 84/1994, immediately after the

enactment of the proclamation private banks began to flourish. However, the financial sector policy of Ethiopia does reserve investment on the sector only for domestic investors. It is believed that domestic banks are very young to cope up with competition that would have come from the highly experienced, well-endowed and hi tech foreign banks.

Ethiopian banking sector is small in absolute and relative size, which could be characterized by low loan deposit ratios and, as a result, large shares of assets held in the form of government securities (IMF, 2006). There is a general view that monopolistic competition among banks in terms of price and investment opportunity. Meaning, Competition in terms of price is relatively weak in the Ethiopian banking industry (Zereauyesus, et al 2003). In general banks in the Ethiopian case are competing in terms of service quality and efficiency including use of technological advances, branch network expansions, advertising and pricing, put in the order of their significance (Zerayesus, 2013).

Most financial sectors and financial intermediaries including banks need to have sustainable resources in order to exist as intermediaries. Mobilization of deposits is one of the main functions of banking to regularly acquire those resources. Deposit is a back bone for banking business since it is an important source of working fund for the bank. Deposit mobilization is an essential factor to increase the sources of the banks to serve effectively. It plays an important role in providing satisfactory service to different sectors of the economy. The Commercial Banks must collect deposits from various sources including, urban and rural areas. This helps the banks to avail large amount of funds to priority sectors for development and investment (Mohammad and Mahdi, 2010).

Currently, the number of commercial banks operating in the country reached 18 of which 16 are private, and the remaining 2 are state owned. During the year 2013/14 these banks opened 480

additional branches raising the total branch network in the country to 2,208 from 1,728 a year ago. As a result, bank branch to population ratio becomes 1:39,402 in 2013/14 (NBE Annual report 2013/14).

Those banks play an intermediary role by collecting excess money in the form of deposit and provide a loan for those who are in need of finance. However, there have been cases whereby private companies and small scale firms complaining about lack of loans and credit facilities, particularly those which were not able to present collateral properties. (World Bank Group, 2011) The shortage has been aggravated by the increasingly growing needs of the public sector, particularly for infrastructure development. This calls for an efficient and coordinated deposit mobilization strategies.

Currently there is an increasingly growing public and private investment in Ethiopia in the area of infrastructure, agriculture, manufacturing, and processing etc. which seeks for continues supply of finances. Financial assistance from other is not dependable and unfortunately decisions are made beyond the financial criteria. Moreover, the donation of funding is unpredictable and difficult to plan for long term investment in the economy. This calls for urgent mobilization of financial resources domestically. Thus, banks have a major responsibility to mobilize deposit to reduce dependence on external resources.

Taking in to consideration the current economy of Ethiopia and given the low level income of the people it is difficult to satisfy the financial demand based on limited customer bases. Hence, there is a need to understand factors affecting deposit and develop effective deposit mobilization strategies that would reach the wider customer base, including the rural part of the country. Moreover, deposit mobilization strategies alone could not bring about long-term and sustainable deposit flows unless the bank insures that the service quality is well maintained and its staff is

motivated to respond to emerging challenges. This study will examine the most important factors affecting deposit mobilization overtime.

## **1.2. Background of the Organization**

Abay Bank S.co as one of private bank was legally registered and obtained its license from national Bank of Ethiopia on July 14<sup>th</sup> 2010. The bank was commenced its operation by two branches on November 2010 with birr 174 Million (One hundred seventy four Million only) paid up capital, Generated from 820 founding shareholders. Despite the huge challenges faced in the industry especially as new entrant to the market, the bank shows strong growth in financial and non-financial terms. The bank currently is implementing different strategies of Deposit mobilization to attract new customers and maintain the existing one. For instance, products like Interest free banking, Agent Banking, Diaspora banking, Multi-channel banking and NGO Staff loan account.

The bank collected 4.8 billion birr deposit as of June 30, 2016 showing an increment of more than 80 % as compared to 2011/12. The bank reached 719 Million birr paid up capital. The bank has managed to generate a total income of birr 642 million for the year ended 2015/16. Its total branch expansion reached to 110 across the country (Abay Bank s.co annual report 2015/16). The banks aggressive branch expansion and growth made the bank to employ more than 1000 employees.

The bank's total outstanding loans and advance reached Birr 3.2 Billion. To sustain the countries fast economic growth, as one of financial institution the bank must contribute much to the economy. The bank needs to maximize its deposit to grant more credit and play its role in the economic growth of the country.

### **1.3. Statement of the Problem**

As mentioned in the introductory part, resource mobilization for commercial banks is very crucial to fill the increasing demand of finance. As result, assessing factors that can affect resource mobilization would help for banks to formulate deposit mobilization strategies. Various researchers tried to study about factors affecting resource/deposit mobilization in Ethiopia.

Determinant variables commonly explained as a factor influencing resource mobilization are, inflation rate, interest rate, exchange rate, demographic change (population growth) and branch expansion. Wubetu (2012) found that Branch expansion had positive and significant effect on total deposit whereas deposit interest rate and inflation rate were insignificant. As opposed to this finding, Tizita (2014) reported that branch expansion has negative effect on private saving in the short term. She also concluded that inflation rate influenced private saving negatively and significantly. As per the finding of Tizita, level of real per capital income and urbanization ratio has significant positive effect on private savings. Moreover, Aberham's finding showed that the banks total deposit is positively related to income, its Asset and loans, liability, and advance granted and consumer price index (Abreham, 2014). However, this relationship is expected, since deposit is a liability to the Bank, deposit and liability are positively related to each other.

By the same token, Ngula (2012) found that the exchange rate between the Ghanaian Cedi and US dollar was found negatively and significantly influence bank deposit. As he explained, the rise in exchange rate might lead to lower levels of deposit. People substitute domestic currency for foreign currencies as a means of financial saving. He also found that banks' ability to mobilize more deposit is reduced when there is an increase in inflation rate. However, Deposit interest rate found to have a positive relationship with bank deposit mobilization.

These contradictory findings revealed that there is inconsistency among researchers on factors affecting resource/deposit mobilization. This research is designed to understand which factors really affect or influence total resource level by using validate these contradicting findings and fill the research gaps on factors influencing resource mobilization in Abay bank.

The results of this research could be used by policy makers to develop informed policies, actions and introduce measures to be undertaken for effective inland resource mobilization. Commercial Banks would also benefit from the research by understanding the real factors that influence resource mobilization and design strategies to minimize tradeoffs. Academicians will use it in examining the relationship between bank resources and its stated factors.

#### **1.4. Basic Research Questions**

The researcher will focus on identifying factors which affect resource mobilization and provide practical recommendations to the real world business situation. In doing so, the researcher will try to answer the following questions:

1. What are the factors that affect deposit mobilization of Abay Bank?
2. Is there any relationship between total deposit and the identified factors, and by what extent?
3. Is there any relationship or correlation among these Factors?
4. What are the Challenges in resource mobilization of the bank?

#### **1.5. Objective of the Study**

The general objective of the study is to assess:

- ✓ Factors influencing the resource mobilization performance of the bank.



The specific objectives of the study are to:

- ✓ To identify the factors, that affects deposit mobilization of a bank.
- ✓ To evaluate the relationship between the Bank's total deposit against the most significant factors
- ✓ To determine the influence of institutional and external environmental factors on resource mobilization performance of the bank
- ✓ To assess the current status and trend of resource mobilization by the bank.

## **1.6. Significance of the Study**

The study will provide possible suggestions factors influencing resource mobilization performance of Abay Bank S.co and it may help the organization to review its resource mobilization strategy. Additionally; the researchers will get a chance to acquire knowledge and practical experience. Furthermore, it will help as a source document and as a stepping stone for those researchers who want to make further study on the area afterwards.

Besides, findings of the study can be used by students, both at undergraduate as well as postgraduate level, as a reference material for further study or just for academic purpose.

As the area is not well researched so far, the study could motivate other writers interested in the area to conduct in-depth study.

## **1.7. Scope & Limitations of the Study**

The researcher believes that the findings of this study would have been more productive if it has been conducted on all public and private Banks in Ethiopia. However, due to time and financial constraints, it is out of the reach of the researcher to incorporate all in this study. The study encompasses one selected Private Bank (i.e. Abay Bank S.co). Besides, due to the opaqueness of

the sector and expected shortage of longitudinal data and other elusive structural difficulties the study is compelled to limit itself mainly on officially reported accounting data( annual report) for a period of the last five subsequent years up to 2015/16.

## **1.8. Organization of the Research**

This research paper has contained five chapters: The first chapter contains background of the study, statement of the problem, basic research questions, objectives of the study, significance of the study, and delimitation/scope of the study. Chapter Two deals with the literature relevant to the study. Chapter Three describe about the type and design of the research; the subjects/participant of the study; the sources of your data; the data collection tools/instruments employed; the procedures of data collection and the methods of data analysis used. Chapter Four summarizes the results/findings of the study, and interprets and discusses the findings. Finally, the last chapter concludes the total work of the research and gives relevant recommendations based on the findings.

## **CHAPTER TWO:**

### **LITERATURE REVIEW**

#### **2.1. Types of Deposits**

There are different types of deposits, with different maturity pattern carrying different rates of interests. According to Sophi, et al., (2012) deposit is classified on three bases: based on depositor, maturity of deposits and geographic origin of the deposits.

A. Based on Depositor: Deposit can be classified as Financial Institution's deposit, Government deposit and Private sector deposit. Among the above, private sector deposits are usually considered less mobile than the others and thus particularly reliable.

B. Based on the maturity of deposits: deposit can be classified in to sight (overnight) deposits, deposit with fixed maturity and deposit redeemable at agreed notice.

i. Sight (overnight) deposits: Deposit redeemable without notice and with no minimum holding period and widely known as current deposit.

ii. Deposit with fixed maturity: Savings deposit with agreed maturity. Depending on the contractual agreement, early redemption may trigger a penalty fee and commonly known as fixed time deposit or term deposit.

iii. Deposit redeemable at agreed notice: Savings deposit for which the saver must observe a fixed notice period, before the deposit may be withdrawn. In some cases it is possible to withdraw a certain amount in a given period without having to provide a notice (Commonly called saving account)

C. Based on geographic origin of the deposits: deposit can also be classified as residents deposit and non-resident deposit. Davinaga (2010) also simply classifies deposit in to three kinds: Current or demand deposits, Fixed or Time deposits / Term deposits and Savings deposits.

