ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

Determinant Factors of Deposit Mobilization In Commercial Bank of Ethiopia

By

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DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of this university or other institute of higher learning, except where due acknowledgment has been made in the text.

Yannet kahssay _____ _____

Candidate's Name Signature Date

Statement of Certification

This is to certify that I, yannet kahssay zerefa, have carried out this research work on the topic entitled '*Determinants factors of Deposit Mobilization in the case Commercial Bank of Ethiopia* and that the work is original in nature and is suitable for submission for the reward of the Degree in Masters in Business Administration from St Mary's University.

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TABLE OF CONTENTS

CHAPTER THREE: RESEARCH METHODOLOGY

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND RESEARCH RESULT

CHAPTER FIVE: SUMMARY, CONCLUTIONS AND RECOMMENDATIONS

LIST OF TABLE

LIST OF FIGURE

ACRONYMS AND ABBREVIATIONS

ATM Automated Teller Machine

CSA Central Statistical Authority

CBE Commercial Bank of Ethiopia

CSM Customer Service Manager

CSO Customer service officer

GDS Gross domestic service

FDI foreign direct investment

GDP Gross domestic product

IMF International monetary fund

NBE National Bank of Ethiopia

NGO Non government organization

OLS Ordinary Least Squares

POS Point of sale

SPSS Statistical Package for Social Sciences

VIF variance inflation factor

Abstract

The objective of commercial banks is to make profits and thus satisfy the needs of their respective stockholders. The making of profits and even staying on board of these, banks adopt strategies to mobilize deposits from the public that is an input to earn income for Commercial bank. In order to make good strategies, however, the banks should know what factors determine the deposit mobilization activity in the real world. This paper then explores the theoretical as well as empirical analysis of those factors having an impact on deposit volume in banks and even assesses which ones are more significant or less significant by taking CBE as evidence. To do the practical investigation, the researcher collected both primary and secondary data. The primary data was collected by a means of questionnaire from management and staff of CBE regarding the skill, motivation, commitment and the banks new products. The secondary data for the study were the values of dependent and independent variables of eleven years (2006 up to2015 GC),which were collected from commercial bank of Ethiopia, national bank of Ethiopia and central statistics authority . The study had found four variables that can affect the total deposit of commercial banks. These Four variables are regressed with the dependent variable, i.e. total deposit; these variables include inflation rate, loan disbursements, per-capita income and bank branches.The data analysis was done using SPSS software. Different diagnostic tests are tested to know whether the model is valid or not, having the model is valid the regression analysis is performed using OLS method. The study reveals that all the four variables can affect total deposit. Branch expansion had positive and significant effect on total deposit whereas inflation rate had negative and insignificant effect on total deposit. And the remaining two variables loan provision and per-capita income has positive but insignificant effect. The research recommends that banks have to do much in branch expansion studying potential deposit area.

Keywords: banks, customers, deposits mobilization, financial institutions

CHAPTER ONE

1.1 Background

Capital formation is one of the important factors that lead to increase in the size of national output, income, employment, solving the problem of inflation, balance of payment and foreign debts. (Medhat 2004)

Domestic Capital formation helps in making a country self sustainable. According to the classical economists one of the manufactures which helped capital formation was the accumulation of capital. Profit made by the business community constituted the major part of savings of the community and the saved was assumed to be invested. The classical thought capital formation indeed plays a deceive role in determining the level & growth of national income and economic development (Medhat 2004).

As Russel & Banindele (2009) noted capital mobilization is getting capital which can be money, human capital, raw materials etc moving so that it is allocated to place where it can be used in most efficiently and probably earn positive returns. Often discussions about capital are about how to change this mobilized capital in to investment. Investment is an essence of national economy. Banking system is the highly integral part of investment system in productive sector it involves sacrifice of current money for future money. It is concerned with the allocation of present fund for later rewards which are uneven.

Mobilizing deposits is crucial in many developing countries. Domestic funds provide a cheap and reliable source of funds for development, which is of great value for developing countries, especially when the economy has difficulty raising capital in international markets. Yet, in many developing countries, there is a considerable amount of savings that are not intermediated through the formal sector (Medhat 2004).

A bank is a financial intermediary that accepts deposits and channels these deposit in to lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficit and customers with capital surplus. One of financial institutions in the world that gives financing service is commercial bank Kelvin (2001).

Commercial banks are profitable financial institution that gives financial service to the body in need of the service. They accept money from the depositors and lend it to the borrowers. Kelvin (2001).

Since 1963 commercial bank of Ethiopia perform several banking business like attracting all types of deposit and granting loan and advance to borrowers for the sake of increasing their investment capacity. Regarding the banking sector, Ethiopia appears unique compared to its neighboring and many other developing countries because it has not yet opened its banking sector to foreign participation. The Ethiopian banking sector remains isolated from the impact of globalization. Although Ethiopian policy makers understand the potential importance of financial liberalization, it is widely believed that liberalization may result in loss of control over the economy and may not be economically beneficial. In Ethiopia a series of financial sector reforms has been introduced since 1994 when private banks were allowed to reestablish. But the three large states owned banks (commercial bank of Ethiopia, Development banks of Ethiopia and Construction & business bank) continue to dominate the market in terms of capital deposits and assets.

The Ethiopian Banking sector is dominated by one large stale owned bank, the commercial bank of Ethiopia (CBE) which was established in 1942. This bank was pioneer to introduce modern banking to the country. As of Sept 30, 2015 commercial bank of Ethiopia is the leading African bank with assets of 311 Billion Birr asset. The bank combines a wide capital base with more than 22000 employees who work on 1090 branches that are stretched across the country. CBE has been the back bone of Ethiopian Economy by playing a catalytic role in the economic progress and development of the country for the past 70 years.

1.2 Statement of the Problem.

According to the International Monetary Fund (IMF 2009), Ethiopia's domestic saving rate is low compared to the fast pace of capital accumulation observed between 2006 and 2015. Ethiopia has been experiencing a very low saving rate while comparing to economic growth. Consequently, Ethiopia is confronted with a persistent and wide domestic saving and investment gap which has been financed by external sources. Given the current levels of domestic however, it may be difficult to finance investment plan.

For instance, the total investment required for implementation of Ethiopian Growth and Transformation Plan is estimated at ETB2.28 trillion of which ETB 1.42 trillion is expected to be financed from internal source borrowing. Hence, the Ethiopian government is in dire need of savings from the public. (National Planning Commission, 2015).To this end, the role of financial institutions, especially the banking sector in the country, cannot be exaggerated, as its ill performance will affect a wide rage sectors in the economy.

Commercial Bank Ethiopia (CBE) as governmentally owned bank and the leader of its sector, has a pivotal role in increasing savings in addition the bank has a huge responsibility to best realize stakeholders' values through enhanced financial intermediation globally and supporting-national development priorities, to mobilize funds that would be used for huge development projects such as in Great Renaissance Dam, Condominium housing projects and sugar industries etc. Thus the commercial bank of Ethiopia must increase their deposits in order to support national development, to keep working in poverty alleviation and increase the number of account holders CBE should figure out factors which play significant role in determining deposit mobilization or financial savings.

Putting in mind the decisive role of CBE in mobilizing the deposit, the country desperately needs to continue its economic growth. This study empirically tries to investigate determinants of mobilizing financial savings in CBE and which of those factors are influential.

1.3 Research Questions

This study tries to conduct the factors determining commercial banks deposits by asking the following basic research questions.

I. What are the variables that can affect the amount of commercial bank deposit?
II. What factors are significantly affecting deposit mobilization activities of commercial bank of Ethiopia?
III. What kind of skill, motivation and commitment does the employee of the bank possess?

1.4 Objective of the study

1.4.1 General Objective

The general objective of this research proposal is to identify the factors which are determinants of deposit mobilization process of Commercial Bank of Ethiopia.

1.4.2 Specific Objective

I. To examine the effect of branch expansion on deposits of the Commercial Bank of Ethiopia.
II. To examine the effect of inflation and per-capita income on implementation of deposit mobilization.
III. To determine the relationship between loan provision and deposit collection of the CBE.
IV. To investigate the skill, motivation and commitment of CBE's employees to collect deposit.

1.5 Significance of the Study

This study will help commercial banks to manage their deposit by letting them to have a clear understanding on what affects deposit mobilization most. In addition it helps stakeholders to understand factors determining the deposit mobilization process. This study will also use for those who might do their research paper on related issues.

1.6 Scope and Limitation of the Study

The study is conducted using the data for 11 years from the year 2006GC and 2015GC.The time series data of the study is shortened because of lack of accessibility of data; however it is believed that it can be the main limitation of the study which should be considered when interpreting and using the result of the study. The regression have one dependent variable, total deposit of commercial banks, and four independent variables including inflation rate, number of commercial bank branches, loan provision and per capita income. The other limitation is that despite the availability of other commercial banks this study highly focuses on commercial bank of Ethiopia only. Plus the study basically focuses on one of the area of finance. I.e. the factors determining commercial bank deposits

1.7 Organization of the study.

The study was organized into five chapters. Chapter one dealt with the Introduction of the study. Chapter two reviews literature on both theoretical and empirical studies regarding the bank deposits and the factors that determine deposit mobilization activity. It contains an assessment researches done on deposit and the variables that influence its mobilization. The methodology employed for the study involving both the quantitative and qualitative approaches for assessing the significant factors of deposit mobilization is presented in Chapter three. Chapter four presents the results of analysis done and discusses findings made. Chapter five, finally, draws some summary and conclusions from the empirical findings of Chapter four and Suggests recommendations.

Chapter 2

Literature Review

2.1 Theoretical literature

2.1.1 Introduction

A Commercial bank is a type of Financial Institution that provides services such as accepting deposits, making business loans, and offering basic investment products."Commercial bank" can also refer to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business.

Saving is the action of keeping part of current income to use it later. Saving defines the amount kept aside in the current period, income minus consumption in a given period. (Bern, 2004)Saving takes place when people abstain from consumption that is when they consume less than their income.

Saving is a foregone current consumption for future consumption that accounts for the residual between income and consumption. Postponing consumption, and sustaining them for certain duration reflects the time aspect of saving (Schereiner, 2005)

People tend to save to compensate for uneven income streams. Poor households save for various purposes, such as insurance against bad health, disability and other emergencies, investments, social and religious obligations, and future consumption. Poor households save in-cash, in-kind (animals, gold, grain, land, raw material and the like), and use rotating savings and credit associations and other forms of financial and non-financial savings and loan associations because of limited access to appropriate deposit facilities.

2.1.2 The Role of Banks in Financial Systems

Financial sector is broad which consists of the banking sector and other financial institution (such as insurance corporations and pension funds, brokers, public exchange and securities markets etc), however in the context of African continent the banking industry carries the greater share of the financial system (Sheku, 2005). Most of the business relies on banking sector as a source of financing (Medhat, 2004). Banks have historically been viewed as playing role in financial markets for two reasons. One is that they perform a critical role in facilitating payments. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the Costs of supplying credit (Katherine, 2004). Thus in their role as lenders, banks are often not merely buying someone's debt, rather they are providing significant financial services associated with extending credit to their customers and to the extent that investors want to hold banks liabilities, banks can fund borrowers directly. The main providers of additional financing are domestic commercial banks (Herald et al, 2009).

According to Franklin and Elena, 2008 Banks perform various roles in the economy:-

1. They ameliorate the information problem between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' fund.
2. They provide inter temporal smoothing of risk that cannot be diversified at a given point in time as well as insurance to depositors against unexpected Consumption shocks. Because of the maturity mismatch between their assets and liabilities, however banks are subject to the possibility of runs and systematic risk.
3. Banks contribute to the growth of the economy. They perform an important role in corporate governance.

The relative importance of the different roles of banks varies substantially across countries and times but banks are always critical to the financial system.

Commercial banks are institutions that engage in two distinct types of activities, one on each side of the balance sheet deposit-taking and lending (Anil et al, 2002). So that banks are playing mainly intermediation function.

Mahindra (2005) also states banks as the backbones of the trade and commerce playing the intermediary role of capital formation and supply. Even if other financial institutions are

available banks play a major role in facilitating the way the financial sector operates (Eduardo et al). Therefore banks are important of all other financial institutions. Banks influence macroeconomic environment, as to Adam (2005), bank failures involve significant macroeconomic costs. He also has developed evidence that bank failures have significant and apparently permanent effects on real economic activity. Therefore banks are also important influencers in macroeconomic environment.

Banks mobilize, allocate and invest much of society's savings (Berger et al, 2004). Households and businesses are mainly using banks to save their money to get loan for their project undertakings. Kelvin (2001) said that commercial banks are important financial intermediaries serving the general public in any society. In most cases commercial banks hold more assets than any other financial institutions. Apart from their many functions, commercial banks facilitate growth and development.

Moreover commercial banks will affect the overall economy of the specific country both in a good way or bad way. Commercial banks represent a vital link in the transmission of government economic policies (particularly monetary policy) to the rest of the economy. For example, when banks credit is scarce and expensive, spending in the economy tends to slow and unemployment usually increases as Kelvin (2001) explains. So the event in the commercial banks will affect the country's economy in general.

Bank deposits represent the most significant components of the money supply used by the public, and changes in money growth are highly correlated with changes in the prices of goods and services in the economy (Kelvin, 2001). Commercial banks are critical to the development process. By granting loans in areas such as agriculture, manufacturing, services, construction and energy sectors, banks contribute to the development of the country.

Not only commercial banks are affecting the economy but also the economy affects the functions of commercial banks. Bank loan portfolio including volume, tenor and structure may be generally influenced by their expectations of the performance of economy both in terms of stability and level of performance. As cited by Talavera et al. (2006), banks make out more loans during periods of boom and reduced level of macroeconomic uncertainty and curtail lending when the economy is in recession.

2.1.3 Supervision of Commercial banks

2.1.3.1 Bank reserves

Central banks are overseeing the commercial banking system of their respective countries. Commercial banks, like any other type of bank, are subject to keep Bank reserves in their respective Central banks. Bank reserves or "central bank reserves" are banks' holdings of deposits in accounts with their central bank, plus currency that is physically held in the bank's vault ("vault cash"). Some central banks set minimum reserve requirements, which require banks to hold deposits at the central bank equivalent to at least a specified percentage of their liabilities such as customer deposits. Even when there are no reserve requirements, banks often opt to hold some reserves called desired reserves against unexpected events such as unusually large net withdrawals by customers or bank runs.

2.1.4 Commercial Bank Deposits

Commercial Bank deposits are major liabilities for commercial banks. Kelvin (2001) said that deposits of commercial banks account for about 75% of commercial bank liabilities). Due to the fact that commercial banks are using this liability to lend it and gain return on it their deposits are using them do their business. Therefore, banks will be better if they are mobilizing more deposits. However, as N. Desinga(1975) indicates deposit mobilization is a very difficult task. The cost of intermediation for mobilizing deposits is also very important part of overall intermediation cost of the banking system as E. A. Shaw (1995) indicates.

