

**ST.MARY'S UNIVERSITY**  
**BUSINESS FACULTY**  
**DEPARTMENT OF ACCOUNTING**

**EFFECT OF INFLATION ON SAVING IN THE CASE OF**  
**COMMERCIAL BANK OF ETHIOPIA**

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**SMU**  
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**A SENIOR ESSAY SUBMITTED  
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ACOUNING**

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## **ACRONYMS**

CBE-commercial bank of Ethiopia

CD-certificated of deposit

CPI-consumer price index

CSA-central statistic agency

PC operator-personal computer operator

NBE -national bank of Ethiopia

# CHAPTER ONE

## 1. Introduction

### 1.1 Background of the study

Throughout the entire world, there are many large business industries established by public and private financial institutions to give services and produce products. One of these larger service provider industries is the banking industry. The industry of banking is giving services in developing and developed countries. Commercial banks are opened and have been giving various saving account services to their customers. The primary line of business for any banking industry is the provision of various short-term and long-term loans for which the bank needs to mobilize huge loan funds. A significant portion of such loan funds is the result of the saving line of business. Hence, saving account maintenance is the backbone of the bank industry (Kohn, 1999).

Moreover, saving has also a vital role on the economy as well as on individual savers. Saving serves in the creation of a nominal capital which later turned to real capital through investment. This boosts the nation's real productive assets, which is useful to achieve economical progress. (ibid)

Such frequent variation in price levels is not desirable for the smooth functioning of an economy and its constituent's like savers. Inflation affects many things like production, employment, distribution, incomes and savings (Paul, 1963).

However, the interest on such savings and the saved money denominated in monetary terms are affected by the movement of price level. Changes in price levels typically inflation adversely affects the value of money and hence is important to all people who receive money incomes and to all those who are engaged in buying and selling of goods and services for money. In an advanced modern economy, this means the fluctuation in the price level. Inflation affects all people, and industries who choose to store their value in money instead of physical assets. A great drawback of the use of money as a measurement unit or

as a store of value is the fact that it is not a stable unit of measure of value; its value has always been changing (Paul, 1965)

Therefore, this study aims to analyze the impact of inflation on saving trends in Ethiopia financial institutions taking the case of commercial bank of Ethiopia here in (CBE).

## **1.2 Background of the organization**

The leading bank in Ethiopia, established in 1942. Pioneer to introduce modern banking to the country. It has 780 branches stretched across the country as of January 6, 2014. The leading African bank with assets of 158.11 billion Birr as on June 30<sup>th</sup> 2013. Plays a catalytic role in the economic progress & development of the country. The first bank in Ethiopia to introduce ATM service for local users. Currently CBE has more than 7 million account holders. It has strong correspondent relationship with more than 50 renowned foreign banks like Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank...CBE has a SWIFT bilateral arrangement with more than 700 others banks across the world. CBE combines a wide capital base with more than 18,000 talented and committed employees. Pioneer to introduce Western Union Money Transfer Services in Ethiopia early 1990s and currently working with other 20 money transfer agents like Money Gram, Atlantic International (Bole), Xpress Money,... CBE has opened two branches in South Sudan and has been in the business since June 2009. CBE has reliable and long-standing relationships with many internationally acclaimed banks throughout the world (CBE, annual report)

### **1.3 Statement of the problem**

Financial institution plays important role for the development of economy at country level as well as individual levels. Under the umbrella of financial institution, many governmental and private banks and other financial intermediaries like insurance and micro financial institutions are operating in the nation's economy.

The commercial bank of Ethiopia is operating and expanding their branches continuously. One of their services is provisions of saving accounts for an interest of 5%. The amount of the saving is then used for creating money in form of loan. The loan is used for the financing of many development activities that contribute a lot to economic development of nation. However, the increasing trends of inflation may have an adverse effect on the saving habit of the society.

Inflation has been contained in the advanced economies, but also it has risen in many emerging and developing countries like Ethiopia. This study aimed at to assess the effects of inflation on saving trends of Ethiopian commercial banks by taking three commercial banks of Ethiopia as a case in Addis Ababa.