Whatever the classification is, deposits are one of the most important sources of capital. As Richard (1971). describes capital structure in commercial banks are made up of shareholders' funds, borrowing and deposits Therefore, deposits are one of the sources of capital for commercial banks.

In this chapter, both theoretical and empirical literatures have been reviewed. Potential theories that stated about commercial bank deposit and different factors which are believed to affect total deposit are briefly discussed. Besides, past studies that were empirically conducted on factors determining commercial bank deposit were also reviewed and explained with related to the theoretical concepts.

## **2.2. Significance of Bank Deposit**

For a commercial bank, deposits are the oldest, most stable and by volume, most significant source of funding. In the traditional model of the bank as an intermediary between savers and borrowers, deposit is the counterpart of the loan. Stable funding is vital for banks and the financial system. This warrants analysis of the significance of a reliable, low-cost way for banks to refinance their operations. Financial resources of banking systems are naturally provided from people's deposits (Mohammad and Mahdi, 2010). Deposits play an important role for both consumers and financial services providers: in Europe, deposits account for approximately 60%

of bank funding in the world (Global financial markets, 2012) and 87.7% in Africa (IMF country report 15/55).

The bank provides savers with the opportunity to earn interest on surplus funds and make an investment that is nevertheless readily available for withdrawal and also in safe hands, while granting longer-term loan on fixed term and condition to person or companies that do not have enough fund of their own investment or consumption purposes. Deposits are not only a crucial funding instrument for banks, but also one of the most important forms of investment for private individuals (Sophie and Jan, 2012)

Mobilization of deposits for a bank is as essential as oxygen for human beings. As a result, mobilization of savings is one of the important objectives of the commercial banks and instruments to expand banking operations, by providing subsidy for branch expansion. The successful functioning of commercial banks depends on the extent of funds mobilized.

Savings mobilization becomes the most important strategy for the economy when economic growth is planned within the framework of targets with maximum reliance on internal resources (Roy, 2003) Roy reflecting the current situation of Ethiopia indicated that while most of the mega projects, including the Abay Dam, are financed by internal resources, deposit is now much more significant than ever in Ethiopia.

### **2.3. Determinant Factors of Deposit Growth**

Different literatures explain about factors that determine the growth of deposits. Wubetu (2014) divided factors of deposit as exogenous and endogenous factors by citing (N. Desinga, 1975).

**i. Exogenous factors:** factors like the general economic environment of the region, the volume of business transaction of the region, the confidence of the people on the banking

system, the banking habit of the people and the saving potential of the region are explained as exogenous factors.

**ii. Endogenous factors:** the main internal factors of banks affecting deposit growth are location, type of building and window-dressing (furniture, cheque books, vouchers, pay slips etc), Even when exogenous factors are more conducive for deposit mobilization, banks may fail to mobilize deposit because of unfavorable endogenous factors. Wubetu has identified ten country specific factors that have effect on the commercial bank deposits (wubetu, 2014). They are saving interest rate or deposit rate, inflation, real interest rate, number of commercial banks available in the country, population growth, per capita income of the society, economic growth, consumer price index, gross domestic product (GDP) and shocks.

Sophi and Jan (2012) also classified determinants of deposit in to two broad categories; supply and demand side components. The variables are basically the same as what Wubetu has identified but for ease of explanation, the researcher has combined Sophi's classification with additional variables which the researcher believes to be covered either in supply or demand side. The Supply side factors includes income, trust in the banking sector and its stability, demography (population), economic growth (GDP), exchange rate, inflation/interest rates, and risk-reward profile of investment alternatives. Demand side factors are regulation, competition, branch expansion, promotion and service quality. This classification was made based on parties who need deposit, like customers as supply factor and Bank as demand factor. Each factor will be explained item by item.

### **2.3.1 Supply Side Factors**

#### **i. Income**

Income is the consumption and savings opportunity gained by an entity within a specified time frame, which is generally expressed in monetary terms. It is money that an individual or business receives in exchange for providing goods, services or through investing capital. For households and individuals, income is the sum of wages, salaries, profits, interests' payments, rents and other form of earnings received in a given period of time. One assumption would be that as incomes rises, deposits with banks do so as well. According to the Narasimham Committee (1991) the growth of bank deposit is a function of the level of income and savings. Poul and Bhattacharyay (1986) had studied the behavior of bank deposit and their components during

1971-81, and reported as income, either permanent or current, seems to be the dominant variable affecting bank deposits. The study concluded that, income to deposit ratio is statistically significant and positively related. The empirical study of Aberham (2014) also supports this finding.

#### **ii. Inflation**

One of the key economic indicators to analyze the economic phenomenon of the country is inflation. Inflation is defined as the persistent increase in the general prices of goods and services within an economy over a given period of time (Ngula, 2012).As Deaton (1991) explained inflation is measured alternatively by Consumer price index. He used three theories to explain how inflation may influence savings. The first theory assumed that greater uncertainty should raise savings since risk-averse consumers set resources aside as a precaution against possible adverse changes in income and other factors. Inflation may

increase precautionary savings by individuals. Precautionary saving is additional saving that result from the knowledge that the future is uncertain (D. Carroll, 2006). The second theory was that, inflation could influence saving through its impact on real wealth. If consumers attempt to maintain target level of wealth or liquid assets relative to income, saving will rise with inflation. The last theory was that, saving may rise in inflationary period if consumers mistake an increase in the general price level for an increase in some relative prices and refrain from buying (Deaton, 1991). Santoni (1985) also defined inflation as Deaton did. Besides, he classified inflation in to two; anticipated inflation and unanticipated inflations.

Anticipated inflation is forward looking. It is the rate of change in the general price level that people think will occur during some specific future time period. Any difference between actual or realized inflation and anticipated inflation is called unanticipated inflation. It is known only after the fact happened.

As inflation accelerates, deposits become less attractive, depending on the interest rate. In this case, the assumption would be that as deposit interest rates rise, deposits would increase in principle as well. The narrower the spread between deposit rates and inflation, the less attractive it should be to hold deposits above the required level (Boyd et al., 2000).

### **iii. Interest Rate**

Interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR) (Investopedia). In deposit terminology, a term



deposit rate refers to the amount of money paid out in interest by a bank or financial institution on cash deposits. Banks pay deposit rates on savings and other investment accounts.

In essence, deposit rate is the interest rate that a bank pays to the depositor for the use of their money. Deposit interest rates can be either fixed for a certain period of time with a minimum amount of money on deposit, or it can be variable, which fluctuates and is not usually subject to early withdrawal penalties.

In developed countries, the rate of interest is an important determinant of bank deposit. However in developing countries it may be different. An Indian study group on deposit mobilization examined the interest rate structure and argued that the level of deposit rate cannot be far from the rate of competing investment return; the study group recommended a higher rate of interest for deposits in the rural areas and a lower rate in the urban areas (Roy, 2003).

A similar view was expressed by the Banking commission when it was advocated a well thought out and comprehensive approach to the whole question of interest rate on deposit growth in the banking system and extra banking institutions. The commission also suggested that a dual structure of interest rates since the impact is insignificant on rural areas (higher rate for rural deposit and lower rate for urban deposits) is likely to be useful from the point of view of mobilizing deposit.

Edmister and Merriken (1989) examined to what extent a change in interest rates can shape the volume of deposits. The finding showed that other macroeconomic factors usually exerted a bigger influence on deposit growth than interest rates do. Alemaheyu's findings

strongly supports the conclusion that real interest rate (which is the interest less the inflation rate) have little or no impact on saving (Geda 2015).

All the above literatures agreed that interest and deposit are positively related. However, the finding on the significance level was different.

#### **iv. Exchange Rate**

Exchange rates are quoted as foreign currency per unit of domestic currency or domestic currency per unit of foreign currency (Bishop, 2006). Exchange rate allows denominating the cost or price of a good or service in a common currency. As Thomas's explanation, the term depreciation and appreciation is used to show the decrease and increase in the value of currency. Depreciation is a decrease in the value of currency relative to another currency. Appreciation is an increase in the value of a currency relative to another currency. As ECONOMIC Help online explained, the main factors that influence exchange rate are: inflation, interest rate, speculation, and change in competitiveness, balance of payment, government debt, government intervention and Economic growth / recession.

According to Nugel (2012) as currencies depreciated in one country deposit will be reduced since investors tend to withdraw deposit and exchanged to keep it by appreciating currency (Hard currency) or invest in another form of investment rather than bank deposit. Alemayeh (2015) also confirms that for developing country in general saving is negatively correlated with unstable exchange rate.

#### **v. Risk-reward profile of investment alternatives:**

There are different investment alternative for resource holders. The major differences among investment are its risk, reward (profit) and capital requirement. Risk is quantifiable uncertainty in

the future (Knight 1921). It is also defined as a higher probability event, where there is enough information to make assessments of both the probability and the consequences (Holton 2004).

Reward/profit is the surplus remaining after total costs are deducted from total revenue, and the basis on which tax is computed and dividend is paid. It is the best known measure of success in an enterprise. It is reflected in reduction in liabilities, increase in assets, and/or increase in owners' equity.

Large deposits in small banks or cooperative banks or weak banks are not totally risk free and in case of failure of these banks, loss of deposit may happen. Tyler also confirmed that deposit in a bank is not a riskless form of saving. He said, "Banks are not vaults. They are thinly capitalized asset managers that make a promise to return depositors' money on demand and at par that cannot always be kept without the assistance of a solvent state" (Durdan , 2013). It is commonly assumed that money on deposit belongs to the depositor. This is not true, because the depositor lends his money to the bank, so the money becomes the bank's property and merely owes it to the depositor. The depositor is usually the most senior class of unsecured creditor. Deposit in Banks is relatively safe in Banks (Macleod, 2013).

There is strong positive Risk and reward relationship in investment. If the investment is very risky, then its reward is very attractive (Franzen, 2010).

Therefore, the assumption would be that deposit will be decreased if investment alternatives offer more favorable risk-reward profiles.

#### **vi. Economic growth**

An article from Economic online defined economic growth based on two meanings: Firstly, and most commonly, growth is defined as an increase in the output that an economy produces over a

period of time, the minimum being two consecutive quarters. The second meaning of economic growth is an increase in what an economy can produce if it is using all its scarce resources. An increase in an economy's productive potential can be shown by an outward shift in the economy's production possibility frontier (PPF). The simplest way to show economic growth is to bundle all goods into two basic categories, consumer and capital goods. An outward shift of a PPF means that an economy has increased its capacity to produce.