Despite all these deposits play an important role in the banking system, whether cooperative or commercial? Deposits provide limits to the working capital of the bank concerned. The higher the deposits, the higher will be the funds at the disposal of a bank to lend and earn profits (N. Desinga, 1975). Mahendra(2005) had also mentioned deposits as a foundations up on which banks thrive and grow and unique items on a bank’s balance sheet that distinguish them from other type of business organizations.

Commercial banking is a service industry with a high degree of built in profit Potential (Meenakshi, 1975). The number one expense item for a bank is interest paid. Commercial banks mainly depend on the funds deposited with them by the public to lend it out to others in order to earn interest income (Davinaga, 2010).

Hamid (2011) said that if banks lose their deposit base they rely on non deposit based funding which is expensive.

According to Davinaga, 2010 deposits are of three kinds namely:

1. Current or demand deposits
2. Fixed or Time deposits / Term deposits.
3. Savings deposits

Hence, the competition for deposits is really a competition for profits. Commercial banks compete for deposits in order to become profitable and thus to be able to supply more funds to the public. However such financial growth is profitable only if the commercial bank does not incur additional expenses to obtain and retain cash (Davinaga, 2010).

Commercial banks earn a return on their deposits and capital by investing deposit funds and capital funds in assets (Richard E, 1971). That is for commercial banks to attain profit deposits are one of the most important sources of capital. Moreover, according to Richard (1971) 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.

2.1.5 The Importance of Deposits for Banks

1. Deposits as a source of fund for loan

Herald (2009) states deposits are the main source of banks to provide loan, this

Deposit is mainly provided by people. However deposits can also be provided by business organizations, NGOs, government and so on.

Therefore, whether deposits are from individuals, businesses and government they are important financial source of banks.

2. Attracting deposit is cheaper than raising equity

Banks as any other business organizations get funds from debt and/or equity. In the banks context raising equity is more expensive or costly than attracting deposits. Lorenzo et al (2010) states that, if the lending channel plays a role, the deposit growth should lead to an increase in the supply of loans due to the additional source of financing for banks. As demand for loan increases because of the development work done by individuals, businesses and government, banks should extend their deposit base. When a commercial bank creates a deposit by lending to a business man, it is clearly performing a function for which it is entitled to a return in the form of interest payments (Harold, 1946).

3. Banks make profit using their deposits

Mahendra(2005) said that deposits provide most of the raw materials for bank loans and thus represent the ultimate source of the bank's profits and growth. Banks make profit by using their deposits, therefore it is said that depositors can disciple banks.

Maria and Sergio (2001), found that depositors discipline banks by withdrawing deposits and by requiring higher interest rates. For depository corporations mainly deposit money banks, their principal objectives is undertaking financial intermediation to make profit and increase their shareholders value (Sheku, 2005). They achieve their objectives mainly by attracting deposits and investing the money on profitable investment portfolio.

4. Fund investment and/or development projects

Debt is largely held by domestic commercial banks which are funded mainly from deposits, the government demand for bank assets enabled banks to continue to expand their deposit base rapidly and profitably (Herald and Heiko, 2009). Individual investors and government are mainly depending on the deposits of banks to fund their investments or development projects.

Generally, the banking system can be viable only if it can mobilize deposits at the required rate. And this can be done only by making a bank deposit more attractive (V.V. Bhatt, 1970).

The ability of a bank's management and staff to attract checking and savings accounts from business and individuals is an important measure of the bank's acceptance by the public

(Mahendra, 2005). Banks' management major concern is the variability of deposits for several reasons. George (1972) mentioned the reasons why the variability of banks' deposits is important as follows:-

1. Deposit variability is frequently included as an important determinant of Portfolio strategy. The more volatile a bank's deposits are the more liquid its mix of assets will be.
2. To the extent deposit variability affects bank holdings of cash and excess reserves, variability affects the distribution of total member bank reserves within the banking system and thereby the path and speed of monetary policy actions.
3. To the extent deposit variability affects the mix of banks assets; it affects the availability of funds for loans and consequently the loan rate.
4. To the extent deposit variability affects both the mix of earnings assets and the frequency of engaging in costly reserve adjustments, variability affects the profitability of individual banks.
5. Deposit variability is an important factor influencing bank use of the Federal Reserve discount window and thereby affects discount administration.

2.1.6 The Factors Affecting Commercial Banks Deposits

An important indicator of the success and efficiency of any credit agency, which is also a banking institution is, the extent to which it is able to mobilize the savings of the community in the form of deposit. But deposit mobilization is very difficult task. It depends up on various factors exogenous as well as endogenous, to the banking system (N. Desinga, 1975). Exogenous factors are 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. Even when exogenous factors are more conducive for deposit mobilization, banks may fail because of unfavorable endogenous factors such as location, type of building and window dressing(furniture, cheque books, vouchers, pay slips etc), which assure the customers about the physical fitness of a bank(N. Desinga, 1975).

As N. Desinga(1975) did the researcher classifies the variables which are claimed to have effect on the commercial banks deposits into two, namely exogenous and endogenous factors. Exogenous has further divided into country specific factors and bank specific factors for clarification purpose. Endogenous factors can be controlled by the banking system; however the

exogenous factors cannot be controlled by the banking system. The bank specific factors are factors that are specific to the banking system and the country specific factors are factors that are beyond the banking system.

2.1.6.1. Exogenous Factors

These are factors that are from country and banks that can affect the growth of commercial banks deposits. There are discussed as follows:-

2.1.6.1.1. Country Specific Factors

The country's economic, social and political factors can affect the commercial banks.

According to Herald and Heiko (2009), country specific risks such as political, economic and financial risks may affect the propensity for depositors to place funds in the banking system. Any single bank operates under the rule and regulation of the country where it belongs, also different problems and shocks that has happened in the country has its own concern in the banks operation. Generally, a bank success in their operation is mainly depends on the environment where the business is undertaken.

The researcher has identified ten country specific factors that have effect on the commercial banks deposits from the literature. 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.

1. Saving interest rate (Deposit rate)

One of the most effective factors for deciding to deposit in banking system is the interest rate (Mohammad and Mahdi, 2010). Moreover, this article shows the impact of interest rate on the performance of the banking system to achieve the goals that are expected from the banking system. Herald and Heiko(2009), also mentioned interest as one of the determining factor for commercial banks deposits. Philip (1968), also states that the offering of attractive interest rate on bank deposits may be considered to have had a beneficial effect. Moreover, Mustafa and Sayera (2009) said that low deposit rates are discouraging saving mobilization. V. V. Bhatt (1970), said that the banking system is unlikely to be in a position to meet the demand for bank credit unless concerted policy is pursued to raise the rate of saving generally and the rate of saving in the form of deposits in particular.

Interest rate in the banking system is held as investment cost from the investor's point of view and opportunity cost from the depositor's point of view (Mohammad and Mahdi, 2010). Thus, capital market forces balance interest rates. In other words, the just and correct interest rate should be determined through market mechanism, that is, interest rate is balanced in supply and demand conditions in proportion with the inflation rate. Eustacius and David (1995) states that deposits are more interest rate sensitive and banks may choose to increase investments in interest rate sensitive assets and to decrease investments in loans. That is commercial bank deposits are interest rate sensitive, therefore as the interest rate changes the deposit of the commercial banks will change.

It is known that depositors bring money to the bank which the banks in turn lend it to borrowers. The gross earnings of the bank are determined by the volume and composition of loan able funds and the rates at which they are loaned. After losses and expenses of operation are deducted, the net earnings provide a margin out of which interest on deposits can be paid. Because of the competition for these funds among bankers who desire to loan them at a profit, a bank must pay interest or lose deposits to a competitor. The payment of interest on deposits is explained in this wise, like any other interest rate. As to Erna and Ekki (2004), Economists, mainly conventional ones, believe that depositors are attracted to deposit their money in banks because of the opportunity cost of holding cash in hand is high when the interest rate is also high (Romer, 2001, p. 346; Athukorala and Sen, 2004, p. 498). This can easily be explained by the utility maximization (cost minimization) premise, as a depositor will choose an action that will maximize their welfare or satisfaction. As to Richard (1971), regulation of the commercial banking industry affects the returns which commercial banks realize on their deposits and capital. That is although deposits are the source for profit of banks it is influenced by regulation of the country. Accordingly, the higher profit rate on demand deposits is to a large extent the result of the prohibition against the payment of interest on these deposits. Therefore, depositors are motivated by returns. Using an Adaptive Expectation Model (AEM), it is founded that depositors are indeed motivated by returns in Malaysia (Erna and Ekki, 2004). On the other hand, Erna and Ekki (2004) states that Ghafur's(2003) shows that the rate of interest does not have influence on the volume of the deposits. However, Rose (2001) said that banks increase their deposits by offering higher deposit rate. These are the articles that contradict to each other

in identifying the relationship between the commercial banks deposits and saving interest rates or deposit rate.

2. Inflation

As to Herald and Heiko(2009), inflation is one of the factor that determines commercial banks deposits. Fischer showed that in Latin America the effect of inflation on savings and time deposit to GDP was significantly negative (Mohammad and Mahdi, 2010).The classical belief is that, because bank assets and liabilities are expressed in monetary terms and because these assets will normally grow in line with growth in money supply, banks are relatively immune from the effects of inflation (Devinaga, 2010). In brief, monetary policy works by controlling the cost and availability of credit. During inflation, the Central bank can raise the cost of borrowing and reduce the credit creating capacity of commercial banks. According to Devinga(2010), this will make borrowing more costly than before and thereby the demand for funds will be reduced. Similarly with a reduction in their credit creating capacity, the banks will be more cautious in their lending policies. Since the banks demand for fund decreases obviously the deposits will decrease. Banking system was affected by inflation in terms of deposit absorption and facilities grant (Mohammad and Mahdi, 2010). As to Mohammad and Mahdi(2010), in developed countries negative correlation between inflation and absorbed deposits and granted facilities has been documented. However, in developing countries the opposite is true. Inflation is seen as an economic problem in developed countries in the second half of 20th century. Inflation with effect in economic growth, employment, income distribution and wealth as well as social and political conditions of a country can influence its entire dignity (Mohammad and Mahdi, 2010). Moreover Mohammad and Mahdi(2010)Banking system as an important effective factor in economic performance has also been under the influence of inflation. As to Mohammad and Mahdi(2010), as far as the effect of inflation on financial sector conceived the literature demonstrates that inflation affects the capacity of financial sector for optimal allocating of resources. That is as inflation rate increases, true yield rate of money and assets decreases; therefore deposits are no longer attractive. Also the increase of inflation rate has a negative effect on the performance of financial sector through the market credits and in turn, on the performances of banks and capital markets and finally on the long term economic growth (Mohammad and Mahdi, 2010). With respect to the effect of inflation on savings, it can be mentioned that in general, all individuals who save a part of their incomes in banks are directly damaged by the inflation and their assets

decrease in proportion with money value decrease (Mohammad and Mahdi, 2010). In that case as Mohammad and Mahdi (2010) describes people try to change their cashes and savings to more reliable and stable forms such as land, jewelry, antiques, art collections, foreign currencies that causes to definite decrease in commercial bank's total deposit. High inflation rates reduce the real value of deposits (M. A. Baqui et al, 1987). According to M. A. Baqui et al (1987), inflation technically did not decrease deposit; however it decreases the value of deposits.

3. Real Interest Rate

Real interest rate is nominal interest rate minus inflation rate. Mohammad and Mahdi (2010) said that in negative real interest rate condition, people withdraw their resources from banking system. According to Mohammad and Mahdi (2010), some research supposed that decrease in real interest rate could decrease true demands for money (in its extensive definition including savings and time deposits). Therefore it states that the interest rate and deposit of the banks have positive relationship.

According to Voon-Choong et al(2010), while interest rates risk is a major concern for banks due to the nominal nature of their assets and the asset-liability maturity mismatch (Hasan and Sarkar, 2002), some researchers emphasized that higher interest rates had positive impact on banks (Hanweck and Ryu, 2004; Hyde, 2007).

4. Population growth of the country

The twin objectives of commercial banks, i.e. acquiring deposits and advancing credit cannot be attained without good banking habits of the people (Mahendra, 2005). Moreover Mahendra(2005) states that, the number of deposit accounts is more important because it ensures that the probability of account is more important because it ensures that the probability of account holders withdrawing cash at a time decreases as the number of deposit account increase, thereby creating advantage for banks interms of increasing the size of the loanable fund. So the higher number of deposit accounts the greater is the advantage to banks. The number of deposit accounts depends on the number of deposit account holders.

5. Per capita income of the society

According to Jim (2008), per capita is the level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country. If households and firms desire to hold more money, deposits will increase (Evan, 2006). So the relationship between income and deposits is

positive, that is as the income of the society increases the same happens for the commercial bank' deposits. Income is expected to have a positive effect on deposits (M. A. Baqui et al, 1987). Therefore as society's per capita income increases the same will happen for commercial banks deposits. Mahendra (2005) also indicates that income of the society matters for banks' deposit growth. Eshetu & Mammo (2009), Ethiopia is one of the poorest countries in the world with an estimated per capita income of just $203(IMF 2007 cited by the Financial Standards Foundation).

6. Economic growth

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de facto universal metric for 'standards of living (Yanne et al, 2007). It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity (Yanne et al, 2007). According to Herald and Heiko (2009), growth is one of the determining factors for commercial banks deposits. GDP is calculated by adding up the value-added at each stage of production (deducting the cost of produced inputs and materials purchased from an industry's suppliers)(Jim, 2008). Erna and Ekki (2004) finds four variables, GDP, number of Islamic bank's branch offices, profit sharing rate, and interest rate that are thought to have influence on the volume of deposits. So, GDP can influence the growth of commercial banks deposits.

7. Consumer price index

According to Herald and Heiko(2009), price can also determine commercial bank deposit and it can be indicated by consumer price index. In literature there is an evidence for the influence of consumer price index on commercial banks deposit, however this area was rarely studied.

8. Shocks

Aggregate shocks affect deposits and interest rates during crises, regardless of bank fundamentals and investors' responsiveness to bank risk taking increases in the aftermath crises (Maria and Sergio, 2001). Therefore, given all other variables the shocks happened in the economy can affect the banks' deposits.

2.1.6.1.2. Bank Specific Factors

1. Liquidity of the banks

The concept of liquidity in finance principally lies in two areas(ISMAL, RIFKI, 2010):-

a) Liquidity of financial instruments in the financial market

b) The liquidity related to solvency.