### **1.4 Research questions**

The research aims to answer the following research questions.

- How the saving trend is going during the period of inflation?
- What is the impact of inflation on saving?
- How does inflation affect the branches?
- Does customers aware about inflation and its pressures?

## **1.5 Objectives of the study**

The objective of this study may be classified in to general & specific objectives

### **1.5.1 General objective**

To assess effects of inflation on saving account particularly by taking CBE

### **1.5.2 Specific Objective**

- To analyze the trends of saving during inflation time.
- To assess the impacts of inflation on saving.
- To asses inflation in branches.
- To assess costumers awareness about inflation and its effects.

## **1.6 Significance of the study**

The outcome of the research was useful mainly to customers to know more about inflation effect on interest rate, but also to the company and government as well. Moreover, the findings of the study could show the way for other researcher who want to conduct a detailed research on the issue. So far saving addresses many people, this study was useful shading, new light on the issues.

## **1.7 Scope of the study**

Commercial bank of Ethiopia (CBE) has many branches across the country but this study (research) focuses only in Addis Ababa by taking three branches ; Sengtera, Selassie and Tekleaymanot branch depositors. Even if the fact that inflation covers and affects many concerns; the study was restrict to the area of its effects on saving by taking CBE savings deposits over a period of 5 years (2009 – 2013 G.C)

## **1.8 Research design and Methodology**

### **1.8.1 Research design**

The researchers gathered and analyzed both primary data & secondary data. The necessary primary data were collected through interview and questionnaire. The secondary data obtained from the bank's annual report, bank manual & other materials.

### **1.8.2 Population and Sampling technique**

The researchers use a non probability sampling method form, that convenient sampling technique was selected, which was deemed to be the right method to get the necessary data at the time & resources of the researchers.

The researchers selected 3 branches from Addis Ababa city judgmentally based on the number of customer and has been giving different saving account services. Because of this the researchers took savers of three branches sengtera selassie and tekleyhaymanot branches from these branches 70 customers are filled our research question.

### **1.8.3 Method of data collection**

For the purpose of studying the effect of inflation on saving, the study used both primary and secondary sources.

### **1.8.4 Data analysis method**

The data was collected through interview; questionnaires & secondary data was then analyzed and interpreted by using descriptive analysis technique manifest through tables.

## **1.9. Limitation of the study**

In order to study the effects of inflation on saving account in CBE we faced some limitations.

- Constraints of money for detail analysis about the effects of inflation on saving account in all branches of Addis Ababa.
- Due to some problems like time constraints, lack of getting detail information from the organization.
- Unavailability of up -to-date literatures about their relationships /i.e. inflation and saving/ related to our country's banking experience.

### **1.10. Organization of the study**

The report of this research was organized in to four chapters. The first chapter deals with the background, statement of the problem, research questions, objective of the study, significance of the study, scope of the study, limitation of the study, methodology, and organization of the study. Chapter two presents the literature review of this research work. The data analysis, presentation and interpretation are presented in chapter three and finally summary of the major finding conclusions and recommendations made on the study are presented in chapter four.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2. Related Literature review

**2.1 Over view of saving account** Saving account are account maintained by retail financial institution that pay interest but cannot used directing aids money in the narrow sense of a medium of exchange (for example by writing a cheque). These accounts let customers set aside a portion of their liquid assets while earring in saving account may not be collectable immediately and in some jurisdictions does not in cur a reserve. Requirement freeing up cash from the bank vault to be lend out with interest. The other major types of deposit account are transactional account (checking account or current account money mark Savings account is an interest bearing deposit that CBE renders for physical and legal persons (Individuals, organizations and associations) who can fulfill the Bank's requirements are legal. The minimum balance to open a savings account should be Birr 25.00. However, Savings account may be opened and maintained with zero balance for one month. Within one month, the account holder should credit at least a minimum of Birr 25.00 in his/her account. However, if the account is not credited in the specified period, it should be closed following the normal account closing procedure.et account & time deposit. (Black, john.1998)