If there is a real growth in the economy, the deposit will grow as well. This hypothesis was proved by the chakravarty committee in 1985. The committee reported that the growth rate of deposit in India at an accelerated pace was attributed to the higher real growth achieved by the economy (chakravarty committee, 1985).

Alemayehu, in his article published on Mudaye Neway Magazine, states that many African studies show high degree of association between growth of an economy and saving. However, the causality issue (whether saving causes growth or the other way round) is not yet settled. He stated that most studies seem to suggest that economic growth influence saving. And economic growth is found to be the most important variable that has a significant positive effect on saving (Mudaye neway, 2015).

## **vii. Demography**

Demography is the science of populations. Demographers seek to understand population dynamics by investigating three main demographic processes: Birth, Migration, and death. All three of these processes contribute to changes in populations, including how people inhabit the earth, form nations and societies, and develop culture.

Today, there is growing interest among the public in demography, as "demographic change" has become the subject of political debates in many developed countries. Most of these countries

have birth rate life expectancy has been rising considerably and continues to raise a development sometimes called “the aging of societies.”(Max planck- institute for demographic research).

Theory of life cycle hypothesis, developed by Ando and Modigliani in 1963, states that individuals choose a life time pattern of consumption that maximizes their life time utility subject to their life time resource available.

Life cycle hypothesis emphasized that income varies systematically over people’s lives and that saving allows consumers to move income from those times in life when income is high to those times when it is low. The life cycle theory maintains that the level of savings on the demographic structure of society, namely the age of structure rather than on the level of family income.

According to Modigliani, in stationary economy (neither population nor productivity growth), the dis-saving of the retired from previous accumulated wealth will offsets the accumulation of the active population for their old age retirement. Thus, saving could occur only when there is transitory income whereas, in steady growing economy saving rate will be changing through population growth or productivity. When source of growth is population, saving rate will increase. This is because of the share of younger households in the economy is becoming larger than those of the retired ones. So that saving of younger is much higher than dis-saving of the retired. While when source of growth is productivity the younger associates have larger lifetime resources than older ones, and, therefore, younger group saving is larger than the saving of retired group (Modigliani, 1986). The life-cycle hypothesis assumes that deposits increase in the course of a person’s lifetime, only to decrease as the person reaches old age. So with a population generally ageing, one would have to expect an overall decline in deposits.

African based saving studies further shows that demographic and institutional factors are found to be important. The age dependency ratio (more children and old people per household is found to have adverse effect on saving (Alemayehu, 2015).is below the replacement level of 2.1 children per woman, and, at the same time,

**viii. Trust in the banking sector and its stability:**

From the researcher own experience, the reputation of the commercial bank is very important for the overall performance of the bank, especially, for making deposit. Customers also develop trust in the bank after assessing stability of the bank. The assumption would be that given pronounced trust in the banking sector the volume of deposits would tend to increase.

**2.3.2 Demand side factors**

In this context, the term demand means the banks' demand for deposits. The following factors could have an impact on demand.

**i. Regulation:**

Regulatory bodies of Banking (in case of Ethiopia, The National Bank) issue different directives in relation to banking activities that may increase the demand for deposit. The regulatory regime changes the relative attractiveness of assets. Household deposits have a lower weighting in the liquidity ratios than other liabilities. This could boost demand for deposits, since the relative attractiveness of deposits increases (Sophi, 2012).

**ii. Competition:**

Strong competition in the banking sector could necessitate higher interest rates being offered to attract deposits. From the banks' point of view, this could reduce the attractiveness of deposits as a funding instrument. At the same time, depositors would find it more attractive (Sophi 2012).

**iii. Promotion**

Promotion plays an important role in today's competitive world by which organizations communicate with their customers, both current and potential. Companies allocate a considerable amount of their resources to different promotional activities, like TV or radio advertisements and sponsoring different programs.

#### **iv. Branch Expansion**

Branch expansion is opening new branches or service outlets in and outside the country. According to Baqui, there is a relationship between commercial banks deposits and commercial bank's branch expansion. Deposit is influenced by branch expansion while the expansion of bank branches is also influenced by the level of deposits ( Baqui et al, 1987). Banks usually make decisions on expanding their branch by considering different factors. Some of the factors could be; level of competition, deposit potential, regional income and existence of infrastructure and transport facilities. As deposit potential is one thing that banks consider in expanding its branches, the deposit can also be a reason for branch expansion strategy that the banking sector uses. According to Erna and Ekki (2004), there is a long run relationship between commercial bank branches and commercial banks deposits.

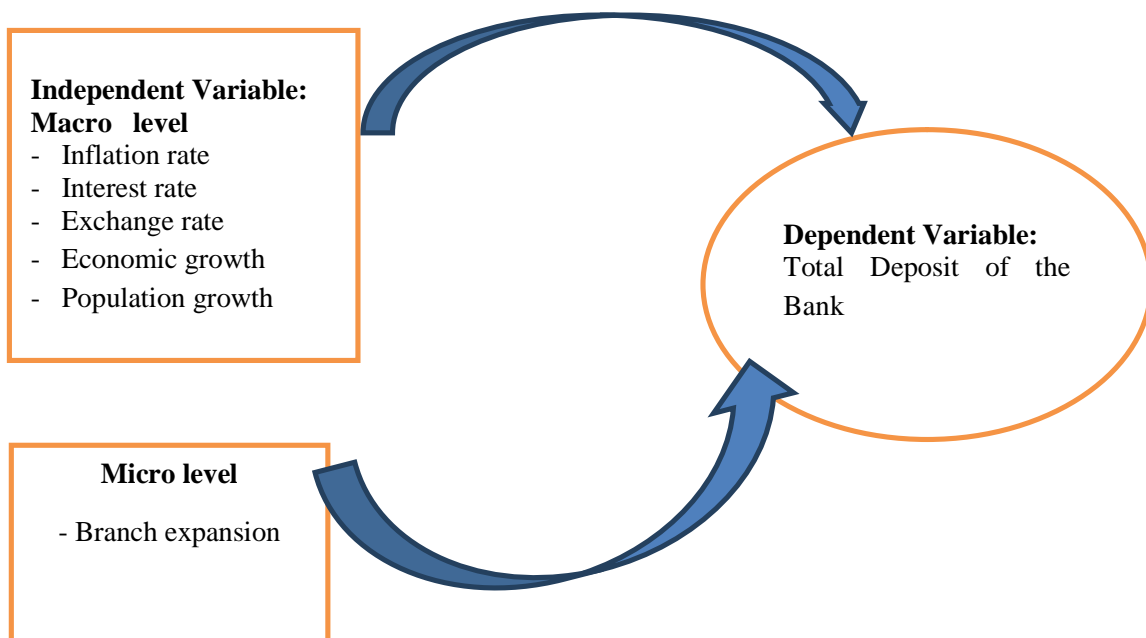
Rangarajan (1982) explained that branch expansion, by spreading the banking habit over a wider geographical area, induced a large number of people to use bank deposit. Besides, a wide network of branches by facilitating transactions across different geographical areas reduced the need for holding larger amount of cash. This prevented the outflow of reserves from the banking system leading to a larger expansion of secondary deposit; therefore, the author observed that one of the structural changes to be expected from a massive branch expansion program was raising deposit.

Sdandhu and Goswami(1986) observed that the demand for deposits was positively affected by the number of bank branches in operation. The impact of branch expansion on deposits mobilization was positive for all type of deposits. The banking commission and Charkaravry committee also concluded that the wide network of branches and expansion of bank branches respectively are the important factors contributing to the growth of bank deposit (chakravarty committee, 1985).

## 2.4. Conceptual framework of the study

From the above theoretical and empirical reviews, there is clear consensus that supports there are factors that can affect banks deposit positively or negatively. The main independent factors are grouped as macro and micro.

Fig: 2.1 Conceptual Framework of the study



Source: Developed by the researcher



## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the sources of data, the research design, the characteristics of the study population, sample and sampling techniques, data collection schedule, and statistical tools that the study will use. It explains the type of data needed for the study and the techniques that will be employed in identifying the factors that influence the bank deposit.

#### **3.2 Research Design**

In order to see the determinants of bank deposit in case of Abay bank, the researcher deployed mixed research approach. The essential goal of this mixed research approach is to tackle a given research question from any relevant angle, making use where appropriate of previous research and/or more than one type of investigative perspective. The rationale of using such a mixed approach in this study is to gather data that could not be obtained by adopting a single method. And also some of the qualitative data in this study might not be described and manipulated numerically. That is why the researcher selected mixed research approach.

#### **3.3 Target Population, Sampling and Data Collection**

The study used both primary and secondary data. The primary data needed for this study was collected from the randomly selected Addis Ababa city branches staff of Abay Bank. The questionnaires were distributed to the employees of Abay Bank particularly for those employees who actively participated in deposit mobilization tasks in selected city branches. The rationale for this selection was the larger proportion of bank deposit and the number of staff on the hands of in those city branches.

The review of secondary data was bank-specific and macroeconomic determinants of bank deposit over the five year period 2012 — 2016 using time series data. Regarding the sources, secondary data were acquired from internal and external sources. The internal source of data for the bank-specific variables was collected from the annual audited reports, which are published and unpublished sources of materials. The external sources were National Bank of Ethiopia (NBE) which regulates the banking sector of the country, Ministry of Finance and Economic Development (MoFED) which regulates the macroeconomic issues of the country and Central Statistics Authority (CSA) annual reports and others.

### **3.4 Method of data analysis**

The researcher analyzed both qualitative and quantitative data. The study used frequency distribution output from SPSS software to analyze questionnaires and describe the results.

Regarding the qualitative data the researcher analyzed the information gathered from the secondary data sources, by using descriptive analysis techniques to describe the result. So as to show the trend of total deposit of Abay bank and the value of each deposit determinants, the researcher used Microsoft excel and SPSS in order to display and interpret total deposits and its determinants using graph.

The collected data were regressed by time series OLS regression method and interpreted with the help of different financial relationship and statistical description including standard deviation, average, minimum, maximum and median (descriptive statistics) and multiple regression (significant test). To conduct this, the researcher employed statistical tools like SPSS software. And finally the hypothesis was tested statistically to arrive at the conclusion and policy implication.

### **3.5 Major variables and hypotheses**

#### **3.5.1 Major variables**

The main variables in the analysis for which the data were collected are dependent & independent. Dependent variable in this case is total bank deposit which is affected by independent variables. Independent variables in this case are factors that mostly affect Abay bank's deposits. These are inflation rate, deposit interest rate, branch expansion, gross domestic product (GDP) and exchange rate.