The former related to liquid financial markets and financial instruments, smooth transactions and no barriers. As to ISMAL, RIFKI, (2010), the latter discusses the obligation of banks to make payments to third parties (Fiedler, 2000:442). Some examples of this includes: setting up liquidity management policies, reserve liquidity, balancing assets and liabilities and preparing liquid financial instruments (ISMAL, RIFKI, 2010).

An important measure of liquidity is loan to deposit ratio. The loans to deposit ratio is inversely related to liquidity and consequently the higher the loans to deposit ratio the lower the liquidity and vice versa (Devinga, 2010). Key liquidity indicators such as central bank credit to financial institutions, deposits as a share of monetary aggregates, loans to deposits ratios, are important for open market operations and liquidity management (Sheku, 2005). According to Voon-Choong et al(2010), the basic need for liquidity, asset, liability, capital adequacy, credit and interest rates risks management are now more challenging than before (Mishkin, 2007). The banks' liquidity management involves acquiring sufficient liquid asset to meet the bank's obligation to depositors(Voon-Choong et al, 2010). According to the findings of Dorothee and Andrea (2009) it is more profitable for savings banks to hold liquid assets than to invest in illiquid assets, such as medium-term interbank lending to other credit institutions.

According to the theories of financial intermediation, the two most crucial reasons for the existence of financial institutions, especially banks, are their provision of liquidity and financial services (ISMAL, RIFKI, 2010). According to ISMAL, RIFKI, 2010, regarding the provision of liquidity, banks accept funds from depositors and extend such funds to the real sector while providing liquidity for any withdrawal of deposits, however the banks' role in transforming short term deposits into long term loans makes them inherently vulnerable to liquidity risk(Bank for International Settlements(BIS), 2008b:1). Individual, business and government will be willing to deposits their money in banks if they are certain that they are save to withdraw the money whenever they want, this is the question of liquidity of banks. The more liquid banks can attract the deposits.

Liquidity risk occurs in two cases,

i. It arises symmetrically to the borrowers in their relationship with the banks, for example when banks decide to terminate the loans but the borrowers cannot afford it.

ii. It arises in the context of the banks' relationships with their depositors, for example, when depositors decide to redeem their depositors but the bank cannot afford it.

Liquidity risk is the possibility that depositors may withdraw some or all of their funds, and default risk is the possibility that borrowers may not repay all their debts when due (M. Shubik and M. J. Sobel, 1992). Banks that are perceived as less risky maintain a high level of liquidity or have a lower concentration of assets, particularly to the government, may be expected to be able to attract more deposits than their peers (Herald and Heiko, 2009). A higher degree of financial intermediation(proxied by the loan-to-assets ratios) may signal a bank's success in generating income as well as a need for it to attract more deposits to support its increased lending activities(Herald and Heiko, 2009). A higher liquidity buffers (measured by the ratio of liquid assets to deposits) tend factor favoring deposit demand (Herald and Heiko, 2009). Liquid banks as well as banks with a higher loan exposure are associated with higher deposit growth. Herald and Heiko (2009), states that the liquidity situation of the bank also plays a significant role in determining banks deposit growth. According to Nada (2010), Banks perceived as risky should have had more difficulty attracting deposits and making loans than banks perceived as safe. When banks fail to pay for its depositors then it faces liquidity risk that makes other depositors not to deposit in that particular bank.

2. Profitability of the bank

Erna and Ekki (2004) find the long run relationship between commercial banks deposits and the profitability of the banks. Higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract deposits (Herald and Heiko, 2009). However, the effect of bank profitability and bank size are found to be insignificant once controlling for the other variables. So, the effect of profitability and banks size on commercial bank deposit is lower as compared with other variables.

3. Security of the bank

Security of banks matters in mobilizing deposit. Riskier banks would be able to attract deposits only paying higher Interest rates. The securities of banks have its own impact on its attractiveness for depositors. For example in the existence of deposit insurance the depositors no longer are concerned about the soundness of their banks because their deposits are insured in the event of bank failure. So the bank should secure its system so as to mobilize more deposit than before and to attract new depositors and maintain the exiting depositors.

4. Branches

There is a relationship between commercial banks deposits and commercial bank's branch expansion. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area (M. A. Baqui et al, 1987). It is expected that banks make decisions on expanding their facilities by considering factors such as level of competition, deposit potential, regional income and existence of road and vehicles. 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 branch and Commercial banks deposits.

It is often argued that branching stabilizes banking system by facilitating diversification of bank portfolios (Carlson and Mitcheer, 2006). Mark and Kris(2006), found from theoretical literature on banking regulation that branch banking leads to more stable banking systems by enabling banks to better diversify their assets and widen their deposit base(Gart, 1994, Hubbard, 1994). An argument commonly articulated in the literature is that branch banking stabilizes banking systems by reducing their vulnerability to local economic shocks; branching enables banks to diversify their loans and deposits over a wider geographical area or customer base (Mark and Kris, 2006). Restrictions on branching have been linked to the instability of banking systems. Daniel (2005), suggest that the lack of widespread branching bank networks hindered the development of large-scale industrial firms. It is stated that unit banks become increasingly incapable of receiving deposits from a widespread geographic area. The single office bank is also not able to monitor geographically diffuse debtors as easily as could be done with multiple offices. Moreover, it can be concludes that under branch banking the mobility of capital is almost perfect.

5. Bank size

Among the factors prominently identified as affecting deposit variability one is bank size. Evidence indicates that the number and diversity of the ownership of individual deposit accounts as well as the distribution of deposits by type vary with bank size(George, 1972). Herald and Heiko(2009) founds that although insignificant once controlled by other variables bank size have an effect on deposits. A smaller banks has to generate less deposits in absolute terms to achieve the same deposit growth than large banks, thus possibly favoring smaller banks in achieving higher deposit growth. But a larger bank with economies of scale as well as larger branch network might be able to better attract deposits (Herald and Heiko, 2009).

6. Reserves

Richard Goode and Richard S. Thom (1959), said that reserves that are fixed legally can influence the deposits that banks can hold. According to them reserve requirements determine the maximum amount of loans and investments that each commercial banks and the banking system as a whole may maintain in relation to deposits. Thus, if the reserve requirement is 20 percent of deposits, loans and investment (of the bank's own choosing) may not exceed 80 percent of deposits.

Therefore, reserve requirements limit the total expansion of bank deposits that can occur on the basis of any primary increase in deposits. Reserve requirements also have the effect of limiting the reduction in bank credit and deposits that is forced up on the banking system by a primary decrease in deposits. The commercial banks can obtain currency to pay out to customers only by drawing down their reserve deposits at the central bank or by using till money (Richard Goode and Richard S. Thom, 1959). Till money, according to Richard Goode and Richard S. Thom (1959) is the currency that banks keep on hand to satisfy day to day needs. They pointed out that bank deposits are a large part of the money supply in virtually all countries.

7. Transaction cost

Important indicator of management's effectiveness in any bank are whether or not deposited funds have been raised at the lowest possible cost and whether enough deposits are available to fund those loans the bank wishes to make(Mahendra, 2005). This last point highlights the two key issues that every bank must deal with in managing its deposits (Mahendra, 2005):-

_ Where can the bank raise funds at the lowest possible cost.

_ How can management ensure that every bank always has enough deposits to support the volume of loans and other financial services demanded by the public.

2.1.6.2. Endogenous Factors

In the literature three endogenous factors are identified that can affect the growth of commercial banks deposits. They are awareness of the society for using banks to deposit their money, convenience of Bank's office and service in the banks.

1. Awareness of the society

According to M. A. Baqui et al(1987), some analysts argue that demand for deposits is influenced by education level which in turn increases the awareness of the rural people about banking services(Mauri; Von Pischke). Since the study of M. A. Baqui et al (1987) conducted by taking rural area as its base it is obvious that it considers the awareness as a factor of deposit mobilization. It was also found that literacy as a proxy for awareness about banking, positively influence deposits.

2. Convenience of Bank's office

Road and vehicles directly influence interest bearing deposits because of the reduction in depositors' transaction costs through reduced time spent in travelling to and from banks (M. A. Baqui et al, 1987). Banks can mobilize more deposit when they make themselves closer to their customers (depositors).

3. Services in the Bank

It is known that banks are service giving organizations and the service delivery can affect their business undertakings. M. A. Baqui et al (1987) stated that there is some empirical evidence demonstrating the positive influence of services rendered to depositor (Dudzie, Dunson and Akaah). Baqui further suggested two innovations to be tested to provide incentives to depositors:-

_ Additional benefit like prize bounds could be given to depositors for maintaining deposits for particular period.

_ As recommended by Nathan (1986a), one category of deposits might be specifically tied to future loans. Bank customers might be encouraged to participate in a savings program that, for example, provides machinery or housing after a predetermined amount of savings has been accumulated. Services in the bank should be attractive enough for the depositors so as to

mobilize deposits. If the banks could offer these services, the savers would be inclined to keep a part of their saving in the form of deposits (V. V. Bhatt, 1970).

The followings are services that V. V. Bhatt (1970) claims to use to mobilize deposits:-

(1) Door-to-door collection of small saving in the form of deposits.

(2) Offering land revenue or insurance premium: If the banks offer to pay land revenue or insurance premium out of the interest earned on deposits, some persons may be inclined to put deposits of such amounts as would earn enough interest to meet their land revenue or insurance premium liability. To attract deposits these types of services are worth providing.

(3) An investment service: Some savers have neither the inclination nor the time to select an appropriate portfolio of financial investment. Banks can select the portfolio of investments on their behalf; keep the securities in safe custody, collect Interest/dividend income and even fill income-tax forms; with such services offered, some savers would be inclined to keep their liquid funds in the form of deposits.

(4) Some persons like farmers get their incomes say once or twice in a year, while their expenditure is spread over the whole year. If banks could collect deposits from them at the harvesting season, and assure them regular withdrawals during the year, farmers may be inclined to keep deposits with the banks. This scheme would ensure safety of their funds, prudence in their management and certainty of regular monthly means to meet their current liabilities. In addition they would earn some interest. With a sympathetic and persuasive approach, farmers could be attracted to such a scheme.

(5) While giving loans to farmers and small sector, the banks could provide them with facility of purchases from recognized dealers instead of giving those cash. In this case, the dealers could send the bills to the banks, which would debit the accounts of the loan receivers. Some banks have introduced agri-cards with such a purpose in mind. If such facilities are provided to others also, the customers would use bank money rather than currency for making payment and once they form this habit, they would be induced to keep their transaction balances in the form of deposits rather than in the form of currency. According to V. V. Bhatt (1970) these are some of the new deposit schemes which, if introduced, could raise the rate of saving as well as the rate of growth of bank deposits. To the extent to which the rate of saving is raised, the growth rate of the economy would be higher. To the extent to which the deposit growth rate is raised,the ommunity would have more effective control over the allocation of financial resources for Plan purposes.

2.2 An Empirical Review

Asele (1997) conduct a study to analyze the relationship between real deposit rates and financial savings in Kenya and found real deposit rates do not significantly affect savings mobilization. This was in relation to government control in setting savings deposit rates below inflation. The country had negative real savings deposits in the 1980's after the start of liberalization reforms. It was also revealed that nominal exchange rate had a significant effect on the mobilization of deposits by commercial banks. The period of devaluation resulted in currency substitution.

Maende (1992) obtaining time series data between 1968 and 1991 and employed Ordinary Lest Squares, Two-Stage Least and the Granger test of causality. He examined the determinants of demand for commercial bank deposits in Kenya. It was revealed that the number of branch network and national income levels and stability were the main determinants of deposits in the banking industry. He also observed that there is a uni-directional relationship between volumes of bank deposits and branch network expansion.

Sowa (1994) in Ghana Using data from 1960 to 1988, price index, which served as a proxy for inflation, was found to be statistically significant. He also found that money demand is a function of interest rate, exchange rate, income, inflation, and lagged money stock. However, exchange rate did not show any significant influence on money demand. He equally found that interest rate was significant and attributed its significance to the weak market in Ghana.

Gupta (1987) examined the effects of real interest rates on personal savings of rural and urban households in a survey of a group of Asian and Latin American countries, using per capital aggregate savings as the dependent variable in a cross-sectional model with alternate interest rates as independent variables. He concluded that though per capital income levels were low, incentives such as positive real interest rates could lead to higher savings especially from the savings. In his findings, financial savings as a percentage of total savings increases with increases in deposit rates.

Herald Finger and Heiko Hesse (2009) used quarterly data from 1993 to 2008 from 50 Lebanon banks. They empirically examine the demand for commercial banks deposits in Lebanon, a regional financial centre. They classified the variables into two, i.e. macro and micro level variables. At the macro level, they found that domestic factors such as economic activity, price,

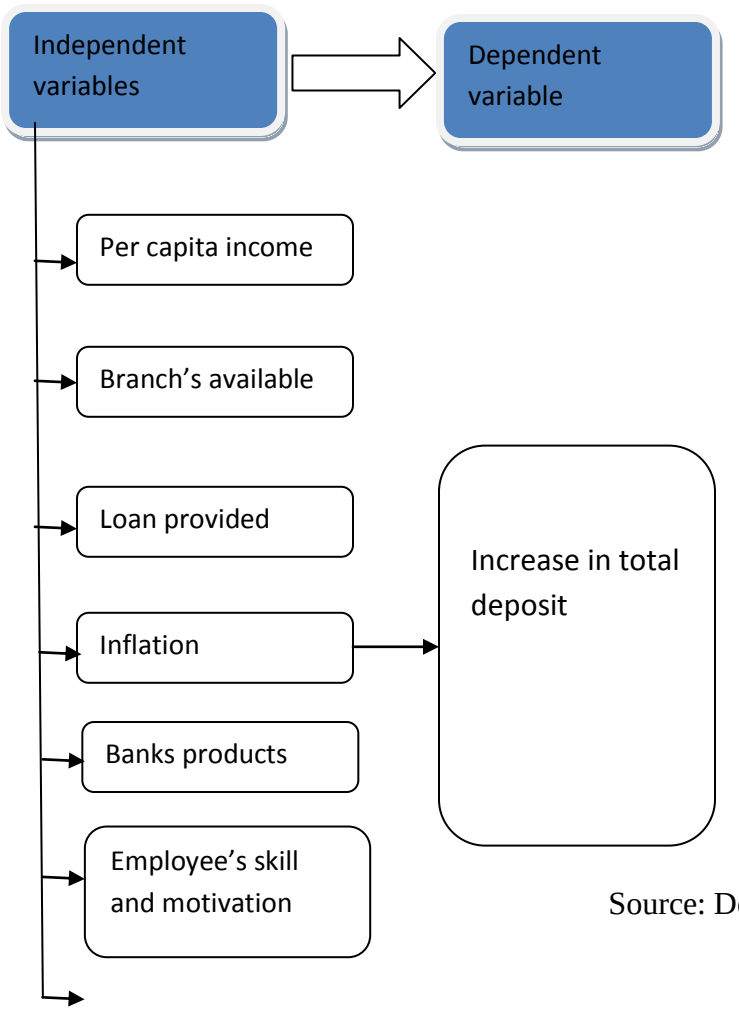
and the interest differential between the Lebanese pound and the U.S. dollar are significant in explaining deposit demand, as are external factors such as advanced economic and financial conditions and variables proxying the availability of funds from the Gulf. At the micro level, they found that the perceived riskiness of individual banks, their liquidity buffers, loan exposure, and interest margins, bear a significant influence on the demand for deposits.