#### 2.2. Definition of saving account?

Saving means putting some of your money away for emergencies and / or short term (less than one year) financial goals. Many that is saved for an emergency and or shorter goals should be placed where there is very little risk of your money losing its value Because you didn't want to assume too much risk when saving your money the rate of interest that you receive is typically very low. Money that is saved for an emergency and or a short term financial purpose

should be easing and reading accessible. Individual should use saving account money market account and for certificates of deposit to save for emergencies and / or short term financial goals. (www.ask.com)

The interest rate paid on these account is typically much lower than what you would receive by investing your money. That is why it is appropriate to invest your money for long term financial goals. The interest rate paid on these account typically does not keep pace with the rate of inflation. (www.money instructor .com)

## 2.3 Types of bank account

The banker soloist's deposits from heterogeneous types of people in deferent walks of life having different forms of financial status thus he bas introduction different kinds of accounts tailor and to cater to the interest

### They are

- Demand deposit popularly and current account
- Time deposits known as fixed
- Deposit
- Saving deposit

Combination of any two or three of the above mentioned accounts such as rearing deposits retirement plan of cumulative time deposit account (k.p kandasani, 1998).

**2.3.1 Demand deposit:** is popularly known as current accounts and are technically referred to as floating deposit. It includes saving bank deposit also. The banker is under no obligation to repay deposits on demand. Hence they are demand deposits (ibid).

### **2.3.2 Current Deposit**

In deposit terminology the term current deposit refers to a deposit to a bank account or financial institution without a specified maturing date. These types of current deposit account generally only earn demand deposit interest (ibid)

#### **The main features of current account are as follows:-**

1. Current bank accounts are operated to run a business.
2. It is non-interest bearing bank account.
3. It needs a higher minimum balance to be maintained as compared to the savings account.
4. Penalty is charges if minimum balance is not maintained in the current account.
5. It charges interest on the short term funds borrowed from the bank.

#### **Advantage of current bank account**

Current account is mainly opened for businessmen such as proprietors, partnership firms, public and private companies, trust, association of persons, etc, that that a large number of daily banking transactions. I.e. receipts and/or payments.

1. It enables businessmen to carry out their business transactions properly and promptly.
2. The businessmen can withdraw from their current accounts without any limit, subject to banking cash transaction tax, if any levied by the government.
3. Home branch is that location where one opens his bank account. There are no restrictions on deposits made in the current account opened in a home branch off a bank. However, the current account holder can deposit the cash from any other branch of a bank other than the home branch by paying a nominal charge as applicable.

4. It helps businessmen to make a direct payment to their creditors by issuing cheques, demand-drafts or pay-orders. etc. ([www.combanketh.com](http://www.combanketh.com)).

### **2.3.3 Saving deposit**

A deposit held at a bank or other financial institution that provides principal security and a modest that provides principal security and a modest. Interest rate depending on the specific types of saving account.

The account holder may not be able to write cheques from the account / without incurring extra fees or expenses and the account is likely to have a limited number of the transfers /transaction saving account funds are considered one of the most liquid investments outside of demand account and cash. In contrast to savings account checking account allow you to write checks and use electronic debit to access. Your funds inside the account saving account are generally for money that you don't intend to use for daily expenses.

To open a saving account. Simply go down to your local bank with proper identification and ask to open an account. (CBE Annual Report, 2013)

**Limitation of a saving account:** is the amount of withdrawals you can make per month. Unlike a checking account, which lets you withdraw money until there are no funds left, savings accounts are restricted to 6 withdrawals per month. Another limitation is that withdrawals usually can only put into a liked checking account- you can't directly transfer funds from a low-interest savings account to a savings account with a higher yield.