#### **3.5.2 Hypotheses**

The study used the multiple regression technique to show the relationship between Abay bank total deposit and the factors that the literatures claim to affect total deposit of banks particularly commercial banks.

The null and alternate hypotheses of the regression are explained as follows;

Ho: Total Deposit does not affected by Deposit Interest rate.

Total Deposit does not affected by Inflation.

Total Deposit does not affected by GDP Growth.

Total Deposit does not affected by Banks branch expansion.

H1: Total Deposit is affected by Deposit Interest rate.

Total Deposit is affected by Inflation.

Total Deposit is affected by GDP Growth.

Total Deposit is affected by Banks branch expansion.

The null hypothesis is rejected at 5% significant level.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

The researcher presented quantitative and qualitative analysis in the following pages. The quantitative data obtained from Abay Bank and the National Bank of Ethiopia for five years are analyzed through the ordinary excel sheet form and then multiple regression is conducted using data on the year on year percentage change in total deposit (the dependent variable) and regressed against the four independent variables identified. Testing of the regression assumptions are included. And the qualitative analysis presented based on the responses obtained from the questionnaires. The researcher has used questionnaires to collect data regarding the qualitative aspect of deposit mobilization activity. In total 50 questionnaires were distributed. The response rate was 90% for the questionnaires. In the process out of 30 Abay Bank branches in Addis Ababatnof them was selected and involved in data collection process. Accordingly, the written responses from the questionnaires are analyzed using SPSS software. Finally the summary of both are included at the end of the chapter.

#### 4.1. Respondents' personal information

**Table 4.1 Age of respondents**

Age		Frequency	Percent	Valid Percent	Cumulative Percent
	26-35 years	28	62.2	62.2	62.2
	36-45 years	10	22.2	22.2	84.4
Valid	Above 46 Years	7	15.6	15.6	100.0
	Total	45	100.0	100.0	

Source: SPSS output of frequency distribution of the respondents

From respondents who responded in the research, 62.2% of them were aged from 26-35 years. Hence, 22.2% and 15.6 % of respondents are aged 36-45 years and above 45 years old respectively.

**Table 4.2 Work experience of the respondents in the bank**

Experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 5 Years	4	8.9	8.9	8.9
	6-10 Years	36	80.0	80.0	88.9
	11-15 Years	5	11.1	11.1	100.0
	Total	45	100.0	100.0	

Source: SPSS output of frequency distribution of the respondents

The majority of the respondents (80%) have worked in the bank sector for 6-10 years which the researcher believes that the experience would earn them sufficient knowledge in the area of this study. Hence, 11.1% and 8.9% of respondents have a working experience of 11-15 Years and below 5 years respectively.

**Table 4.3 Position of the respondents in the bank**

Position		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Branch manager	10	22.2	22.2	22.2
	Accountant	18	40.0	40.0	62.2
	Auditor	9	20.0	20.0	82.2
	Customer service officer	8	17.8	17.8	100.0
	Total	45	100.0	100.0	

Source: SPSS output of frequency distribution of the respondents

The position of the respondents included 22.2% branch managers, 40% accountants, 20% auditors and 17.8% customer service officers/supervisors

**Table 4.4 Level of income of respondents**

<b>Salary</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3001-6000 Br	2	4.4	4.4
	6001-9000 Br	33	73.3	77.8
	Above 9000 Br.	10	22.2	100.0
	Total	45	100.0	100.0

Source: SPSS output of frequency distribution of the respondents

The level of income of the respondents was also asked as income is usually taken as a dominant factor for deposit mobilization. Thus 22.2 % of the respondents are paid a salary greater than Br.9, 000 whereas 73.3% of them are paid between Br.6,000 to Br.9,000.

**Table 4.5 Besides being employee; are you the customer of a bank?**

<b>Customer</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	43	95.6	95.6
	No	2	4.4	100.0
	Total	45	100.0	100.0

Source: SPSS output of frequency distribution of the respondents

The respondents were asked whether they are also deposit account holders in any bank in order for them to look ideas from outside-in perspective as customers. Thus, the lion share of respondents i.e. 95.6% of them are found to be account holders of a bank enabling this study to get wider view of the bank staffs and only 4.4% are not.

## **4.2. Status And Trends of Abay Bank's Deposit Mobilization**

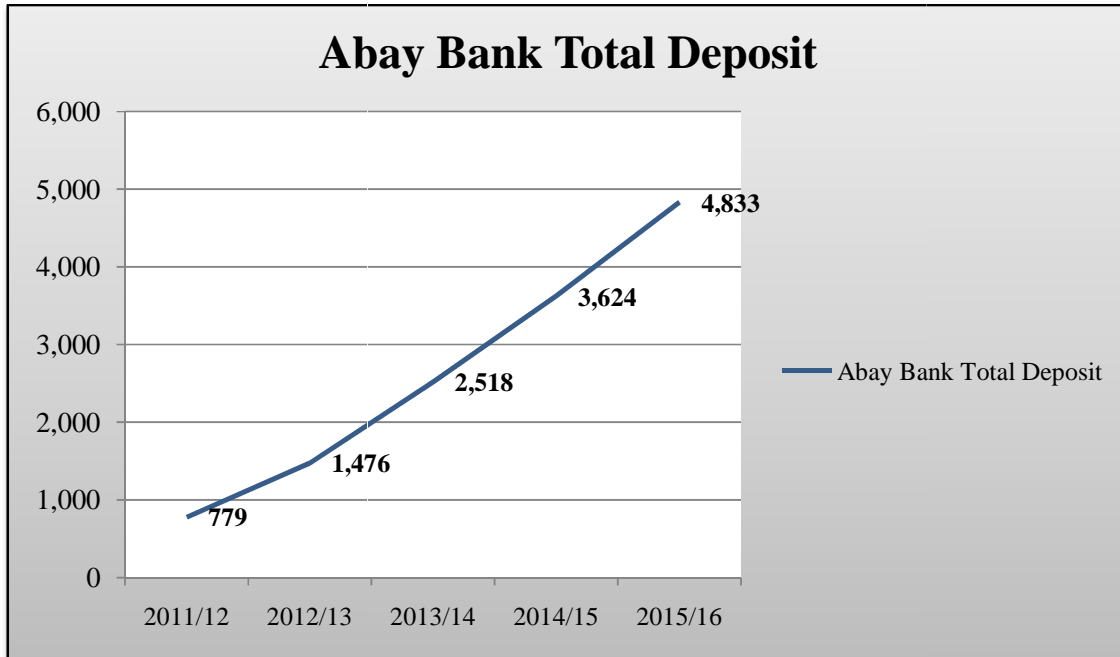
### **4.2.1. Deposit Trend**

Total deposit of Abay bank is the dependent variable in this study. Deposit mobilization is the major duty of banks. Deposit should be mobilized to meet the required liquidity to cover short term liability and to entertain credit customers of bank.

Deposits mobilized by Abay Bank have been continuously increasing through time, although the rate varies from year to year. Abay bank's total deposit has been growing with an average growth of 86% during the period (2011-2016).

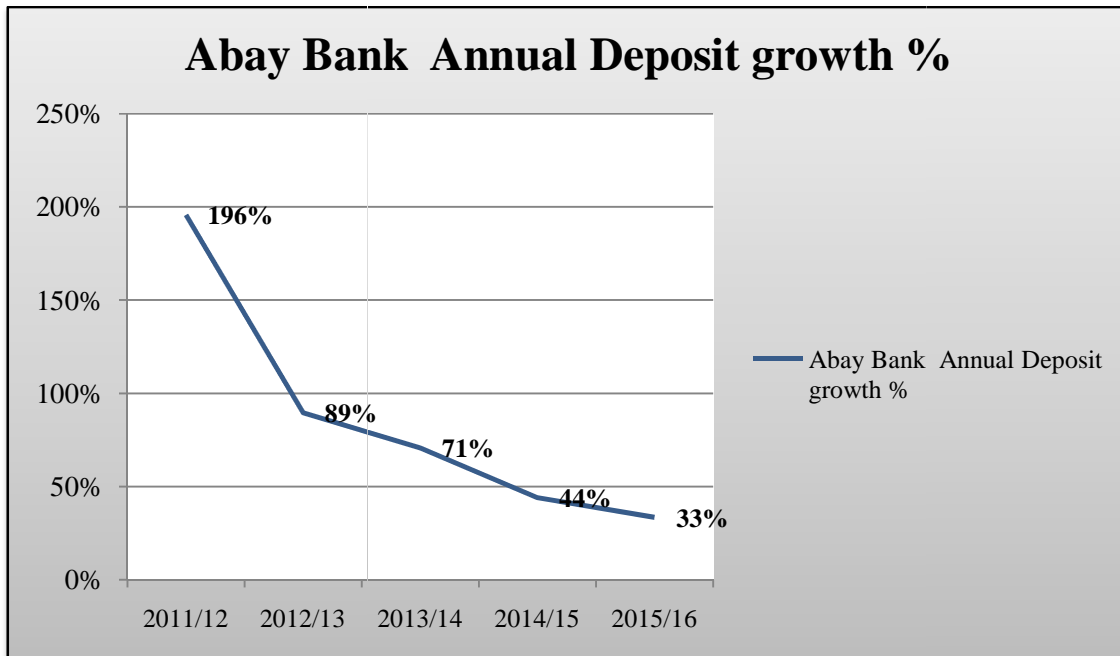
The diagram below (Figure 4.1) reveals that deposit increased from 263 million birr in 2010/11 to 779 million birr in 2011/12 with a growth rate of 196% having the highest deposit increment. Whereas, the amount of deposit in the year 2012/13, 2013/14, 2014/15 and 2015/16 was 1.4 billion, 2.5 billion, 3.6 billion and 4.8 billion respectively. This consistent increase in deposits is realized because of high public awareness to savings, increased branch accessibility to the society and financial technologies such as E-banking. Deposit growth rate of the bank becomes decreasing year to year, as shown in diagram below (Figure 4.2) deposit growth rate in the year 2011/12 to 2012/13, 2012/13 to 2013/14, 2013/14 to 2014/15 and 2014/15 to 2015/16 is 89%, 71%, 44% and 33% respectively.