2.3 Conceptual frame work

The major function of the banking industry is the mobilization of deposits. Banks encourages deposits so as to advance loans for those who are in need of financing. Banks provide suitable opportunities for people to save for any future commitments.

Bank plays a critical role in the creation of money by mobilization of deposits. Banks are the most important financial intermediaries that channel funds from savor who have excess funds to spenders to who have shortage funds.

In this research paper the total deposit is the dependent variable which is considered to be affected by the independent variables such as number of branches available, loan disbursement, per capita income, inflation, skill and motivation of employees and banks new products introduced by the bank.



Source: Developed by the researcher

2.4 Research Gap

Hereafter, published articles which are written on the area of Factors Determining Commercial Banks Deposits are presented. These will help to see where the literature on this area is and how this study will add to the existing literature. Accordingly, the articles will be discussed below one by one.

This article is written in 1965 G.C by Bruce C. Cohen and George G. Kaufman. It identifies the factors determining bank deposit growth and empirically analyzes them. Finally it describes the result of the study and recommends how states realize deposit growth.

According to Bruce and George (1965), the total volume of commercial bank deposits in the country is determined largely by the Federal Reserve System in accordance with the needs and objectives of the economy. However, as Bruce and George (1965) the distribution of these deposits among individual's banks and areas is determined by market forces. When explaining the importance of deposits for banks, they said that bank deposits are one of many forms in which liquid wealth may be held and the very important one. As a medium of exchange demand deposits are an alternative to currency particularly for individuals and small business firms.

In the study of Bruce and George (1965), the following variables are mentioned and claimed to have effect on the banks' deposits:-Banking industry is one of the service giving industries. Consequently, a major factor influencing decisions of whether to hold commercial bank deposits is convenience of bank offices (Bruce and George, 1965). It is argued that population growth and shifts necessitate corresponding growth and shift in banking offices if banks are to both continue servicing their old customers and attract new ones. Therefore, beside the convenience of the office the commercial banks deposits can also be affected by the population growth.

Herald Finger and Heiko Hesse(2009) had written a working paper which empirically examines the demand for commercial banks deposits in Lebanon, a regional financial center. They classified the variables into two, i.e. macro and micro level variables. At the macro level, they found that domestic factors such as economic activity, prices, and the interest differential between the Lebanese pound and the U.S. dollar are significant in explaining deposit demand, as are external factors such as advanced economic and financial conditions and variables proxying the availability of funds from the Gulf.

Another research work by Wubitu, 2012 on Factors determining commercial bank deposit on Commercial Bank of Ethiopia, focused on only branch expansion and deposit interest rate determinants by taking 10 years data to see the impact on bank deposit. Since CBE is in the growth stage with opening of new branches aggressively, using new technologies like e-banking, skill, motivation and commitment of the employees were not analyzed. It is an essential of identifying the important determinants of bank deposits and its influence on the growth of deposit by making empirical investigation.

After the review of the articles and study papers, this study will add knowledge to the existing literature by taking new variables such as loan amount provided skill, knowledge motivation and commitment of the banks management and staff in order to mobilize deposit from potential and existing customers to increase domestic saving.

CHAPTER 3

Methodology

The main objective of the study as pointed out in chapter one is to identify the factors that determine deposit mobilization activity. In order to fulfil this objective and thus answer the research questions, the researcher will use a mixed method (quantitative and qualitative) of investigation.

3.1 Data Type

3.1.1 Quantitative Data

The researcher used annual reports from -National Bank of Ethiopia (NBE), Commercial Bank of Ethiopia (CBE) and from Central Statistical Authority (CSA) as the secondary data,. Data of eleven years was gathered including the year from 2006 to 2015 here for the study. The data includes the following:

$DEP=\alpha + \beta 1\ loan + \beta 2INF + \beta 3\ RPGDP + \beta 4\ BBR + \varepsilon$

Where

a) DEP - Total volume of deposits in commercial bank of Ethiopia,

b) Loan - Year-end total amount of loan provided to customers

c) INF - Average annual year on year general inflation rates,

d) RPGDP - Weighted per capita income

e) BBR - Year-end total number of branches

LOAN

Lending is the main function of commercial banks- evidenced by the volume of loans that constitute banks' assets and the annual considerable raise of loan which is granted to borrowers both to private and public sectors of the economy. Lending is the principal business for most commercial banks. Literature reveals mixed results concerning to the relationship between commercial bank deposit and loan. Despite its mixed results most of the finding reveals a positive association between total bank deposit and loan disbursement. According to Mc Carthy et al. (2010) Customers' deposit their money in order to increase the connection with the bank

Inflation

Inflation may influence saving through several reasons. Theory postulates that greater uncertainty should rise saving since risk-averse consumers set resources aside as a precaution against possible adverse changes in income and other factor. Hence, when inflation raises uncertainty regarding future income growth, risk-adverse consumers may increase their precautionary saving (Sandmo, 1970). Secondly, savings may rise in inflationary environment if consumers mistake an increase in the general price level for an increase in some relative prices and refrain from buying (Deaton, 1991). Inflation could also 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.

During inflation, central banks employ monetary policy that would increase the cost of debt and decrease the availability of funds in banks. When the cost of borrowing increases and borrowing slows, the banks demand for fund decreases obviously the deposits will decrease. Hence, the direction of the relation between inflation and deposit volume is situational. Different studies show varying results regarding the directional relationship between inflation and deposit volumes. For instance, inflation is found to have negative relation with deposit in a study made in India by Sudin et al. (2006) whereas another case study in the same country by Athukorala et al. (2003) has shown the reverse direction.

Per capita income

According to Jim (2008), the level of GDP divided by the population of a country or region is what is known as per capita income. Changes in per capita over time are often interpreted as a measure of changes in the average standard of living of a country. Thus the relation between income of the society and deposit volume is expected to be positive and significant. Studies by Mahendra (2005) and M. A. Baqui et al, (1987) both reveal that growth in income have a positive effect on deposits.

Branch expansion

The increase in the number of bank branches will have an effect on getting many customers particularly those in far remote areas who are unbanked society. According to the article on NBE's magazine (Birritu No.113, February 2012), Ethiopia has low geographic and demographic penetration of bank branches. Although the expansion of banks in terms of branching since 1994 is significant, most rural people have to travel very long distance to access bank branches. Many of the bank branches in Ethiopia are concentrated in the capital city. Out of the total of branches, 36% are located in Addis Ababa, making mainstream branches hardly accessible to the rural area.

More recently the branch expansion by the existing banks is fast increasing to reach out remote locations too to seize the resources available particularly deposits. This practice shows that branch expansion has positive and significant relation with deposit volume.

Service Excellence

Banks are service giving institutions and thus the way the service is provided is expected to highly affect the overall activity of the bank including the deposit mobilization activity.

M A.Baqui et al. (1987) stated that there is some empirical evidence demonstrating the positive influence of services rendered to depositor. The study by Goiteom (2011), on the Bank selection decision-factors influencing the choice of banking services, indicates that customers place more

emphasis on factors like convenience, service provision, employee's skill, motivation and commitment influence bank image. Therefore, such factors should be considered seriously by the commercial banks in designing their marketing strategies by widening their branches and providing good customers services to customers.

3.1.2 Qualitative Data

The primary data is collected from Commercial Bank of Ethiopia employees and the branch managers about the existing reality, the current deposit collection activity of banks and also show us list of significant factors that attract customers to deposit in the bank or not at all.

3.2 Data Source

The data relevant for the study is gathered from Commercial Bank of Ethiopia (CBE), National Bank of Ethiopia (NBE) and Central Statistics Authority (CSA). The readymade data of total deposit of commercial bank of Ethiopia, CBE's branches, inflation rate, loan amount provided and per capita income is collected from these institutions all from fiscal year 2006GC up to 2015GC.

3.3 Method of Data analysis

After the data have been collected, then the researcher made post coding so as to minimize the complexity of data entry. The data entry method was done by using statistical packages for social science (SPSS, version 17.0).

After the accomplishment of this all process, the analysis of data was started to draw important conclusions that reflect the researcher's interest of inquiry stated at the beginning of the study.

Qualitative analysis techniques were employed to demonstrate processed data in absolute terms through the use of descriptive statistical tools such as frequency and percentage of results with the help of statistical packages for social science (SPSS). The data was ordered in tables and then frequency and percentage calculated. Analysis of the data was showed based on the study objective and questions.

Ordinary Least Squares (OLS) was used to test the determinant factors of total deposit mobilization. OLS is one of the simplest methods of linear regression. The goal of OLS is to closely "fit" a function with the data. It does so by minimizing the sum of squared errors from the data.

3.4 population and sampling techniques

A. Population of the study

The population of the study encompassed the entire city branch located in and around Addis Ababa; Branch Manager, Customer Service Managers (CSM), saving mobilization team members and customer service officers (CSO) of CBE was taken as samples which are 120 in number. The population is a composition of varied background characteristics in terms of sex, ages, level of education and experiences.

B. **Sampling Techniques**

To undertake the research from the total city branches located in Addis Ababa under the four districts, namely north, south, east and west districts, six branches are selected from each districts. Purposive sampling method was used to select the branches from the each district proportionally. Based on this method, out of 198 branches located in Addis Ababa, only 24 branches of the bank are selected to circularize the questionnaires .The Branches Are selected based on grade and location. The samples are made as it is not feasible to cover all banks cost wise or convenience to the researcher. The sample is drawn from the total population of 975 employees the study selected 120 employees the entire selected branch; branch manager, customer service manager, saving mobilization team members, and customer service officers was taken as a sample.

3.5 Validity and Reliability of the Data

The validity is concerned with the accuracy or truthfulness of the data. That is, the validity refers to the extent to which the data obtained is accurate for the purpose. The researcher exercised validity by soliciting published annual reports of National Bank of Ethiopia, Central statistical agency and from commercial bank of Ethiopia for the years under review. This has helped the researcher to get relevant information for the purpose of the study.

Reliability of data is related to its consistency and it refers to the extent to which the data is the same irrespective of their source. That is, the data for the study is specifically taken from the annual reports of the banks and were found in agreement with some of the data found on Publications of National Bank of Ethiopia and therefore were reliable

Chapter Four

Data Analysis and Presentation

4.1 Descriptive Data Analysis

The researcher presented the quantitative and qualitative analysis in the following Pages. Firstly, the quantitative data obtained from the National Bank of Ethiopia for eleven years is analyzed through the ordinary excel sheet form and then multiple regression is conducted using data on the year percentage change in total deposit (the dependent variable) is regressed against the four independent variables .Testing of the regression assumptions are included., secondly qualitative analysis and presentation follows from the responses obtained from the questionnaires Finally, the summary of both are included at the end of the chapter.

4.2 Data presentation and analysis

The analysis was done by categorizing, ordering, manipulating the data and summarizing in a meaningful way. The plan was to collect 120 filled questionnaires from all target population but the researcher received 106 filled questionnaires back. The research analysis was done based on those 106 questionnaires. This was edited and entered into a computer using Statistical Package for Social Sciences (SPSS) software for analysis. The results of the analysis were presented in percentage, tabular form, different charts and statement. The data was ordered in tables and then frequency and percentage calculated. Analysis of the data was showed based on the study objective and questions.

4.3 Multiple Regressions analysis and results

To make the regression analysis, the researcher computed the year on year percentage changes of each variable to simplify the numbers. Then year on year change of percentage in deposit value of the commercial bank of all the years (2006- 2015) which is the dependent variable is regressed against four independent variables that are per capita income, annual average general inflation growth rate, loan, and the number of the bank branches. The regression analysis is used to test if an independent variable influences a dependent variable and whether this effect is positive or

negative. For that to be applied and workable, diagnostic testing has to be done. The model chosen has taken the common classical regression model as depicted below:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 \ldots. + \varepsilon$$

Where' Y' is the dependent variable

α is the constant term

β are coefficients of each of the independent variables

X1, X2 and X3 are the independent variables.

ε - the error term

The model for this study can simply be put as follows

DEP=α + β1 loan + β2 INF+ β3 RPGDP+ β4 BBR + ε

Where

DEP-----refers to the total deposit amount

Loan------stands for the amount of loan provided to customers

GINF-- year on year annual average general inflation rate,

RPGDP-- per capita income growth rate

BBR------ the number branches each local bank

.

4.3.1. Diagnostic Testing Methods

The econometric estimation technique that is used by this study is ordinary least square (OLS). There are five assumptions made in relation to the classical linear regression model (CLRM). The researcher has tested if there are violations of these assumptions. The method used to test these assumptions by the researcher is described as follows:

The average value of the error is zero (Non-zero variance)

This assumption is not violated if the regression line does not intercept through the origin. This assumption is violated if the model does not have constant term since the line intercepts through the origin; however in our case the model have constant term which will prove that the line did not pass through the origin and the first assumption of CLRM is not violated. Therefore the variation in the dependent variable, total deposit of commercial banks, is explained by the independent variables.

No perfect multi Colinearity

There should be no any perfect linear relationship between two or more of the predictors. So, the predictor variables should not correlate too highly. If there is perfect collinearity between predictors 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 values. SPSS produces various collinearity diagnostics, one of which is the **variance inflation factor (VIF)**. The VIF indicates whether a predictor has a strong linear relationship with the other predictor(s). Although there are no hard and fast rules about what value of the VIF should cause concern, Myers (1990) suggests that a value more than 10 is a good value at which to worry seriously.

Homoscedasticity Test

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. Homoscedasticity can be checked by visual examination of a plot the standardized residuals by the regression standardized predicted value (Osborne & Waters, 2002), specifically, statistical software scatter plots of residuals with independent variables are the method for examining this assumption (Keith, 2006). Thus the researcher uses same plots to investigate these assumptions.

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 test, which tests for serial correlations among errors. Specifically, it tests whether adjacent residuals are correlated. The test statistic can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated.

Linearity

Linearity defines the dependent variable as a linear function of the predictors or the independent variables (Darlington, 1968). The mean values of the outcome variable for each increment of the predictor(s) lie along a straight line. If we model a non-linear relationship using a linear model then this obviously limits the generalizability of the findings. The study uses histogram, P-P plots and scatter diagrams to test homoscedasticity, linearity and normality problems if they exist in the model.