### **2.3.4. Fixed deposit**

In deposit terminology the term fixed deposit refers to saving account or certificate of deposit that pays a fixed rate of interest until a given maturity date funds placed in a fixed deposit usually can't be withdrawn prior to

maturity or they can perhaps only be withdrawn with advance notice and/or by having a penalty assessed.(ibid)

## **2.4 Opening of a new account**

Before opening a new account a banker should take certain precautions i.e. the applicant who wants to open an account with a bank must be properly introduced to the banker. If the banker opens an account without proper introduction or shows carelessness in this regard, the chance of fraud or misrepresentation may occur. By making necessary enquiries from the references furnished by the new customers the banker can easily verify & judge whether or not the person wishing to open an account is a desirable person (K.pkandasmī, 1998)

### **2.4.1 General precautions to be taken by a bank in opening of a new account**

By opening an account with the banker, Customer relationship imposes several obligations on the banker e.g. honoring of cheques drawn by the customer, maintenance of credit of the account, etc. To safeguard the interest of the banker, it is necessary the bankers should open only for honest, reliable & responsible parties. Therefore before opening an account the banker should observe the following precautions:-

1. **Application on the prescribed form;** To open an account the customer is required to mention his name, occupation, full address, specimen signature & the name & signature of a person for reference. He also undertakes to comply with a bank's rules in force from time to time for the conduct of the account.

2. **Introduction of the application;** before opening a current account the banker should obtain reference from respectable parties as to the proposed customer's integrity & responsibility.

**3. Safety against when over draft to the prospective customer** as times an over draft may be granted in advertently. In such a case the amount can be realized only if the customer is responsible solvent party.

**4. Equities about the customer; under** comment courtesy practice a bank has to answer enquires from his fellow banker should retain sufficient information about his customer regarding the latter's financial soundness, name of Business in which he is engaged etc.

**5. Evidence of negligence;** Omission to make enquiries regarding the new customer may make a banker guilty of negligence.

**6. Specimen signatures;** Every customer is required to supply his banker with a dew (usually three) specimen signature cards kept by the banker. These cards are indexed and filed by the banker in alphabetical order for future reference. (Anderw petal)

## **2.4.2 Operating the account**

After opening the account the banker hands over to the customer

1. A cheque book
2. A paying in slip book &
3. A pass book

**1. A cheque book.** The customer has to draw money from the bank. The cheque may be in favor of the customer himself or infamous a third parts the customer must exercise reasonable care to see that the cheque book does not fell in to other hands.

**2. A paring in slip book** – when the customer wished to deposit money into this account will have to fill in a form pairing in slip.

**3. A pass book** – as a small handy book while contains a record of transactions in debit credit between a banker & his customer

## **2.5 Inflation overview**

Inflation effects an economy in various ways; either positively or negatively. Negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation is rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include ensuring that central banks can adjust real interest rates (to mitigate recessions), and encouraging investment in non-monetary capital projects. (kohn.Meir)

### **2.5.1 Definition of inflation**

Inflation can be defined as the persistent increase in a level of consumer prices, or the persistent decline in the purchasing power of dollars. This decline in purchasing power, or price inflation, stems from monetary inflation, caused by the government's injection of additional currency into the money supply.(ibid)

Inflation is a persistent increase in the general price level of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money; it is a loss of real value, as a single dollar is able to purchase fewer goods than it previously could.(ibid)

### **2.5.2 Types of Inflation**

Inflation is a persistent increase in the general price level, and has three varieties: demand-pull, cost-push, and built-in.

The reasons for inflation depend on supply and demand. Depending on the type of inflation, changes in either supply or demand can create an increase in the price level of goods and services. In Keynesian economics, there are three types of inflation. (Andrew petal)

### **Demand-Pull Inflation**

Demand-pull inflation is inflation that occurs when total demand for goods and services exceeds the economy's capacity to produce those goods. Put another way, there is "too much money chasing too few goods." Typically, demand-pull inflation occurs when unemployment is low or falling. The increases in employment raise aggregate demand, which leads to increased hiring to expand the level of production. Eventually, production cannot keep pace with aggregate demand because of capacity constraints, so prices rise. (ibid)

### **Cost-Push Inflation**

Cost-push inflation occurs when there is an increase in the costs of production. Unlike demand-pull inflation, cost-push inflation is not "too much money chasing too few goods," but rather, a decrease in the supply of goods, which raises prices.