**Figure 4.1 Total Deposit Growth of Abay Bank**



Source: Researcher's computation

**Figure 4.2 Deposit Growth Rate of Abay Bank**

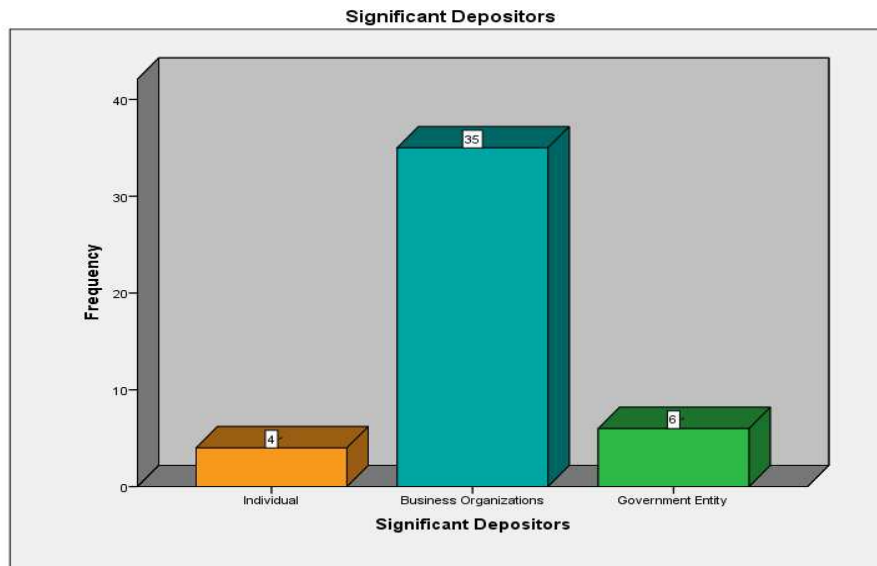


Source: Researcher's computation



#### 4.2.1 Respondents Views on Deposit mobilization

**Diagram 4.3. Who are the most significant depositors of your bank?**



From the views of the respondents it is learnt that business organizations are the major depositors of the selected bank branches with equal percentages of 77.8%, whereas government depositors and individuals hold only 11% and 9% respectively.

**Table 4.6. which deposit types is with the significant volume in your bank?**

Deposit Type					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Saving Account deposits	31	68.9	68.9	68.9
	Current Account deposits	10	22.2	22.2	91.1
	Fixed time deposits	4	8.9	8.9	100.0
	Total	45	100.0	100.0	

Source: SPSS output

From among the three common type deposits namely saving, current and time deposit accounts, saving account is found to have the significant volume of deposits as viewed by 68.9% of the

respondents. On the other hand, 22.2% and 8.9% of the respondents answered that current accounts and fixed time deposits hold the significant volume of deposits in their branches.

The next two questions were raised to know the status of the selected banks about the branch expansion and solicited the respondents about the main reasons why the branch expansion is done by the banks.

#### 4.3. Determinants of bank’s resource mobilization

The statistical analysis gives a broader picture that the residuals from the regression using these determining variables were expected to follow a normal distribution for efficient and unbiased estimators. It includes mean, median, maximum, minimum, standard deviation and others.

The SPSS software is used for the purpose to view the minimum, maximum, mean and standard deviation of the included variables that depicted the following. The average deposit value of Abay Bank that existed within the five years period is Br. 2.6 billion. During the same period, the weighted average of deposit rate is 3.5% lower than the current minimum of 5 percent per annum and the Average number of branches opened per year was 68. See table 1 for the other values.

**Table4.7. Descriptive Statistics**

<b>Descriptive Statistics</b>				
	Minimum	Maximum	Mean	Std. Deviation
Total Deposit in Million	779.00	4833.00	2646.00	1628.68
Interest rate	.03	.04	.0350	.00548
Inflation Growth in %	.08	.34	.1480	.11009
GDP growth in %	.08	.11	.0920	.01304
Branch Growth in %	23.00	110.00	68.40	34.20
Valid N (list wise)				

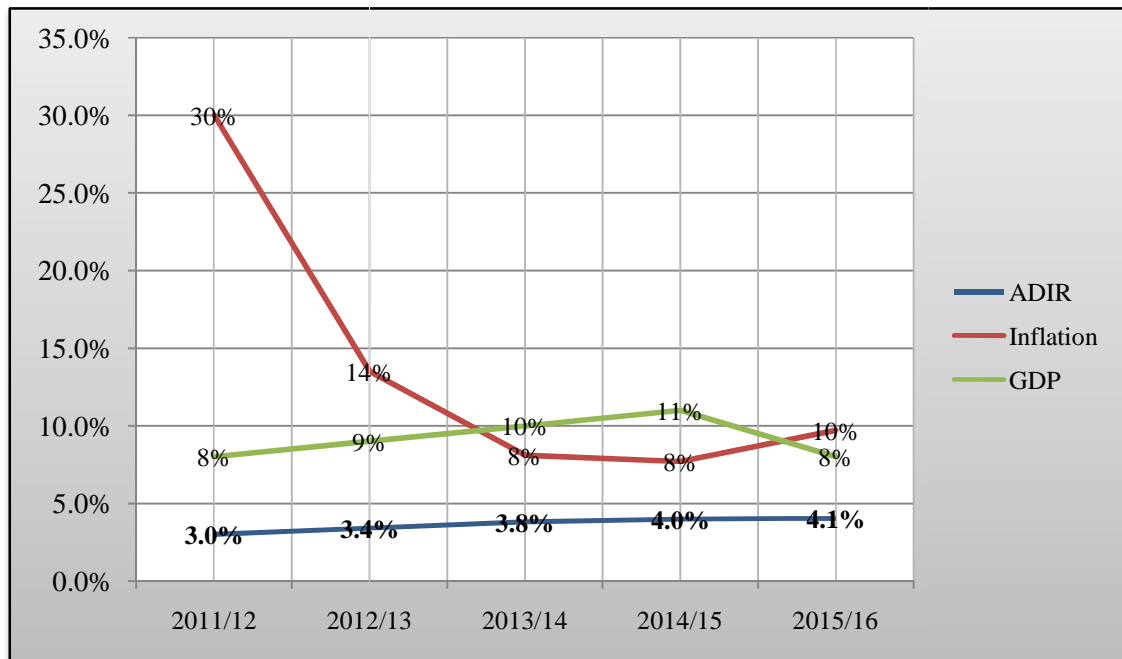
Source: SPSS output

### 4.3.1 Trend of Factors Influencing Deposit Mobilization (Independent Variables)

Independent Variables in this study are factors that mostly affect the bank's deposits. These are deposit interest rate, overall inflation rate, gross domestic product and number of branch opened. There are various factors which determine deposit but for the purpose of simplicity we include only these four explanatory variables. Since the study concludes by taking Abay bank as evidence, each of the independent variables in this study is analyzed as follow.

The below figure 4.2 shows the trend of each independent variables i.e. average deposit interest rate, overall inflation rate, growth domestic product rate for the last 5 years period from 2012 to 2016.

**Figure 4.4 Trend of Deposit Int. Rate, Inflation and GDP**



**Source: Researcher's Computation**

## **Bank deposit interest rate**

Deposit interest rate is the rate paid by commercial or similar banks for demand, time, or savings deposits. The level of inflation has influenced the rate of interest that banks give to their depositors. According to a NBE report, inflation and investment policy changes directly affect the bank deposit rate. This means the level of inflation influences that of deposit interest rate, while deposit interest rate in turn influences bank deposits.

The Deposit interest rate in Ethiopia is set by the governing body of banks, National Bank of Ethiopia. As for interest rate, the NBE continued to set the minimum interest rate on saving and time deposits while leaving lending rates to be freely determined by banks. Based on this, the value for average deposit interest rate (saving and fixed time deposit interest rate) in Abay Bank was between 3% and 4% from 2011 to 2016. As the figure 4.2 above shows, over the past 5 years it reached a maximum value of 4.1% between in the year 2015/16 and a minimum value of 3% between in 2011/12. This trend indicates that the interest rate in Abay bank is adjusted on the bases of the market demand relative to the incremental deposit demand. This means the result of deposit incremental is directly affected by deposit interest rate change.

## **Inflation rate**

Based on various literatures, inflation is assumed to affect private or personal saving either positively or adversely that stems from its direct or indirect impact. One line of thinking is that inflation erodes the real value of money and particularly real interest rate. It causes relocation of income or wealth from depositors to borrowers. Inflation is believed to affect savings via the real interest rate. In addition, it causes re-allocation by influencing households' preference of holding their wealth in liquid, semi-liquid and illiquid assets. By shrinking the real value of households'

assets deposited in bank, high inflation pushes households to switch to holding tangible and illiquid assets such as house, land, jewelry, etc.

The level of inflation has influenced the rate of interest that banks give to their depositors. This means the level of inflation influences that of deposit interest rate, while deposit interest rate in turn influences bank deposits. Again, inflation been higher than deposit interest rate is a recipe for not holding money especially in banks.

High rates inflation has hindered the attainment of positive real deposit rates. As shown in the above diagram the highest inflation rate was recorded in 2011 with 34% this could be explained by relating the inflation to the drought and famine, which hit the economy during these periods. And it is preceded by 14%, 8%, 8% and 10% in 2012/13, 2013/14, 2014/15 and 2015/16 respectively. Hence, the decrease in inflation in the past four years results an increase in deposit amount, which shows inflation negatively affects the level of deposit.

## **GDP**

Income and wealth are the prime determinants of saving according to the conventional models. The effect of these variables on the level of saving and rate of saving are assumed to be positive and significant. In essence, as the disposable income of a household increases, saving increases both marginally and on average. In addition, agents earning higher income have the propensity of saving more than the low income class at least in absolute terms.

Several empirical studies have confirmed the positive effect of income on private saving propensity regardless of nations' economic stage. It is indisputable that the distinction exists on the size, purpose and mode of saving. The data frequently used at macro level include per capita income and Gross Domestic Product (GDP) growth as prime determinants of gross and private domestic saving rates. In essence, saving rate is larger for high income countries, and the

overwhelming empirical studies have witnessed the positive correlation between income and saving as well as with deposit.

The diagram above (Figure 4.2) reveals that GDP in Ethiopia from 2011/12 to 2015/16 shows relatively similar amounts between 8% and 11%. As the result of this regular GDP in those years, incremental bank deposit in Ethiopia has not significantly affected by this phenomenon.