Table 1 Correlation

		BBR	Loan	GINF	RPGDP
Total deposit	Pearson Correlation	.997	.902	-.356	.871
	Sig. (1-tailed)	.000	.000	.157	.001
	N	10	10	10	10

As shown in the correlation table above, branch expansion, loan provision and per capita income have a strong positive relationship with deposit volume growth. Inflation rate on the other hand has a negative and insignificant relationship with the dependent variable.

How good is the model in explaining the relation?

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.997[a]	.995	.991	7132412.8	.995	248.853	4	5	.000

a. Predictors: (Constant), per capita income, inflation , Loan dis, number of branchs

b. Dependent Variable: total deposit of the banks

As presented in the above table, large R shows the multiple correlation coefficients and the value of R for models produced by the regression procedure range from 0 to 1. The larger the value of R and R2 display that there is strong relationship among observed and predicted value.

In this case R is 0.997 and R2 is 0.995 indicating there is strong relation of the dependent variable and the independent variables. The coefficient of determination of R2 0.995 means that 99.5% of the variation in deposits is being explained by the independent variables in the model and there is a strong relationship between deposits and the independent variables.

An F statistics of 248.853 (with Probability >F= 0.000) indicates the significance of the model in explaining the factors that influence the growth of total bank deposits from customers. This indicates the significance of the model in explaining the factors that influence the growth of total bank deposits from customers.

Table 3: regression analysis result

Variables	Coefficient	t-statistics	Prob.
No of branches	.997	5.918	.002
Loan	.902	.023	.982
Inflation	-.356	-.432	.684
Per capita income	.871	-.359	.734

Dependent variable: total bank deposit

Coefficient of determination of increasing number of branches

Based on the model in the above table, the relationship between branch opening or addition and bank deposit had a positive and robust association in CBE deposit. The study ascertains that CBE'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. This is therefore, the study exhibited us branch opening have positively correlated highly significant on CBE's deposit growth.

Coefficient of determination of loan provision

Loan provision was found to have a positive relationship with bank deposit growth but the relationship is however insignificant according to the model in the above table. The correlation coefficient for loan provision 0.902 indicating that ceteris paribus a 1% increase in loan

provision leads to a 0.902 increase in CBE deposits. And also probability value of 0.982 is greater than 0.05 critical value showed that this variable was insignificant in assessing the research problem.

Coefficient of determination of inflation rate

The coefficient estimate of the constant of the regression is -.356 shows that the value of dependent variable if all independent variable becomes zero. This indicate that the total deposit of commercial banks will be decreased by the unit -.356 given inflation rate zero. Then again the probability of 0.684 showed that the relationship between CBE deposit and inflation is negative but not as significant.

Coefficient of determination of per capita income

The regression coefficient for per capita income is 0.871. This indicates that ceteris paribus, an increase in per capita income by 1% leads to increase in deposits by 0.871 units. However there is a positive relationship between deposits and per capita income, then again the probability value of 0.734 indicated that this variable is not significant for the deposit growth in case of CBE deposit growth.

Conclusion of the regression and correlation analysis

- It is found out that per capita income growth rate, inflation rate, number of branches, and loan provision, are factors that would influence the deposit volume at 99.5% (R2) of the time. Hence, the factors are found to be influential with this study.
- This study has shown that the branch expansion is the determinant factor of deposit volume. Besides, the other variables-loan provision, inflation and per capita income growth rate have insignificant power to influence the dependent variable.

4.4 Response Rate

In this section the researcher discusses data analysis in the context of the study's objectives.

The individuals who participated in the study were employees of commercial bank of Ethiopia that work in different selected city branch in Addis Ababa as branch manager, customer service manager(CSM),saving mobilization team members, and customer service officers(CSO). A total of 120 questionnaires were distributed. The overall response rate was 106 or 88.33%.

Item	Description	Respondents	
		Frequency	Percent
Gender	Male	68	64
	Female	38	36
	Total	106	100
1. age	18-30	54	50.9
	31-40	21	19.8
	41-50	18	16.9
	Above 50	13	12.3
	Total	106	100
2. Marital status	Single	78	73.5
	Married	15	14.4
	Divorced	9	8.4
	Widow/widower	4	3.7
	Total	106	100
4. educational level	Diploma	7	6.6
	Degree	86	81.13
	Masters	13	12
	Total	106	100
5. how long you have been working at CBE	Less than a year	4	3.8
	1-5 years	31	29
	6-10 years	42	39.62
	Above 10 years	29	27.4

	Total	106	100
6. position in your organization	Branch manager	13	12.3
	Customer service manager(CSM)	15	14.1
	Saving mobilization team members	35	33
	Customer service officer	43	40.6
	Total	106	100
7. level of your branch	Grade 1	4	3.8
	Grade 2	13	12.2
	Grade 3	8	7.5
	Grade 4	81	76.5
	Total	106	100

4.4.1Demographic Details

Table 4: Socio demographic details of study subjects

Source: own survey, 2016

According to the survey taken, 64% of the respondent were male employees and whereas or 38% were female respondents. As it can be seen from the table there exists bit unbalance composition in gender ratio i.e. the selected staffs had more male than female. Regarding the employees age composition 54(50.9%) of the respondents were between the age of 20-30 years, 21(19.8%) of the respondents were between 31-40 years, 18(16.9%) of the respondents were the age between 41-50 years and the remaining 13(12.3%) of the respondents were the age above 50 years.

In terms of marital status from the total number of the respondents i.e106, 78(73.5%) of the respondents were singe, 15(14.4%) of the respondents were married, 9(8.4%) of the respondents were divorced and the remaining 4(3.7%) of the respondents were widow/widower. On the other hand the above table indicates that in terms of educational level 7(6.6%) of the respondents were diploma holders, while 86(81.13%) of the respondents were degree holders and the remaining 13(12%) of the respondents were masters holders. From this we can say that majority of the respondents educational levels were degree.

In terms of years of experience in the bank 4(3.8%) of the respondents works less than a year, 31(29%) of the respondents were working from 1-5 years, 42(39.62%) of the respondents have a work experience from 6-10 years and the remaining 29(27.4%) of the respondents were above 10

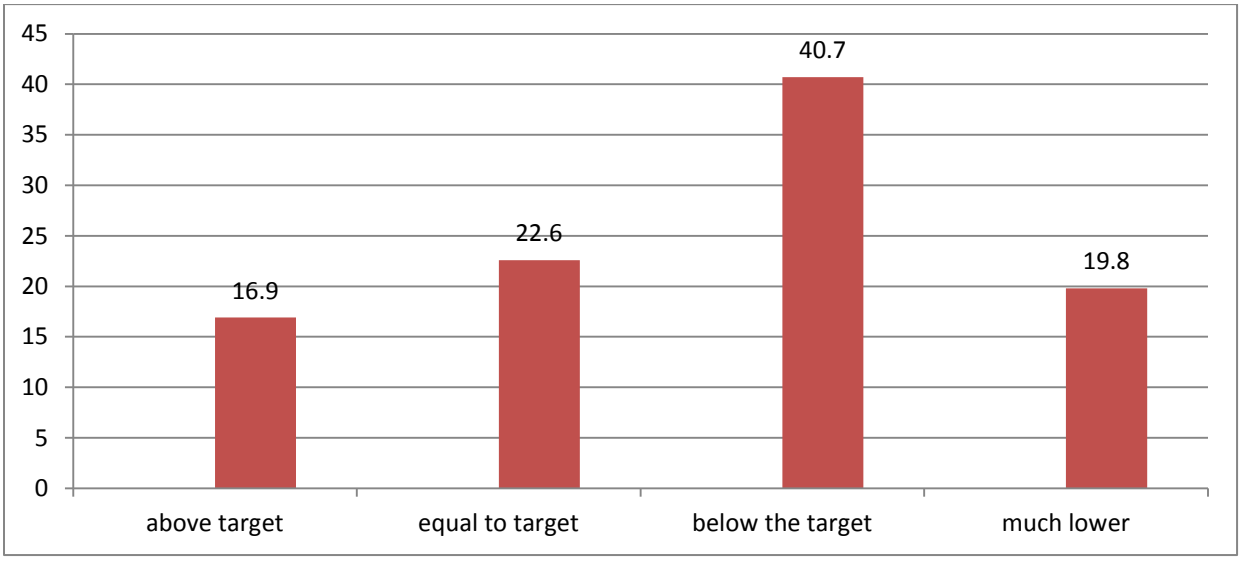
years work experience. The fact that majority of the respondents had 6-10 years work experience in commercial bank of Ethiopia.

As illustrate in table 1, in terms of position in the organization from the total 106 respondents 13(12.3%) of the respondents were branch manager, 15(14.1%) of the respondents were customer service manager (CSM), 35(33%) of the respondents were saving mobilization team members and the rest 43(40.6%) of the respondents were customer service officers who have a direct contact with the customers. This indicates that the majority of the respondent from the selected target population were found to be customer service officers.

From the above table it can also be indicated that from the total of 24 branches, in terms of the branch grades 4(3.8%) of the respondents were from grade 1 branches, 13(12.2%) of the sample were from grade 2 branches, 8(7.5%) of the respondents were from grade 3 branches and the remaining 81(76.4%) of the respondents were from grade 4 branches. From the data which is presented above the majority of the data are collected from grade 4 staffs

4.4.2 Current Performance of the selected branches regarding deposit mobilization

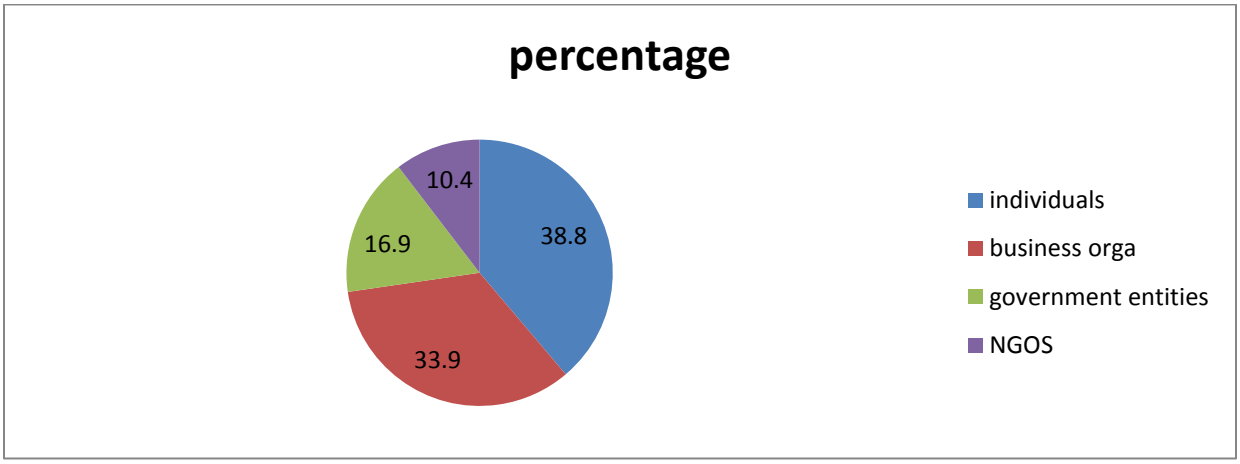
Figure 1: performance report of selected branch regarding mobilization



Source: own survey, 2016

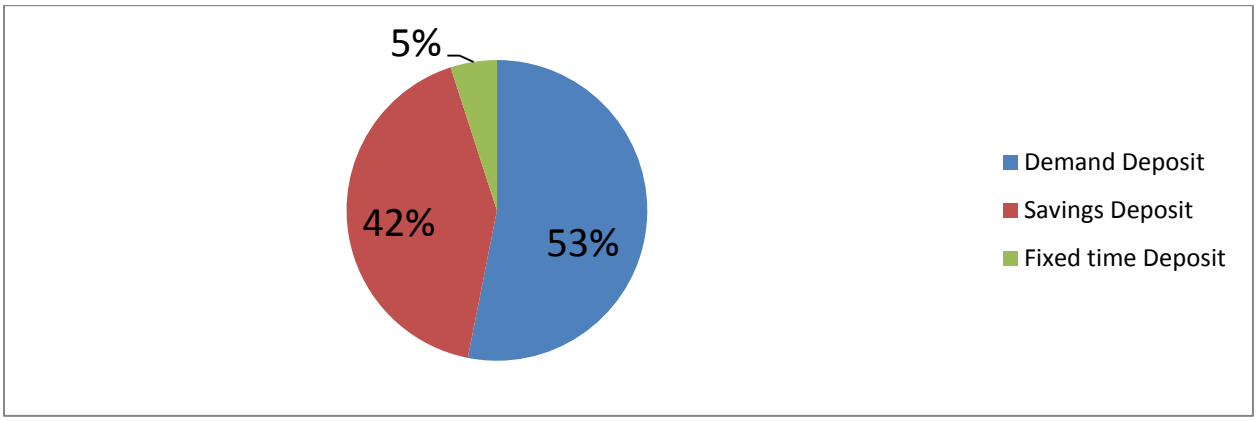
As one can see from the above figure under the assessment of deposit performance of selected branch of the recent four quarter in relation to the target given to the branch the survey result indicated that 18 (16.9%) of the respondents have indicates that their saving performance have been above the target amount, 24 (22.6%) of the respondents have indicates that their saving performance have been almost equal to the target ,43(40.5%) of the respondents have indicates that their saving performance have been below the target and the remaining 21(19.8%) of the respondents were indicate that much lower than the target amount. The data indicate that the majority of the respondents responded that their branches perform below the target amount with regard to the target given.

Figure 2: customer type that has the most significant deposit



38.8 %(41) of the respondents respond that commercial bank of Ethiopia collects its deposit from individual 33.9 %(36) of them says it is mobilizing its deposit from business organizations, 16.9 % (18) of the respondents says that the government is the main depositor of the bank and 10.4 %(11) of the respondents says that the bank is mobilizing its deposits from NGOS. From the discussion above it can be said that commercial bank of Ethiopia collect much of its deposit from individuals and business organizations.

