Effect of Salary and Staff Loan on Employees' Saving Deposit Status: Case Study of *Oromia* International Bank

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Abstract

In formulating strategy on how to boost saving deposits and employee retention programs, banks shall understand the effect of income, inflation, loan, customer number and other determinant factors of saving behavior. Similarly, in designing policies to promote savings and investment, which in turn enhances economic growth through capital formation, understanding the nature of savings behavior is critically important. This paper examines the impact of salary and staff loan have on employees' savings deposit status. This study is undertaken in Oromia International Bank s.c. *The researcher used both qualitative and quantitative data collected from randomly selected respondents and Oromia International Bank records. Also, the researcher adopted qualitative and quantitative research approaches. Different multiple regression analysis diagnostic tests (test for assumption of Homoscedasticity, Autocorrelation, Normality, and independent variables are non-stochastic) were conducted to check the appropriateness of the model. The conceptual framework for this study is originally derived from life-Cycle model and appropriately modified to accommodate the peculiarities of a developing country and builds on the existing cross-country literature on impact of salary on savings deposit. The study implies that salary amount has a positive relationship with savings deposit. It is the most important factor that affects savings deposit growth from the two independent variables. The research recommends that employers have to consider the impact of salary amount and staff loans on saving capacity of their employees while deciding salary amounts for their employees and providing loans.*

Key words: Saving deposit, salary, staff loan

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Introduction

According to the IMF, a financial service is best described as the process by which a consumer or business acquires a financial good. For example, a payment system provider is providing a financial service when it is able to accept and transfer funds from a payer to a recipient. This includes accounts that are settled through credit and debit cards, checks and electronic funds transfers. Commercial banking services are the foundation of the financial services group. The operations of a commercial bank include the safekeeping of deposits, issuance of credit and debit cards, and the lending of money. According to Harvey and Spong (2001), the banking industry is most concerned with direct saving and lending while the financial services sector incorporates investments, insurance, the redistribution of risk, and other financial activities. Banks earn revenue primarily on the difference in the interest rates charged for credit accounts and the rates paid to depositors. Financial services like these primarily earn revenue through fees, commissions, and other methods like the spread on interest rates between loans and deposits.

Retail banking, also known as consumer banking or personal banking, is banking that provides financial services to consumers as individuals, not businesses. Retail banking is a way for individual consumers to manage their money, have access to credit, and deposit their money in a secure manner. Services offered by retail banks include checking and savings accounts, mortgages, personal loans, credit cards, and certificate of deposit (CDs).

In the past decade, bank savings deposits have been increasing in Ethiopia. According to 2018/19 Annual Report of National Bank of Ethiopia, the overall Bank Deposit of the last four years have shown an increasing growth. The Bank Deposit on 2015/16 fiscal year, which was 36.5 billion Birr, has grown to 52.01 billion Birr on 2016/17, 61.2 billion Birr on 2017/18 and 78.94 billion birr on 2018/19. It has shown a 216.27 % growth within those four years. Bank Saving Deposits in particular have also grown from 217.03 billion birr in 2015/16 fiscal year to 293.43 billion Birr in 2016/17, to 382.55 billion Birr on 2017/18 and to 487.3 billion Birr on 2018/19 fiscal year. Ethiopia has registered a double-digit economic growth for the past 10 years. In those years the Inflation rate has also been staggering from year to year. According to the 2018 World Bank report, the inflation rate in Ethiopia is higher than all other East African countries and sub- Saharan African countries. In year 2001, Ethiopia's annual inflation rate was below zero, at -8.238% compared to year 2000's 0.675% annual inflation rate. Since 2002 inflation has been increasing in Ethiopia. The largest increases were in year 2008, which was 44.357% and in year 2012 at 24.124% annual inflation rates. Since 2002, the list inflation rate was recorded in year 2014, at 7.402% annual rates. In year 2019, the annual inflation rate was 12.5%. According to IMF's forecast Ethiopia's 2020 inflation rate will be 19.4 %.

The famous economist Gregory Mankiw on his book, macroeconomics emphasized that savings is directly proportional with income and when Savings increases, investment increases too. An increase in investment results in an increase in growth. Ethiopia has been registering economic growth and high inflation at the same time. There were few relative researches undertaken concerning saving, and determinants of household saving.

Yemane Michael and Tsega Hagos (2014) empirically investigate the common reasons for households not to save are low income, inflation, low interest rate, cultural background, education, social affairs and unemployment. The planning and expenditure controlling habit of most respondents was found minimal. Besides, the economic analyses shows that income, age, sex, marital status, forms of institutions used for saving and frequency of getting money are significant determinants of household savings. Eventually, since such kind of study has not been in the study area, this paper is helpful in bridging the knowledge gap and can positively contribute to understand the effect of salary and staff loan have on savings.

Research Methodology

Research Design

The study is explanatory which mainly aims to examine the relationship between Savings deposit, Staff loan and Salary amount. The study relied on both qualitative and quantitative approach methods to examine causal relationship between Savings deposit with staff loan and salary amount. Therefore, explanatory research design was employed in the study to achieve the objective of the study, which was to examine whether there is a cause-and-effect relationship between variables.