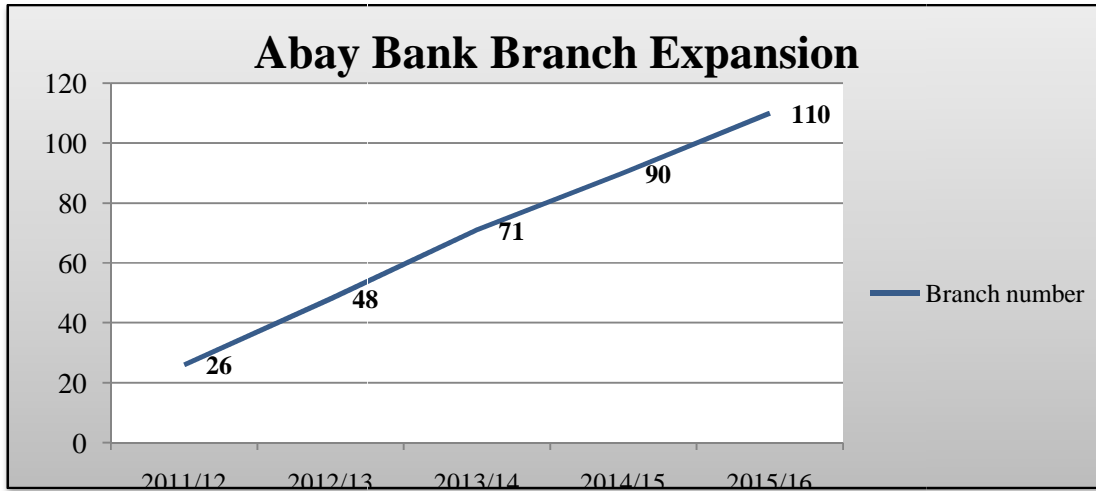
### **Branch expansion,**

Bank branch expansion or opening and bank deposit had a positive and robust association in Ethiopia. In the same manner, using new technologies are believed to contribute a lot to the growth of bank deposit, saving opportunities and increase in the volume of transactions both at household and national level.

The following empirical data in Abay Bank shows us increase of branches from the 26 in 2011/12 to 110 in 2015/16 had significantly contributed to the growth of Abay Bank's deposit growth from 779 million during 2011/12 to 4.8 billion in the year 2015/16. And also along with branch opening using E-banking enabled Abay Bank's customers deposit have increased extraordinarily.

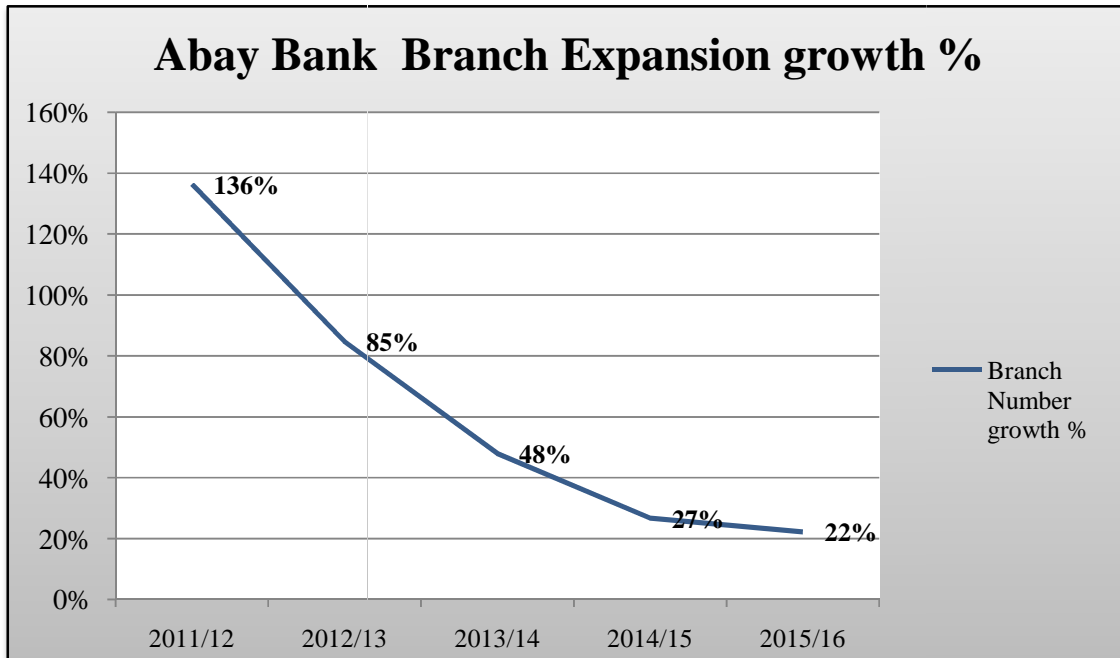
The below graph shows the trend of new branch opened for the last 5 years period from 2011/12 to 2015/16 in Abay bank.

**Figure 4.5: The trends of total number of branches from year 2011/12 to 2015/16**



Source: Abay Bank annual reports

**Figure 4.6: The percentage Growth rate of number of branches from year 2011/12 to 2015/16**



Source: Abay Bank annual reports

**Table 4.8.is the number of branches increasing every year?**

**Branches increase every year**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	45	100.0	100.0	
No	0	0	0	100.0
Total	45	100.0	100.0	

100% of the respondents believe that their banks have been increasing the number of branches year after year and none of the respondents believe otherwise.

**Table 4.9 what is the main cause for branch expansion?**

**Purpose of Branch Expansion**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Deposit Mobilization	35	77.8	77.8	77.8
Loan Grant	0	0.0	0.0	91.1
Leading in the sector	0	0	0.0	100.0
To reach out foreign currency sources	6	13.3	13.3	
all the above are the main causes	4	8.9	8.9	
Total	45	100.0	100.0	

This research has found out that the main cause for the branch expansion by the selected branches of the bank is for the purpose of deposit mobilization as shared by the views of 77.8% of the respondents and 13.3% of respondents reveal the purpose of branch expansion is to reach foreign currency sources. The combinations of the listed reasons i.e. deposit mobilization, loan grant, foreign currency sources and market share expansion are claimed to be the main reasons by 8.9% of the respondents who participated in the survey.



From the above results one can infer Abay bank is engaged in branch expansion as venue for sourcing deposits.

**Table: 4.10 the frequency distribution of deposit difference among Abay branches**

**Volume of Deposit Difference**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	41	91.1	91.1	91.1
I don't know	4	8.9	8.9	100.0
Total	45	100.0	100.0	

Based on the above Table analysis, 91.1%(41) of the respondents agree that the deposit are different in volume among the branches of Abay bank and the other 8.9%(4) don't know the difference in deposit among the Abay bank branches.

**Table: 4.11 the frequency distribution of causes for deposit difference among Abay Bank branches**

**Causes for Deposit Difference Among branches**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Convenience of bank office(type of building)	4	8.9	8.9	8.9
Proximity(Location)	16	35.6	35.6	44.4
Service provision	20	44.4	44.4	88.9
awareness of the society	5	11.1	11.1	100.0
Total	45	100.0	100.0	

Individual respondents were asked to tell their feeling about major causes for the differences in total deposit among the Abay bank branches in their respective area. Though there were certain

differences among the branches' respondents, overall, agree that there is no one exceptional reason for deposit differences among Abay Bank branches that is why 44.4%(20)of the respondents selected service provision, followed by the proximity(location) can be a reason 35.6%,(16), 11.1%(5) of the respondents state that awareness creation for the society and as well the staffas a reason for deposit volume variation, 8.9%(4) of the respondents claims that the main reasons for deposit variation among branches isConvenience of bank office(type of building).

#### **4.4Relationship of Total deposit and variables affecting deposit**

**Table: 4.12 the frequency distribution of factors that mostly affect Abay Bank's deposit**

**Factors that mostly affect Abay Bank's deposit**

	Frequency	Percent	Valid Percent	Cumulative Percent
Economic environment of the country	20	44.4	44.4	44.4
The volume of business transactions of the country	11	24.4	24.4	68.9
The banking habit of the people	14	31.1	31.1	100.0
Total	45	100.0	100.0	

Based on the analysis on the table 44.4 %( 20) of the respondents ascertain that the economic environment of the country will affect the volume of deposit, 24.4 %( 11) of them says that the volume of business transaction in the country will affect it, 31.1 %( 14) of them responds agreed the awareness of the society to the banking.

**Table: 4.13 the frequency distribution of the most determining factors of Abay Bank's deposit**

#### Most determining factors of Abay Bank's deposit

	Frequency	Percent	Valid Percent	Cumulative Percent
Interest rate of Abay bank	12	26.7	26.7	26.7
Number of branch expansion	21	46.7	46.7	73.3
Valid Real domestic product/GDP growth of Ethiopia	8	17.8	17.8	91.1
All	4	8.9	8.9	100.0
Total	45	100.0	100.0	

From the literature review part is mentioned that bank deposit can be affected by bank specific factors. Based on this fact, the respondents were asked to know whether these factors really have an impact on bank deposit. Their responses were presented in the above table, indicates that 46.7% (21) of the respondents agree that branch expansion can be the main determinants for deposit growth in Abay Bank, 26.7% (12) of them claims that interest rate is the most determinants of bank deposit, 17.8% (8) of the respondents agree that Real domestic product/GDP growth of Ethiopia can be the main determinants for deposit growth in Abay Bank and the rest of the respondents says that the determining factors of deposit is not only one but many for this case cumulative effects of All.

#### 4.4.1 Correlation analysis

In this section the correlation analysis between the dependent and independent variables were presented.

Correlation is a way to index the degree to which two or more variables are associated with or related to each other. The most widely used bi-variant correlation statistics is the Pearson product movement coefficient, commonly called the Pearson correlation which was used in this study.

Correlation coefficient between two variables ranges from +1 (i.e. perfect positive relationship) to -1 (i.e. perfect negative relationship).

**Table: 4.14 Correlations**

**Correlations<sup>b</sup>**

		Total Deposit Growth in %	Interest rate	Inflation Growth in %	GDP growth in %	Branch growth in %
Total Deposit Growth in %	Pearson Correlation	1	.641	-.724	.178	.992**
	Sig. (2-tailed)		.244	.167	.775	.001
Interest rate	Pearson Correlation	.641	1	-.964**	.514	.723
	Sig. (2-tailed)	.244		.008	.375	.167
Inflation Growth in %	Pearson Correlation	-.724	-.964**	1	-.620	-.803
	Sig. (2-tailed)	.167	.008		.264	.102
GDP growth in %	Pearson Correlation	.178	.514	-.620	1	.265
	Sig. (2-tailed)	.775	.375	.264		.666
Branch growth in %	Pearson Correlation	.992**	.723	-.803	.265	1
	Sig. (2-tailed)	.001	.167	.102	.666	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N=5

From the correlation table we see that the most significant factors for deposit volume growth are the branch expansion, General Inflation and Deposit rate. Real GDP growth rate have also its influence at a lesser magnitude.