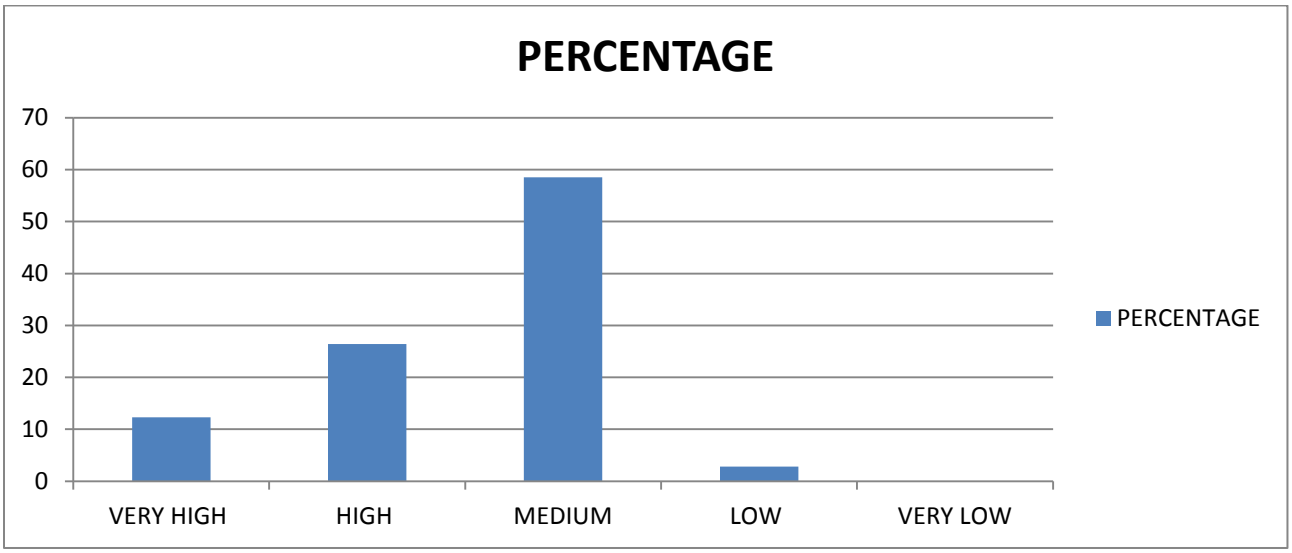
Figure 3: Deposit type that has the most significant impact on deposit volume



As it can be seen from the above figure about 53% of the total deposit of commercial bank of Ethiopia the most significant volume is collected from saving accounts holders, while the 42% of the most significant volume is collected from current accounts holders. The remaining 5% is fixed time deposit.

4.4.3 Skill of CBE employees in relation to promoting and collecting of planned deposit

Figure 4: skill and knowledge of employees



Source: own survey, 2016

According to the above figure by taking the five variables with regard to how do you rate your skill and knowledge in relation to promoting and collecting of planned saving amount the data indicate that 12.3%(13) of the respondent reply very high 26.4%(28) of the respondents reply high, 58.5%(62) of the respondents reply medium, 2.8%(3) of the respondents says it is low and there is no respondent that reply very low. Based on the data gathered from the respondents the fact indicated that the majority of the respondents reply medium so it indicates that the large number of employees' that works in commercial bank of Ethiopia had a moderate skill and knowledge related to promoting and collecting of planned saving amount.

Table 5: Rate the adequacy of training given to the staff regarding saving mobilization activities

Item	Frequency	Percent
Very high	19	17.9
High	25	23.6
Medium	8	7.5
Low	54	50.9
Very low	0	0

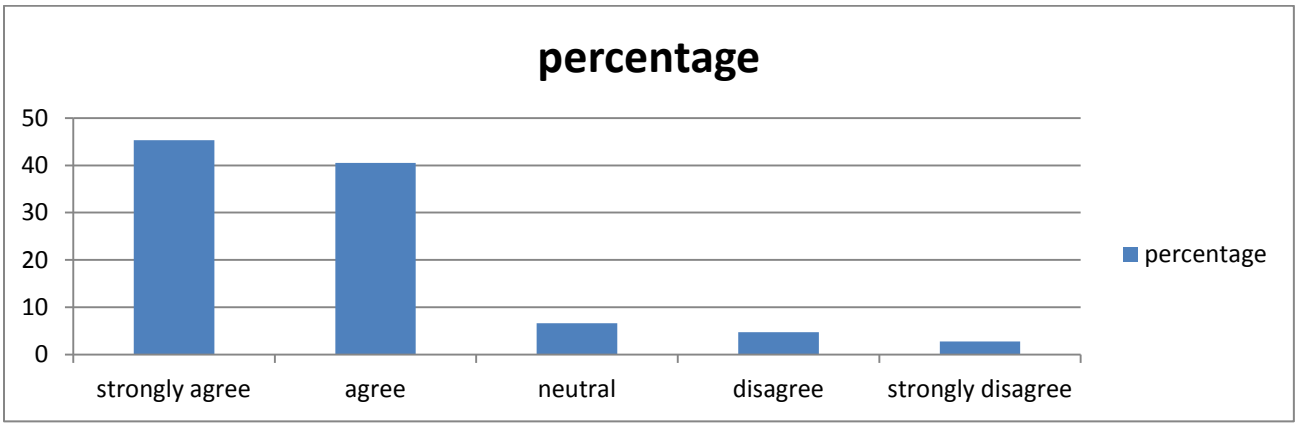
As one can see from the above table with regard to rate the adequacy of training given to the staff regarding to deposit mobilization activities the data indicates that, 19(17.9%) of the respondents reply very high, 25(23.6%) of the respondents reply high, 8(7.5%) of the respondents reply medium, 54(50.9%) of the respondents reply low and there is no respondent which says very low. The collected data indicates that the majority of the respondents were reply low regarding to the adequacy of training to the staff about deposit mobilization activities this indicate that the bank does not provide efficient training to the staffs related to deposit mobilization activities

With regard to the open ended questions in the questionnaires, data collected from branch manager, customer service manager (CSM), saving mobilization team members and customer service officers explain the main determinant factors to collect deposits from the society is by making availability of credit facility and foreign currency , the branch should provide quality and attractive service for customer , In order to get the interest of customers the bank should

improve its customer handling, , and also increase availability of technology and creating awareness to society.

4.4.4 Demand-oriented saving products and strategies for deposit mobilization

Figure 5: Introduction and implementation of new products



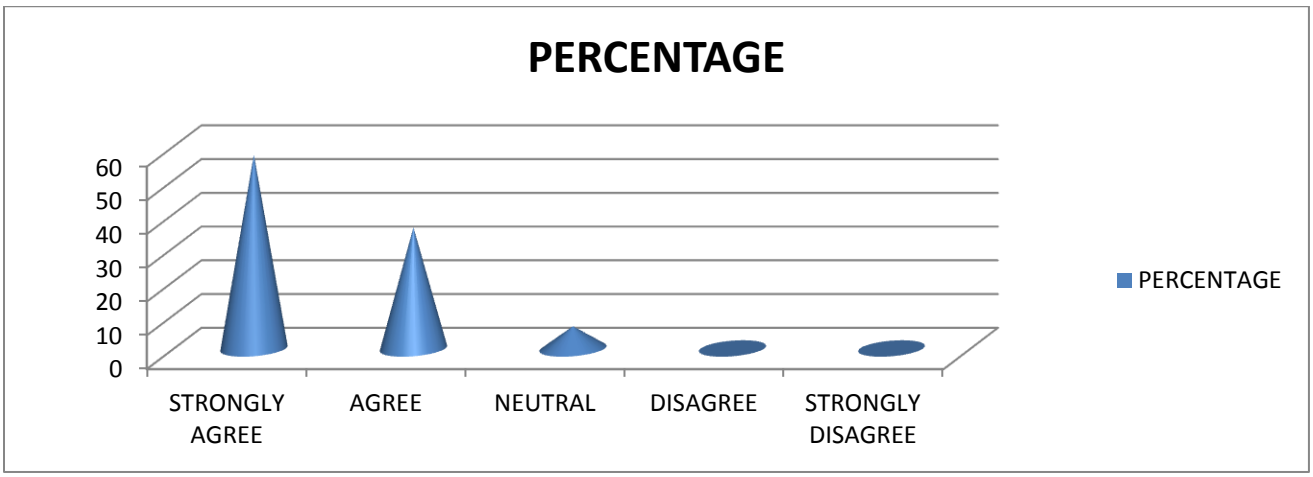
As per the data collected 32.1% (34) of the respondents strongly agree that the bank always works to introduce and implement new bank products, majority of the respondents 40.5% (43) agree,6.6% (7) nether agree nor disagree. The rest 12.3% (13) and 8.5% (9) respondents disagree and strongly disagree with the banks work in introduce and implement new bank product respectively.

Table 6: functionality of newly introduced products

The new products work properly	Frequency	Percentage
Strongly agree	17	16.1
Agree	18	16.9
Neutral	5	4.7
Disagree	27	25.6
Strongly disagree	39	36.7
Total	106	100

From the above table the researcher observed that 16.1% (17) strongly agree on the matter that the newly introduced products work properly as the banks staffs observed. And also 16.9% (18) of the respondents agree on .whereas 25.6% (27) of the respondents disagree, 36.7(39) of the respondents strongly disagree that the products introduced by the bank are not functional. The rest 4.7% (5) are neutral.

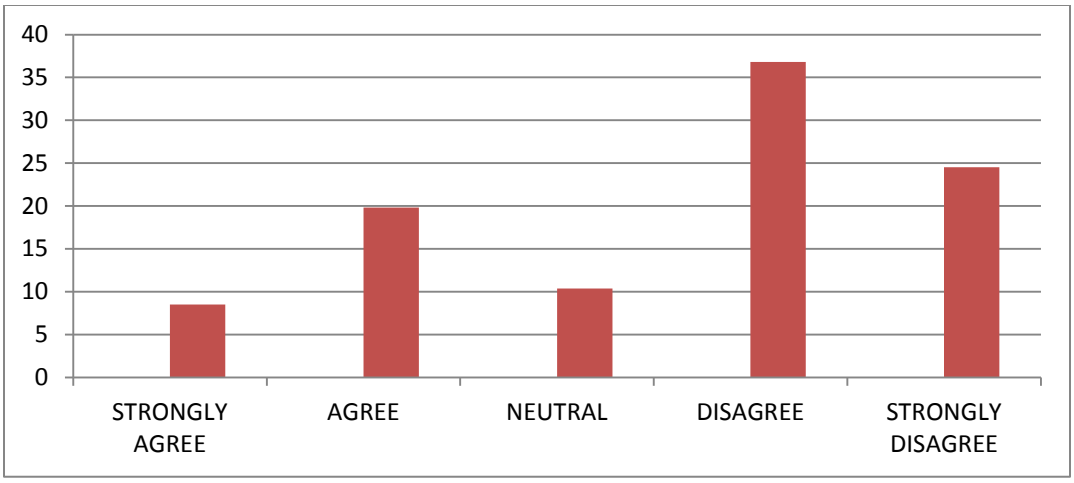
Figure 6: The extent of lottery system



Source: own survey, 2016

From the above figure one can learn that 61 (57.5%) 0f the respondents strongly agree, 38(35.9%) of the respondents agree, 7(6.6%) of the respondents are neutral, and there is no respondent that disagrees and strongly disagree. The data indicates that the majority of the respondents indicate strongly agrees that the lottery system is helping their branches to get more saving.

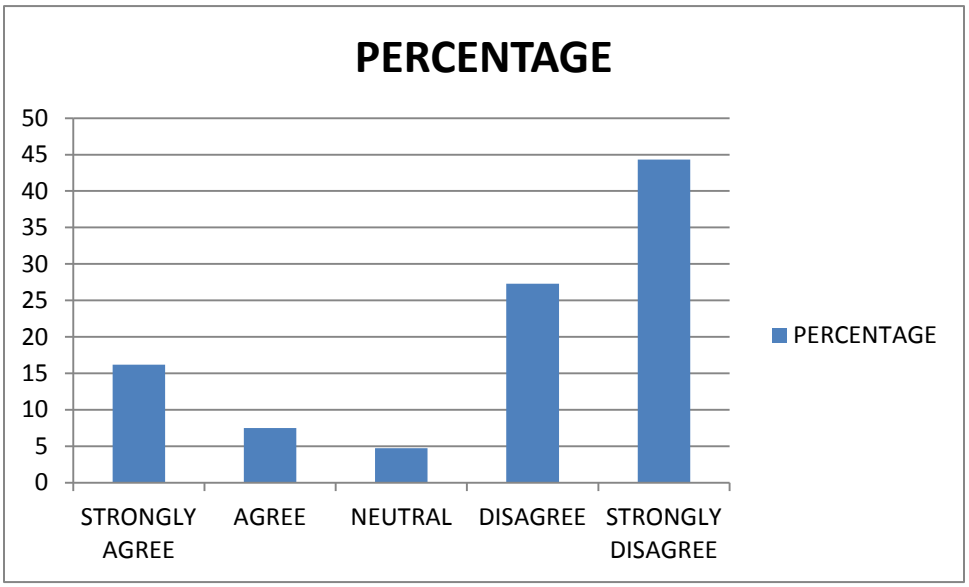
Figure 7: coordination among different concerned bodies in introducing and implementation of new products.



Source: own survey, 2016

One can be informed from the above figure for the assessment of how do you rate the coordination of different concerning bodies in introducing and implementation of new products, the collected data from the respondents indicates that,9(8.49%) of the respondent strongly agree, 21(19.8%)of the respondents indicate that they agree, 11(10.38%) of the respondents were neutral,11(36.7%) of the respondents indicate that the exists low rate of coordination among different concerned bodies in introducing and implementation of new products. And the remaining 39 (24.53%) of the respondents strongly disagree on the subject matter. The data indicates that the majority of the respondents were indicating that there is low coordination in introducing and implementation of new products.

Figure 8: The extent of both the management and the staff common understanding in deposit mobilization target



Source: Own survey, 2016

As indicated from the figure 17(16.2%) of the respondents strongly agree, 8(7.5%) of the respondents agree that both the management and the staff have common understanding of saving mobilization target and know exactly how to go about it, 5 (4.7%) of the respondents were neutral, whereas 29(27.3%) of the respondents replied that they disagree and the remaining majority 47(44.3%) of the respondents replied that they are strongly disagree to the notion both the management and the staff have common understanding regarding to common understanding in deposit mobilization target.

4.4.5 Motivation and Commitment of employees

Table 7: Incentive schemes to motivate the employees

To motivate its employees	frequency	Percentage
Giving access to different credit opportunities	15	14.17
Giving bonus	39	36.79
Providing appreciation letters	8	7.54
Making the environment more conducive	26	24.52
No special treatment	18	16.98

As it is presented in the above table 15 (14.17%) of the respondents says that the bank provides credit opportunities, on the other side 39(36.7%) of the respondents responded that the bank motivates its employees by giving bonus. The other 8(7.54%) of the respondents responded that the bank motivates its employees by providing appreciation letter, while 26(24.52%) says it is by making the environment more conducive. The remaining 18 (16.98%) of the respondents states that the bank uses no special treatment to motivate its employees.

Table 8: extent of using different deposit collection method

Item	Frequency	Percent
Strongly agree	16	15.1
Agree	27	25.5
Neutral	9	8.4
Disagree	35	33
Strongly disagree	19	18

Source: own survey, 2016

As indicated from the above table in terms of using different saving collection method the data indicates that 15.1%(16) of the respondents strongly agree ,25.5%(27) of the respondents have responded that they agree that they use different saving collection method,17(13.1%) of the respondents responded that they neutral weather to says they use different type of saving mobilization method, whereas 14(10.8%) of the respondents were disagree and also the remaining 7(5.4%) of the respondents indicated that they strongly disagree that they use different types of saving mobilization method respectively.