Source of Data and Variables

A quantitative data on Salary and staff loan amounts of 96 randomly selected sample respondents were collected from Oromia International Bank. Additionally, a qualitative data on monthly savings deposit amount of sample population was collected using questionnaires.

Methods of Data Analysis

The specific analytical tool of the data analysis is Multiple Regression Analysis carried out using SPSS. The relevant information is presented in a standard form using tables, charts and graphs to analyze and interpret the information.

Variables and Expected Signs

Private Banks in Ethiopia usually give annual salary increments to their employees to retain skilled man power, attract new recruits, enhance living standard of their employees and due to many other reasons. When we see the economy, it has been showing growth for more than ten years. The economic growth has been accompanied by strong inflation rates. Bank Employees have an opportunity to borrow various kinds of loans like, Mortgage loan, personal loan, consumer loan, Automobile loan and emergency staff loan. Hence, here employees' savings from their salary comes in to question. Do they save more as their salary increases? Is there any relationship between savings deposit and salary amounts?

This study aims to identify the relationship between salary and staff loan amount with employees saving deposit, carried out on OIB employees, which is believed to reflect the cases of all other commercial Banks found in Ethiopia. The main variables in the analysis for which data collected are dependent and independent variables. Independent variables are expected to affect dependent Variable. Dependent variable of this study is Employees' saving deposit status and independent variables are salary and staff loan.

Table 3.1 Description of the Variables and Expected Relationship

Variable	Symbol	Definition	Expected sign
Employees' saving deposit	ESAV	Natural logarithm of employees' Saving deposit	N/A
Salary (income)	SAL	Salary amount	+
Staff loan	SL	Monthly staff Loan amount	-

Empirical Model Specification

Regression analysis is usually conducted in qualitative and quantitative analysis to show the statistical significance and dependencies. Similarly, statistical methods are used to test the association between the dependent variable and other independent variables. Multiple regression model approach including all of its assumptions is also utilized in conducting this study.

Assumptions are used to see the applicability of the regression models developed first to test the impact of salary and staff loan amount with savings status.

Model for this study is specified using the variables identified by permanent income hypothesis with some additional and deduction variables suggested by other studies, which might be important in determining impact of salary and staff loan amount on saving deposit. The model is presented as follows:

$$ESAVt = f\ (\text{salary} + \text{staff loan})$$

$$ESAVt = \beta 0 + \beta 1SAL + \beta 2SLt + \mu.$$

Where,

ESAV = Natural logarithm of employees' savings deposit,

SAL = Salary amount

SL = Staff loan amount

$\beta 1$ and $\beta 2$, are parameters to be estimated

μ is disturbance (error) term

Results and Discussion

The study empirically investigates the impact of salary amount on employees' saving status, the case study of Oromia International Bank, by using qualitative and quantitative data of randomly selected sample respondents. To do this the researcher employs multiple regression analysis. Because literature suggests that regression analysis is more convenient for such studies. The study has used employees' monthly salary amount and monthly staff loan amount as explanatory variables.

The result of the study revealed that there is no evidence of serial correlation, no multi co linearity, the residual is normally distributed and no evidence of hetroscedasticity problem. In addition to this the null hypothesis is proved to be rejected at 95% confidence interval.

Empirical results of the study provided evidence that there is a long run significant positive relationship between employees' savings status and Salary amount. Additionally, the impact of staff loan is also found to be significant in determining employees' saving status. This result is quite similar to the researcher's prior expectation.

An increase in salary by 10.7% will increase employees' saving deposit by one unit. While a decrease in staff loan repayment by 31.2% will increase saving deposit by one unit. This explains that there is a positive relationship between salary (Income) and savings as many economics scholars suggested. Similarly, there is a negative relationship between staff loan repayments, which reduces the income of employees, and saving.

Generally, regression results revealed that among the two independent variables salary amount is the most important factor that positively and significantly influences Employees' saving deposit status.

Conclusions

The findings of the study provide evidence that employees' saving deposit is affected by salary Income amount and other macroeconomic variables. The empirical evidence however has certain important policy implications, and in view of that recommendations have also been provided. In the model of the study salary amount has a positive relation with Employees' saving deposit status. While staff loan has a negative impact on employees' savings deposit status.

The very crucial point is to enhance employees' saving status, banks shall increase salary of employees significantly, with due consideration of employee borrowing, demographic determinants and other macro-economic factors which are believed to reduce saving capacity of employees. Employees shall be encouraged to save some portion of their income to enhance saving culture in our country. Employees shall also understand the negative impact of loan on savings while borrowing various loans. Employers shall also arrange a proper repayment schedule for their employees while providing staff loans in order to enhance saving capacity of their employees and help them have a better living standard.

Eventually, this research helps for other researchers as a source of reference and as a stepping stone for those who want to make further study on the area afterwards, since this research couldn’t incorporate all variables both at macro level and Bank specific. Future research work could take consideration to the impact of other loan provisions and Income sources at country level.

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