All factors are found to have positive relations with the deposit volume except the General Inflation having a negative relation with deposit volume.

#### **4.4.2 CLRM assumptions and Diagnostic tests**

The diagnostic tests were undertaken to ensure that the data fits the basic assumption of the classical linear regression model. Test of the classical linear regression model assumptions were presented as follows.

### **No perfect multicollinearity**

There should not be any perfect linear relationship between two or more of the predictors. So, the predictor variables should not correlate too highly as it becomes impossible to obtain unique estimates of the regression coefficients because there are an infinite number of combinations of coefficients that would work equally well.

To test this researcher has used VIF (variance inflation factor) values from the output of SPSS indicated above. Large VIF values are an indicator of multicollinearity. In our case,, all the VIF value results are less than 10 and multi-collinearity is not a concern as suggested by Myers(1990)..

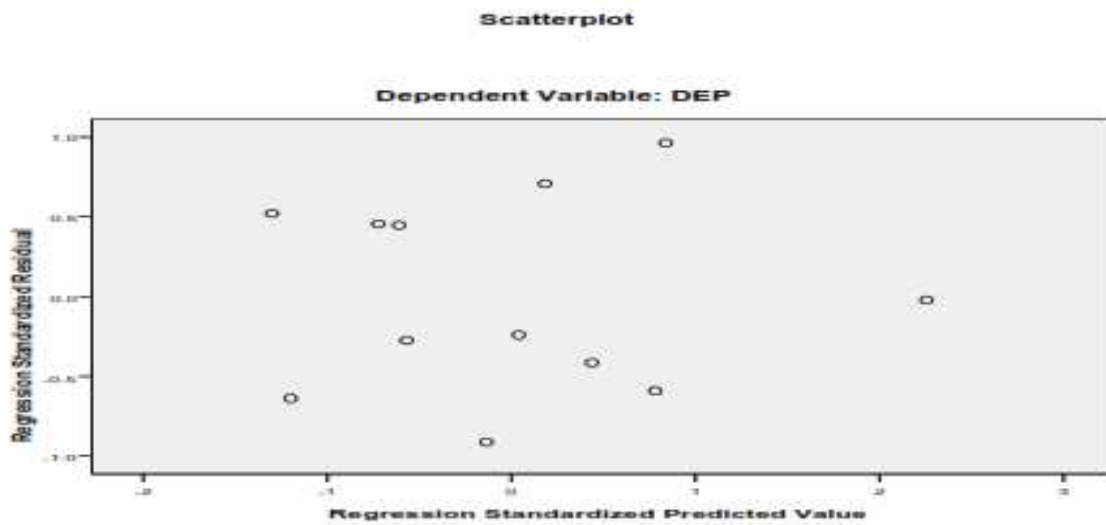
### **Homoscedasticity, linearity and normality tests**

At each level of the predictor variable(s), the variance of the residual terms should be constant.

This just means that the residuals at each level of the predictor(s) should have the same variance (homoscedasticity); when the variances are very unequal there is said to be heteroscedasticity and it can lead to the distortion of the findings and overall conclusion.

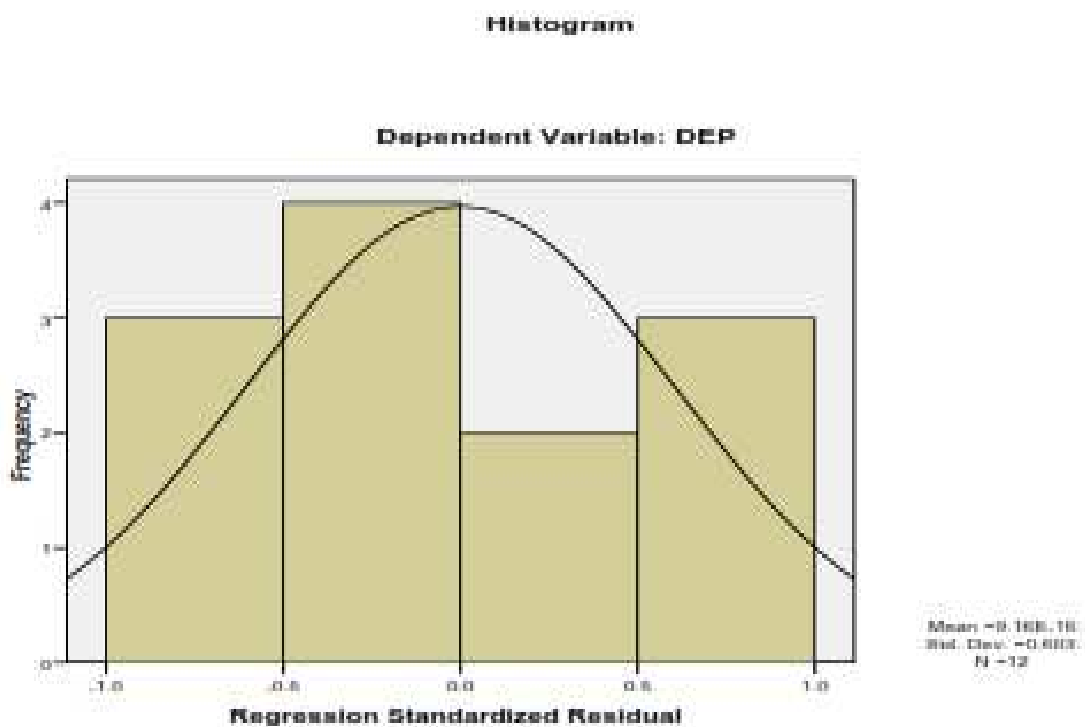
The researcher used SPSS statistical software scatter plots of residuals with independent variables are the method for examining this assumption (Keith, 2006).

### **Fig.4.7 Scatter plots of the residuals**



The scatter plot sub command to plot standard residuals by the predicted values show that residuals are saturated initially in a linear shape showing that they are relatively homogeneous.

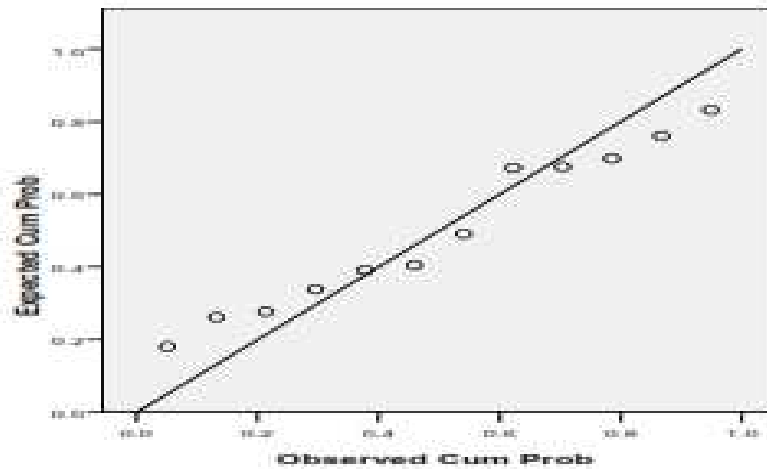
One can also recheck same results with a histogram depicted below.



Histogram to show normality test

**Normal P-P Plot of Regression Standardized Residual**

**Dependent Variable: DEP**



The straight line in the above plot represents a normal distribution of the residuals, and the points represent the observed residuals. Therefore, in a perfectly normally distributed data set, all points will lie on the line. The above figures tell us that the three assumptions are well met.

#### **The Assumption of Autocorrelation**

For any two observations the residual terms should be uncorrelated (or independent). This eventuality is sometimes described as a lack of autocorrelation. The researcher used and tested this with the Durbin–Watson (DW) test, which tests for serial correlations among errors. Thus the DW test shows Sig. F Change 1.936 which virtually means the observations are uncorrelated.

#### **4.4.3 Regression analysis**

This section presents the overall results of the regression analysis on the determinants of bank Deposit mobilization.

The regression analysis result is presented by using table. In this regression analysis the dependent variable is Total Deposit growth while the independent variables are deposit interest rate, Inflation rate, Real GDP and Branch expansion

**Table 4.15. Variables Entered/Removed**

**Variables Entered/Removed**

Model	Variables Entered	Variables Removed	Method
1	Branch Growth in %, GDP growth in %, Interest rate , Inflation Growth in % <sup>b</sup>		Enter

a. Dependent Variable: Total Deposit Growth in %

b. All requested variables entered.

The above Table displays the variables entered or variables removed from the study at any point in time from the beginning till the end of the work. As it is indicated in variables entered column there are four independent variables entered for the study, those are year on year percentage changes of the weighted, the mean number of branches of banks, the real GDP growth rate, weighted annual general inflation rate, and the weighted average deposit rate of bank.

**Table 4.16. ANOVA**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	938.187	4	134.027	8.613.	0.037. <sup>b</sup>
	Residual	62.241	1	15.560.		
	Total	1000.428	5			

a. Dependent Variable: Total Deposit Growth in %

b. Predictors: (Constant), Branch Growth in %, GDP growth in %, Inflation Growth in %, Interest rate

The ANOVA table summarizes the output of the analysis of variance. In regression row, the output for regression displays information about the variation accounted for by the existing model. Residual displays information about the variation that is not accounted for by the model.

And total in the table shows the sum of regression and residual. Mean square is the sum of squares divided by the degrees of freedom. And F statistics is the regression mean square divided by the residual mean square. If the significance value of the F statistics is small then the independent variable does a good job in explaining the variation in the dependent variables



The null and alternate hypotheses of the regression are explained as follows;

**H<sub>0</sub>:** There is no any relationship between independent and dependent variables, i.e. deposit interest rate, inflation rate, real GDP, and branch opening have no effect on the dependent variable (total deposit).

**H<sub>1</sub>:** There is relationship between independent and dependent variables, i.e. deposit interest rate, inflation rate, real GDP, and branch opening have no effect on the dependent variable (total deposit). The null hypothesis is rejected at 5% significant level. As the sig value then is 0.037 which is not higher that p value the researcher rejects the null hypothesis and Accept the alternate hypothesis H<sub>1</sub> meaning the model is fit.