Table 9: Implementation of own strategy to reduce challenges

Items	Frequency	Percentage
Strongly agree	12	11.3
Agree	18	16.9
Neutral	2	1.8
Dis-agree	47	44.3
Strongly dis-agree	27	25.47

Source; own data collected

From the above table the researcher conclude that majority of the respondents dis-agree and strongly disagree on the issue implementation of own strategy to reduce challenge while the rest 28.2% of the respondents agreed and strongly agree on the subject matter. The rest 1.8 % are neutral.

Table 10: The extent Management and staff commitment

	Item	Frequency	Percentage
Employees work extra hours	Strongly agree	5	4.7
	Agree	7	6.7
	Neutral	9	8.5
	Disagree	49	46.2
	Strongly disagree	36	33.9
	Total	106	100
Employees use full potential	Strongly agree	4	3.7
	Agree	11	10.4
	Neutral	6	5.6
	Disagree	49	46.3
	Strongly Disagree	36	34
	Total	106	100

Source: own survey, 2016

The above table indicates that 5(4.7%) of the respondents strongly agree with that most staffs are motivated and committed they even work extra hours without extra payee, whereas 7(6.7) of the respondents agree, 9(8.5%) of the respondents were neutral .on the other side 49(46.2%) of the respondents disagree and the remaining 36(33.9%) of the respondents strongly disagree. The collected data shows that majority of the respondents disagree about working extra hour which implies that the employees are not motivated.

As indicated from the above table 4(3.7%) of the respondents strongly agree while 11(10.4%) of the respondents agreed that CBE'S employees use full potential to satisfy the customer. 6(5.6%) of the respondents were neutral. 49(46.3%) of the respondents agree. While the remaining 36(34%) of the respondents strongly disagree with the notion that CBE's employees are motivated to fulfill the needs of the customers with their full potential.

Chapter Five

Summary Of Findings, Conclusion And Recommendation

5.1 Summary Of Findings

The research on the title of: Factors determining commercial banks deposit mobilization: An empirical study on commercial bank of Ethiopia had gone through both descriptive and empirical analysis. As a result of the analysis and interpretation, the following are the summary of the findings.

Demographic factors such as gender, age, marital status, education qualification, work experience, position and level of branch have been used to know the general characteristics of the respondents. Thus, the research used 68(64%) male and 38(36%) of female as respondents. In terms of age, the majority of respondents were in between 20-30 years old which was accounted 54(50.9%) followed by 31-40 which constituted 21(19.8%).In terms of marital status the majority of the respondent were single which was accounted 78(73.5%) and followed by 15(14.4%) of married . With regard to the education qualification of respondents, the majority of the respondents were first degree holder which accounted 86 (81.13%) which is followed by masters' holder which accounted 13(12%). In terms of work experience the majority 42(39.6%) of the respondents have 6-10 years work experience and also in terms of position in the organization the majority 43(40.6%) 0f the respondents were worked under the position of customer service officer (CSO). In addition the study look at the level of branches based on this the majority 81(76.5%) of the respondents were working at grade 4 branches.

Based on the descriptive analysis through questionnaires the study provide different open and close ended question in order to gather data from the respondents under the assessment of deposit mobilization status of the recent four quarter in relation to the target given to the branch the survey result indicated the majority 43(40.7%) of the respondents have indicates that their saving performance have been below as compared to the target. Among the three kinds of deposits (demand deposits, fixed deposits and saving deposits), saving deposit is a mainly used by the bank and its customers.

On the other hand based on the questionnaires according to the respondents answer majority of the respondents 96(90.5%) says that the volume of deposit mobilization by different branches differ, and about 39 (36.8%) of the respondents says that the main cause of difference in the level of deposit is because of the location of the branch. Regarding the knowledge and skill of the staff in colleting the planned deposit majority of the respondents 62(58.5%) indicates it is medium.

Generally with regard to some challenges to achieve saving mobilization process the majority of the respondents were indicated that lack of adequacy of training given to the staff regarding saving mobilization activities which accounted 54(50.9%) of the total number of respondents.
From the data collected 39(36.9%) of the respondents indicated that commercial bank of Ethiopia motivates its employees by providing bonus. From the open ended questions regarding the factors which make people to save in a given branch, most of the respondents indicate it is the quality of service they get, availability of credit opportunity and availability of foreign currency.

From the data gathered in relation to the introduction and implementation of new products even though majority of the respondents 48(45.3%) strongly agree on the introduction and implementation of new bank products 39(36.7%) of the respondents strongly disagree that this newly designed products are functioning properly. Most of the respondents strongly agree that the newly designed lottery system is helping in getting more deposits.

In relation to the staffs capability and commitment towards the concept of marketing, common understanding of the target saving mobilization most of the respondents31 (29.4%) disagree. In addition most of the respondents are not wailing to implement their own strategies to reduce challenges in the process of deposit mobilization; to work extra hours in order to meet the plan and most of the staffs are not motivated which make the deposit mobilization process very harder.

5.2 Conclusion

Given the summary result of descriptive and empirical analysis, the study had concluded the following by taking CBE as evidence of the study.

- The types of deposits are mainly three kind:-saving, current, and fixed time deposits and from the deposit available in the bank the largest proportion is saving deposit.
- The deposit performance of the sample branches regarding deposit mobilization status in the recent quarters most branches perform below the target given.
- The volume of deposit mobilization across different branches differs and it is due to location of the branch, approaches the bankers' uses and most importantly the service they render.
- From the questioner which were distributed it can be concluded that even if employees of the bank has medium skill towards promoting and collecting the planed deposit amount , the bank play minimal role in providing the necessary training which could build up the capability of the staffs and management.
- It can be concluded that the motivational schemes that the bank provides is not good enough to inspire the employees and managements to implement their own strategies to reduce challenges in the deposit mobilization activity.
- It can also be concluded that even if the bank consistently introduces new products that could bring up the targeted deposit, this newly established products such as ATM, POS machine mobile and internet banking, are not working properly. But it was found that the lottery scheme had raised people enthusiasm to save.
- Regarding the multiple regression it is found out that per capita income growth rate, inflation rate, number of branches, and loan provision, are factors that would influence the deposit volume at 99.5% (R2) of the time. Hence, the factors are found to be influential with this study.
- This study has shown that the branch expansion had positive and significant effect on total deposit whereas inflation rate had negative and insignificant effect on total deposit. And the remaining two variables loan provision and percapita income has positive but insignificant effect. Finally the study had recommended what should be done to mobilize more deposits.

5.3 Recommendation

Based on the research findings and conclusions the followings are recommended for commercial bank of Ethiopia as a way to mobilize more deposits than before.

- Since the main source of funds for commercial banks is deposit the bank should give due emphasis to its deposit and strive to increase it.
- The bank should provide excellent service for its customers to mobilize more deposits. Incentives such as coupon prizes are also effective for deposit growth. In addition commercial banks should go through promotional effort. Moreover, commercial banks should use their good will to attract depositors.
- Employees should be given consideration; hence employees are the base implementation of any plan. Therefore the staff should be provided with different attractive incentives to motivate them because they are valuable resources.
- Since branch expansion has positive and significant effect on total deposit of commercial banks, commercial banks should also expand their branches in order to increase their deposit not only in the urban areas but also in remote areas.
- Finally the bank should be providing different training programs for the staffs and the management to improve their knowledge and skill regarding with saving mobilization activity. Plus the training program must be effective in making the staffs more competitive able to update its employees.

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St marry university

school of graduate studies

MBA general program

Questioner for commercial bank of Ethiopia

Dear respondents

This questioner is prepared to undertake a research on determinants of deposit mobilization in the case of commercial bank of Ethiopia. The data will be used in writing research for the partial fulfillment of the requirement for general MBA program. You are kindly requested to fill this questioner. Your response is kept confidential and will be used for this research purpose only. I am grateful for your co operation

- There is no need to write your name
- Please make √ mark on the box given

A. Personal information

1. Gender

◯ Male ◯ Female

2. Age

◯ 18-30 ◯ 31-40 ◯ 41-50 ◯ Above 50

3. Marital status

◯ Single ◯ Married ◯ Devoiced ◯ Widow

4. Educational level

◯ Diploma ◯ Degree ◯ Masters ◯ Other specify

5. How long have you been working in CBE

◯ Less than a year ◯ 1-5 ◯ 6-10 ◯ Above

6. Position in your organization

◯ Branch manager ◯ Customer service manager

◯ Customer service officer ◯ Saving mobilization member

7. Level of your branch

◯ Grade 1 ◯ Grade 2 ◯ Grade 3 ◯ Grade 4

B.Performance of saving, administrative system and institutional environment

8. What is your average deposit mobilization status of the recent four quarter in relation to the target given?

◯ Above the target given ◯ Below the target given

◯ Almost equal to the target ◯ Much lower than the target

9. Which group of customers are the most significant depositors of your bank in terms of magnitude of deposits?

◯ Individual customer's ◯ Business organizations

◯ Government entity ◯ NGOs

If others specify ----------

10. Which deposit type has the most significant deposit volume?

◯ Savings account deposits

◯ Current account deposits

◯ Fixed time deposits

11. Does the volume of deposit mobilized by respective branches of your bank differ?

◯ Yes ◯ No ◯ I do not know

12. What do you think is the cause for the difference in deposit mobilization among branches?

◯ Convenience of bank office ◯ Location

◯ Service quality ◯ Ability of the employees

◯ General appearance office & material Other reasons (specify) ----------

C. Management and staff capabilities

13. How do you rate your skill and knowledge in relation to promoting and collecting of planned saving amount?

◯ Very high ◯ High ◯ Medium ◯ Low ◯ Very low

14. If you answer to the above question is low and very low, what kind of skill and knowledge you need to possess

_____

_____

15. How do you rate the adequacy of training given to the staff regarding saving mobilization activities?

◯ Very high ◯ High ◯ Medium ◯ Low ◯ Very low

16. What innovative schemes have your branch put into place to motivate its employees?

◯ By giving access to different credit opportunities

◯ By giving bonus

◯ By providing appreciation letters

◯ By making the environment more conducive

◯ No special treatment

◯ Any other_____

17. What do you think the most determinant factors in saving mobilization process which make people to save in your branches?

_____

_____

18. What are the most recurring challenges in your saving mobilization endeavor?

Please give your response on the basis of the rating scale provided here under

1- Strongly agree 2- Agree 3- Neutral 4- Disagree 5- Strongly disagree

NO	DESCRIPTION	5	4	3	2	1
Demand-oriented saving products and strategies for deposit mobilization						
1	The bank always works to introduce new products to increase its deposit					
2	It can be said that the newly introduced products such as E-payment's technological performance of the bank (software applications and ATM and POS machines)are working properly					
3	The lottery system which designed by CBE, is helping my branch to get more deposit					
4	How do you rate the coordination of different concerned bodies in introducing and implementing new products?					
	Management staff capability and commitment					
5	Employee skill and knowledge towards the concepts of marketing have its own impact for deposit mobilization					
6	I feel that in my branch both the managing and staff have high common understanding of the target saving mobilization and know exactly how to go about it					
7	Employees and management of CBE try to implement their own strategies to reduce challenges and apply best practice to maximize the saving habit of the society					

8	Most employees work extra hours in order to meet the given target					
9	The bank uses consistence training scheme to update its employee's to increase competency					
10	It can be said that CBE's employees use their full potential to fulfil the customers need					
11	I usually use different methods to collect saving product delivery					
12	In my branch Employees and management do their job with high level of motivation					

YANNET KAHSSAY

0911 45 94 68

Thank You for Your Cooperation to Fill the Questionnaire

	Mean	Std. Deviation	N
number of branchs	454.2000	324.97378	10
total deposit of the banks	99836292.8000	75197686.70686	10

Correlations

		number of branchs	total deposit of the banks
number of branchs	Pearson Correlation	1	.997**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	950471.600	219323211058.400
	Covariance	105607.956	24369245673.156
	N	10	10
total deposit of the banks	Pearson Correlation	.997**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	219323211058.400	508922287745687 84.000
	Covariance	24369245673.156	565469208606319 8.000
	N	10	10

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

Descriptive Statistics

	Mean	Std. Deviation	N
total deposit of the banks	99836292.8000	75197686.70686	10
Loan dis	17950778971.3000	12913391423.62767	10

Correlations

		total deposit of the banks	Loan dis
total deposit of the banks	Pearson Correlation	1	.902**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	508922287745687 84.000	788122934070380 3400.000
	Covariance	565469208606319 8.000	875692148967089 280.000
	N	10	10
Loan dis	Pearson Correlation	.902**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	788122934070380 3400.000	150080110253838 4600000.000
	Covariance	875692148967089 280.000	166755678059820 500000.000
	N	10	10

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

Descriptive Statistics

	Mean	Std. Deviation	N
total deposit of the banks	99836292.8000	75197686.70686	10
inflation	17.4560	12.67617	10

		total deposit of the banks	Inflation
total deposit of the banks	Pearson Correlation	1	-.356
	Sig. (2-tailed)		.313
	Sum of Squares and Cross-products	50892228774568784.000	-3051844745.308
	Covariance	5654692086063198.000	-339093860.590
	N	10	10
inflation	Pearson Correlation	-.356	1
	Sig. (2-tailed)	.313	
	Sum of Squares and Cross-products	-3051844745.308	1446.167
	Covariance	-339093860.590	160.685
	N	10	10

Descriptive Statistics

	Mean	Std. Deviation	N
total deposit of the banks	99836292.8000	75197686.70686	10
per capita income	280.2000	131.36362	10

Correlations

		total deposit of the banks	per capita income
total deposit of the banks	Pearson Correlation	1	.871**
	Sig. (2-tailed)		.001
	Sum of Squares and Cross-products	50892228774568784.000	77442468027.400
	Covariance	5654692086063198.000	8604718669.711
	N	10	10
per capita income	Pearson Correlation	.871**	1
	Sig. (2-tailed)	.001	
	Sum of Squares and Cross-products	77442468027.400	155307.600
	Covariance	8604718669.711	17256.400
	N	10	10

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

Descriptive Statistics

	Mean	Std. Deviation	N
total deposit of the banks	99836292.8000	75197686.70686	10
number of branchs	454.2000	324.97378	10
Loan dis	17950778971.3000	12913391423.62767	10
inflation	17.4560	12.67617	10
per capita income	280.2000	131.36362	10

Correlations

		total deposit of the banks	number of branchs	Loan dis	inflation	per capita income
Pearson Correlation	total deposit of the banks	1.000	.997	.902	-.356	.871
	number of branchs	.997	1.000	.906	-.339	.881
	Loan dis	.902	.906	1.000	-.075	.707
	Inflation	-.356	-.339	-.075	1.000	-.278
	per capita income	.871	.881	.707	-.278	1.000
Sig. (1-tailed)	total deposit of the banks	.	.000	.000	.157	.001
	number of branchs	.000	.	.000	.169	.000
	Loan dis	.000	.000	.	.418	.011
	Inflation	.157	.169	.418	.	.219
	per capita income	.001	.000	.011	.219	.
N	total deposit of the banks	10	10	10	10	10
	number of branchs	10	10	10	10	10
	Loan dis	10	10	10	10	10
	Inflation	10	10	10	10	10
	per capita income	10	10	10	10	10

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.997[a]	.995	.991	7132412.84768	.995	248.853	4	5	.000

a. Predictors: (Constant), per capita income, inflation , Loan dis, number of branchs

b. Dependent Variable: total deposit of the banks

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	506378722094196 96.000	4	126594680523549 74.000	248.853	.000[b]
	Residual	254356565148881 .750	5	508713130297763 .350		
	Total	508922287745687 76.000	9			

a. Dependent Variable: total deposit of the banks

b. Predictors: (Constant), per capita income, inflation , Loan dis, number of branchs

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
		B	Std. Error	Beta			Part	Tolerance	VIF
1	(Constant)	-218663.332	7524938.086		-.029	.978			
	number of branches	234732.892	39666.385	.014	.418	.002	.187	.034	9.398
	Loan	1.535E-005	.001	.003	.023	.982	.001	.077	2.995
	inflation	-117306.981	271615.642	-.020	-.432	.684	-.014	.477	2.097
	per capita income	-17089.696	47576.361	-.030	-.359	.734	-.011	.145	6.910

Model			per capita income	inflation	Loan dis	number of branchs
1	Correlations	per capita income	1.000	-.431	.594	-.824
		Inflation	-.431	1.000	-.678	.683
		Loan dis	.594	-.678	1.000	-.917
		number of branchs	-.824	.683	-.917	1.000
	Covariances	per capita income	2263510153.947	-5566773901.059	18.752	-1554494140.856
		Inflation	-5566773901.059	73775057108.809	-122.262	7358376925.479
		Loan dis	18.752	-122.262	4.405E-007	-24.147
		number of branchs	-1554494140.856	7358376925.479	-24.147	1573422070.608

a. Dependent Variable: total deposit of the banks

Collinearity Diagnostics[a]

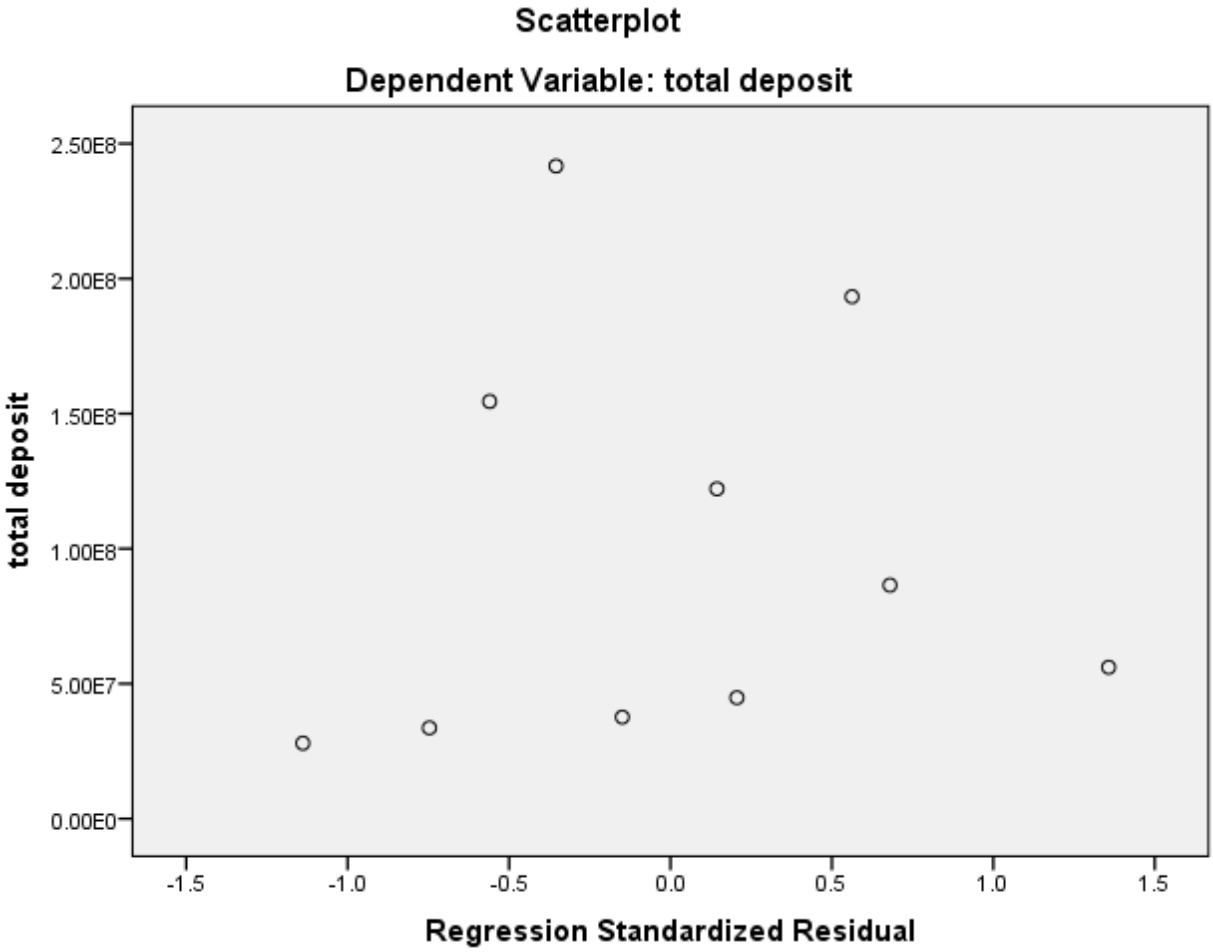
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	number of branchs	Loan dis	inflation	per capita income
1	1	4.279	1.000	.00	.00	.00	.01	.00
	2	.540	2.816	.01	.00	.00	.18	.00
	3	.133	5.679	.27	.00	.06	.17	.02
	4	.042	10.038	.69	.00	.10	.19	.24
	5	.006	26.200	.02	.99	.84	.45	.73

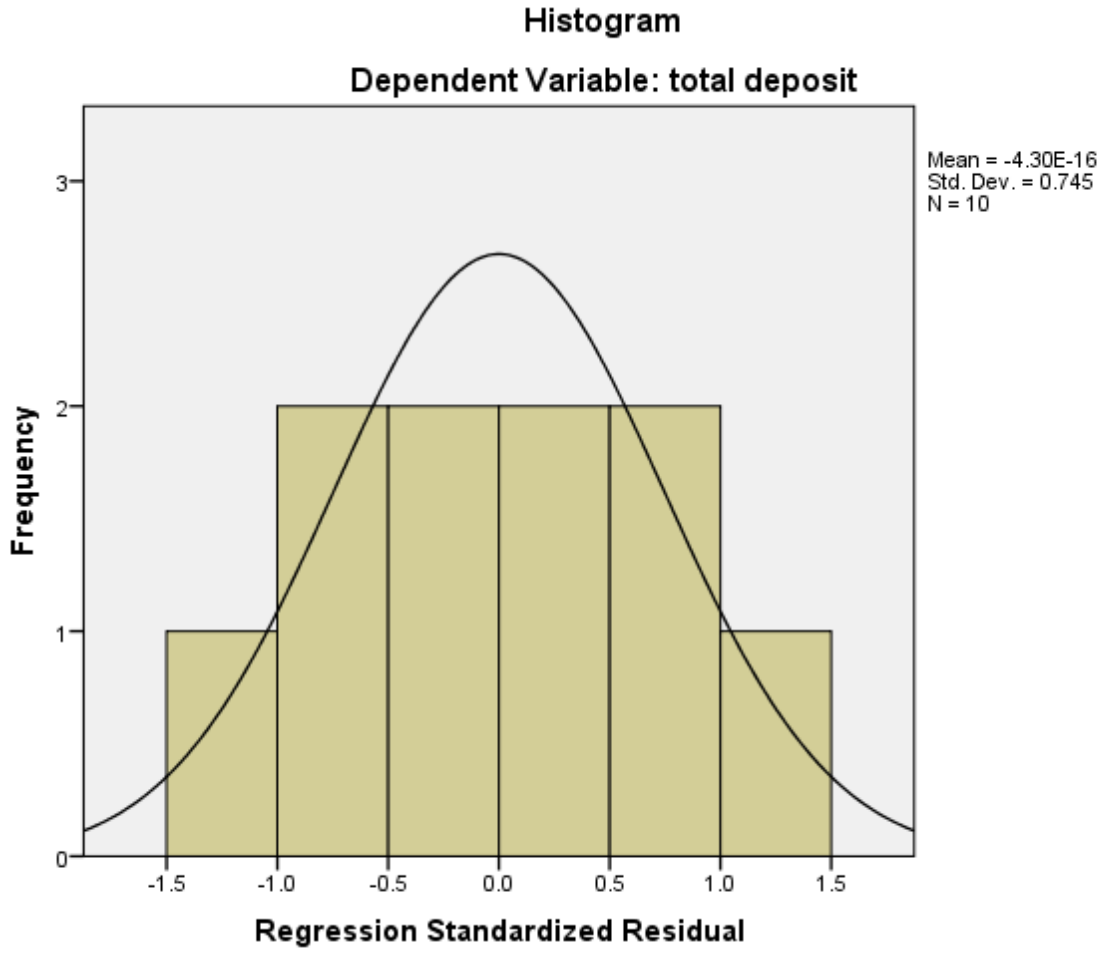
a. Dependent Variable: total deposit of the banks

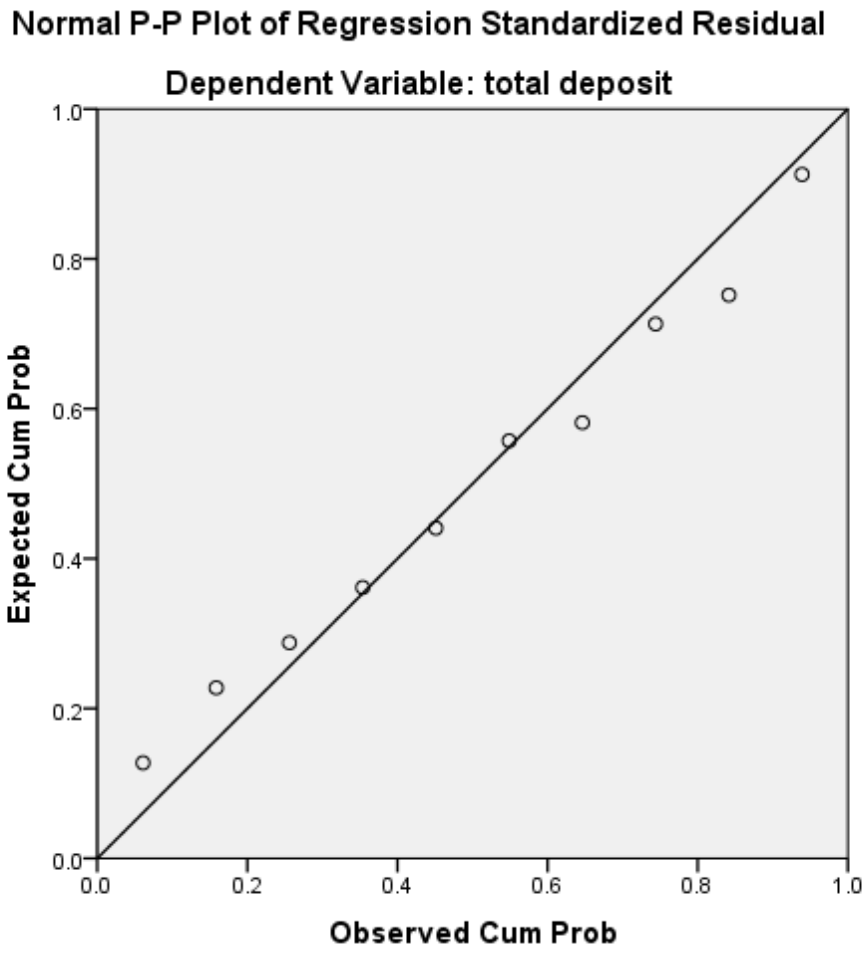
Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	36090736.0000	244229072.0000	99836292.8000	75009534.36391	10
Std. Predicted Value	-.850	1.925	.000	1.000	10
Standard Error of Predicted Value	3336897.500	7027091.000	4920336.150	1167118.334	10
Adjusted Predicted Value	38899152.0000	327971360.0000	107070372.8992	94894002.33060	10
Residual	-8121738.00000	9680682.00000	.00000	5316186.65700	10
Std. Residual	-1.139	1.357	.000	.745	10
Stud. Residual	-2.071	1.795	-.110	1.154	10
Deleted Residual	-86271352.00000	16933956.00000	-7234080.09920	29030945.05202	10
Stud. Deleted Residual	-4.912	2.693	-.321	1.975	10
Mahal. Distance	1.070	7.836	3.600	2.099	10
Cook's Distance	.016	28.403	2.946	8.946	10
Centered Leverage Value	.119	.871	.400	.233	10

a. Dependent Variable: total deposit of the banks


Scatterplot
Dependent Variable: total deposit
total deposit
2.50E8
2.00E8
1.50E8
1.00E8
5.00E7
0.00E0
-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5
Regression Standardized Residual


Histogram
Dependent Variable: total deposit
Mean = -4.30E-16
Std. Dev. = 0.745
N = 10
Frequency
0
1
2
3
-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5
Regression Standardized Residual



Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-218663.332	7524938.086		-.029	.978		
	loan	1.535E-005	.001	.003	.023	.982	.077	7.995
	inflation	-117306.981	271615.642	-.020	-.432	.684	.477	2.097
	number of branch	234732.892	39666.385	1.014	5.918	.547	.034	9.398
	per capita income	-17089.696	47576.361	-.030	-.359	.734	.145	6.910

a. Dependent Variable: total deposit

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	loan	inflation	number of branch	per capita income
1	1	4.279	1.000	.00	.00	.01	.00	.00
	2	.540	2.816	.01	.00	.18	.00	.00
	3	.133	5.679	.27	.06	.17	.00	.02
	4	.042	10.038	.59	.10	.19	.00	.24
	5	.006	16.200	.02	.44	.45	.59	.53

a. Dependent Variable: total deposit