**Table 4.17. Model Summary**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. Change	
1	.968(a)	.938	.829	3.9446422	.938	8.613	4	2	.037	1.936

a. Predictors: (Constant), Branch Growth in %, GDP growth in %, Inflation Growth in %, Interest rate

b. Dependent Variable: Total Deposit Growth in %

The above Table demonstrates about large R, which shows the multiple correlation coefficients and the correlation between the observed and predicted values of the dependent variables. And the value of R for models produced by the regression procedure range from 0 to 1. The larger the value of R and R<sup>2</sup> display that there is strong relationship among observed and predicted value. In our case R is 0.9680 and R<sup>2</sup> is 0.938 indicating there is strong relation of the dependent variable and the independent variables.

Adjusted R2 attempts to correct R square to more closely reflect the goodness of fit of the model in the population. It can be seen from the table that the adjusted R2 is 0.829 indicating that the model is 82.9 % fit for the purpose.

**Table 4.18. Coefficient**

Coefficients												
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error				Beta	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance
(Constant)	.306	.024				2.306	1.178					
Interest rate	2.430	.055	.441	1.090	.337	.430	2.409	.641	.141	.167	.068	4.748
Inflation Growth in %	-.732	.623	-.293	-.285	.790	-.725	-.986	-.724	-.100	-.130	.197	5.082
GDP growth in %	.566	.386	.027	.309	.773	.346	-.864	.178	.060	.017	.383	2.614
Branch Growth in %	.487	.266	.589	2.651	.057	.477	.762	.992	.253	.173	.086	1.637

a. Dependent Variable: Total Deposit Growth in %

When we come to individual coefficient among the explanatory variables, interest rate, GDP growth and Branch Growth had a coefficient of 0.441, 0.027 and 0.589 respectively. This revealed that there was a positive relationship between the independent variables like interest rate, GDP growth and Branch Growth with the dependent variable Total Deposit Growth. Thus the decrease of those variables will lead to a decrease in Total Deposit and also the increase of those variables will lead to an increase in Total Deposit.

On the other hand, Inflation rate had a negative relationship with Total Deposit because its respective coefficient was -0.293. This indicates that there was an inverse relationship between the above independent variables and Total Deposit.

Furthermore, finding of the regression and correlation analysis compared to other research findings it reveals that:

It is found out that the four explanatory variables, deposit interest rate, inflation, real growth rate and number of branches are factors that would influence the deposit volume at 93% ( $R^2$ ) of the time. Hence, the factors are found to be influential with this study. Similar study by Wubitu (2012) taking three factors only in an analysis found out that inflation, bank branches and deposit rate are the factors influencing deposit volume at 83.9 % ( $R^2$ ).

This study has shown that the branch expansions and general inflation are the most significant factors of deposit volume. Besides, the other variables deposit interest rate is found moderately influence deposit volume and real GDP growth rate have insignificant power to influence the dependent variable. However, among the most significant factors general inflation affects deposit volume negatively. In study by Wubitu(2012) the branch expansion is the most significant factor which this result has also assured.

The general inflation is having a negative relation with deposit volume as per this study result however, the result of Wubitu(2012) disagree with this fact showing that it has a positive significant relation. The negative relation of the general inflation and deposit volume is expected and also be evidenced from the excel analysis as the general inflation is increasing the rate of increase for the deposit volume in the country has been showing decline in the previous topic. This is because of that depositors will prefer to acquire assets and jewelry instead of saving when inflation is higher which in turn decreases purchasing power of money.

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

This chapter discusses the conclusions drawn from the study, and provides recommendations.

#### **5.1. CONCLUSIONS**

The main objective of this study was to investigate the factors influencing deposit of Abay Bank. Specific objectives were to determine and evaluate the effects of bank-specific factors and macroeconomic factors. Accordingly the study reveals certain basic facts about ABAY BANK's deposit along with factors determining bank deposit. Based on the result of descriptive and empirical analysis, the study had concluded the following:

The study empirically ascertains that, managing deposits is not possible without knowing and controlling the factors affecting it. It is well known that deposit mobilization is the major duty of Banks. In view of that without having deposit, ABAY BANK can't survive as a bank. For the reason that, the bank management, the staff and stakeholders of the bank has concerned about the deposit and the influencing factors of deposit.

The study finds that ABAY BANK has capacity and willingness to contribute to economic growth of the country by mobilizing more deposit. Again the study finds the sources and types of ABAY BANK's deposit. Accordingly there are three types of deposits: demand, savings and time deposits, the sources of bank deposit are from all economic agents including individuals, private and public enterprises, financial institutions and the government. The study realize that the size of ABAY BANK's deposits have been continuously increasing through time with the rate varies from year to year. Additionally, the study find out that the key factors for deposit growth are branch expansion, service excellences, promotional effort, awareness creation and using new banking technology.

Results from the qualitative analysis ascertain that deposit mobilization is very difficult task because of many factors determine bank deposit. To verify this result the researcher used empirical data by applying economic analysis model, the followings are the relationship between bank deposit and the determining factors of deposit exhibited.

Based on economic analysis model result GDP and deposit interest rate was found to have a positive relationship with bank deposit growth but the effect on deposit growth is insignificant. While ABAY BANK's aggressive branch opening that has positive correlation with deposit mobilization with respect to widening customer base and increased financial inclusion through creating accessibilities to the unbanked rural and urban areas. Accordingly, the study reveals that branch opening highly significant on ABAY BANK's deposit growth. However, it is found that general inflation rate has negative relation with bank deposit growth.

And finally the study finds out some policy adjustments on widening network of the bank by aggressively opening new branches and giving extensive training for the staff about deposit mobilization which results in service excellence have positive and almost significant relationship with deposit.

## **5.2. RECOMMENDATIONS**

Based on the research findings and conclusions above, the following are recommended for ABAY BANK to mobilize more deposits:

- It is well known that mobilizing deposit is a core activity of all commercial banks. By the same analogy ABAY BANK's major activity is mobilizing deposit. Therefore the bank should give due emphasis to its deposit mobilizing tasks by considering mobilizing deposit is a way to survival.

- Managing deposits is not possible without knowing and controlling the factors affecting it. Thus ABAY BANK should have identified the sources of deposit by considering the determining factors of bank deposit.
- It has been clearly noted that enhanced accessibility has a positive relationship with bank deposit growth. Thus, by addressing banking accessibility, ABAY BANK can resolve problems experienced in deposit mobilization and can channel the more resources in the hands of the community.
- The study found that ABAY BANK's branch opening has positive correlation with deposit mobilization with respect to widening customer base and increased financial inclusion through creating accessibilities to the unbanked rural and urban areas. Therefore ABAY BANK should expand their branches in order to increase their deposits and the bank should give priority for branch opening than other determinants. This will also educate the unbanked society on the essence of the banking system overall the country.
- Service excellence is one of the most useful qualitative determinants of bank deposit. In view of that ABAY BANK should provide excellent services for their customers by introducing new banking technologies such as applying CORE banking services and E-banking services that are suited for customer convenience, thereby adding value to its depositors to mobilize more deposits.

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## ***Appendix***

Questioner

### **I. Personal Information**

1. Sex (optional)
  - Female
  - Male
2. Marital status (optional)
  - Married
  - Single
  - Divorced
  - Other
3. Age Below 25 years 26-35 years 36-45 years 46 and above
4. Level of your monthly income
  - Less than Br.3,000
  - From Br.3,001-6,000
  - From Br.6,001-9,000
  - Beyond Br.9,000
5. Position in the bank
  - Branch manager
  - Accountant
  - Auditor
  - Customer service officer
  - Other positions, please specify-----
6. Work experience in the banking industry:
  - Below five years
  - 6-15 years
  - 16-25 years
  - 26 and above years
7. Besides your position as employee of the bank, are you the customer of the bank or do you deposit your money in the bank.
  - Yes
  - No

### **II. General Information**

8. Which group of customers are the most significant depositors of your bank in terms of magnitude of deposits?
  - Individual customers
  - Business organizations
  - Government entity
  - NGOs\*
  - If others specify -----
9. Which deposit type has the most significant deposit volume?
  - Savings account deposits
  - Current account deposits
  - Fixed time deposits
  - If others, specify -----
10. How many branches does your bank have as of the year ended June 30, 2016?
  - Less than 50 branches
  - 51-100 branches
  - 101-150 branches
  - 151-200 branches
  - More than 200 branches
11. Is your bank increasing the number of branches every year?
  - Yes
  - No
12. If your answer for Number 11 above is 'Yes' what do you think the main Purpose for the branch expansion?
  - Deposit mobilization
  - Loan Grant
  - To lead the banking sector by having greater number of branches
  - To reach out foreign currency sources
  - Other reasons (specify)-----
13. Does the volume of deposit mobilized by respective branches of your bank differ?
  - Yes
  - No
  - I do not know
14. What do you think is the cause for the difference in deposit mobilization among branches?
  - Convenience of bank office (type of building)
  - Proximity (Location)
  - Service provision
  - Awareness of the society
  - General appearance office & materials
  - Other reasons (specify)-----
15. Does the volume deposit mobilized by your bank grow year after year?

- Yes
- No

If your answer is 'yes', what could be the reason?

- Interest rate is attractive & depositors favor it than other investments
- The secure feeling of the depositors growing
- The service given by the bank
- Location and convenience
- Branch expansion
- Other reasons, specify-----

16. Which of the following factors do you think affect the volume of deposits of the bank?

(Multiple answers could be given)

- Economic environment of the country
- The money demanded by Government for infrastructure developments
- The volume of business transactions of the country
- The confidence of the people on the bank
- The banking habit of the people

17. Which of the following is the most determining factors of Abay Bank's total deposit?

- Interest rate of Abay Bank
- Number of branch expansion
- Real domestic product/GDP growth of Ethiopia
- Overall inflation rate in Ethiopia
- All

18. Do you think there is stiff competition among local banks for deposit mobilization currently?

- Yes
- No

19. If your answer for Number 18 above is 'Yes', what are the possible reasons?-----

-----  
 -----  
 -----

20. What mechanisms are being used by the bank to promote awareness of the society pertaining to banking services such as making savings in banks?-----

-----  
 -----  
 -----  
 -----

21. Do you believe that the volume of deposits grow after the awareness creation?

- Yes
- No

22. What special services/Award does the bank provide for depositors?

- Prize/award for the depositors
- Offering bonus, paying lesser commission or premium over normal interest

Rate payment

- Special consideration on foreign currency allocation
- Loan facility for future investment.
- If others, please specify-----

23. Are there any services given by the bank for the depositors other than services mentioned in question number 22?

- Yes
- No

If yes, please specify-----  
 -----  
 -----  
 -----

24. Does the volume of deposit grow as a result of special services provided for the customers?

- Yes
- No