The reasons for decreases in supply are usually related to increases in the prices of inputs. One major reason for cost-push inflation is supply shocks. A supply shock is an event that suddenly changes the price of a commodity or service. (Sudden supply decrease) will raise prices and shift the aggregate supply curve to the left. One historical example of this is the oil crisis of the 1970's, when the price of oil in the U.S. surged. Because oil is integral to many industries, the price increase led to large increases in the costs of production, which translated to higher price levels. (ibid)

## Built-In Inflation

Built-in inflation is the result of adaptive expectations. If workers expect there to be inflation, they will negotiate for wages increasing at or above the rate of inflation (so as to avoid losing purchasing power). Their employers then pass the higher labor costs on to customers through higher prices, which actually reflect inflation. Thus, there is a cycle of expectations and inflation driving one another.

### 2.5.3 Measurement of inflation

Inflation is measured through two indexes, each of which represents of a group of prices. One index measures how pricing is affecting consumers, or buyers. The other index measures how pricing is affecting producers, or suppliers and vendors. The two indexes are as follows:

- **CPI: Consumer Price Index:** The CPI is the index that measures prices that are of concern to consumers. This index is made up of thousands of specifically selected prices of goods and services. Economists labored to select the right goods and services to be included in these numbers. Each month the US Bureau of Labor Statistics collects information on prices from thousands of companies, and these numbers are combined to create the index for that month. This number represents how inflation is affecting consumers.
- **PPI: Producer Price Index:** The PPI is the index that measures the selling prices that matter to producers, or companies, vendors and suppliers. This index, which is also compiled by the US Bureau of Labor Statistics, is comprised of thousands of prices and is measured monthly. ([www.moneyinstructor.com](http://www.moneyinstructor.com))

## 2.5.4 Causes of inflation

There are two main causes of inflation:

- Demand-pull (when there is excess demand), and
- Cost-push (when costs rise)

**Demand-pull inflation:** This occurs when there is excess aggregate demand in the economy (overall) or in a specific market or industry. Businesses respond to high demand by raising prices to increase their profit margins. Demand-pull inflation is associated with the boom phase of the business cycle

The main causes of demand pull inflation are

- A weaker exchange rate which increases the price of imports and reduces the foreign price of UK exports
- A reduction in direct or indirect taxation - consumers have more disposable income causing more demand
- Rapid growth of the money supply as a consequence of increased bank and building society borrowing
- Rising consumer confidence and an increase in the rate of growth of house prices
- Faster rates of economic growth in other countries – providing a boost to UK exports overseas

**Cost-push inflation:** This occurs when costs of production or operation are increasing. The key causes include:

- External shocks (e.g. commodity price fluctuations)
- A depreciation in the exchange rate (weaker pound = more expensive imports)
- Acceleration in wages

What happens when faced with cost-push inflation?

- Firms raise prices to protect their profit margins – better able to do this when market demand is price inelastic
- “Wages often follow prices”
- A rise in inflation can lead to rising inflationary expectations

### 2.5.5 Inflation Consequences

High and volatile inflation has economic and social costs.

- ❖ **Anticipated inflation:** When people are able to make accurate predictions of inflation, they can take steps to protect themselves from its effects. Trade unions might use their bargaining power to negotiate for increases in money wages to protect the real wages of union members. Households may switch savings into accounts offering a higher rate of interest or into other financial assets where capital gains might outstrip price inflation. Businesses can adjust prices and lenders can adjust interest rates. Businesses may also seek to hedge against future price movements by transacting in “forward markets”. For example, many airlines buy their fuel months in advance as a protection or ‘hedge’ against fluctuations in world oil prices. (birritu(2010/11))
- ❖ **Unanticipated inflation:** When inflation is volatile, it becomes difficult for individuals and businesses to correctly predict the rate of inflation in the near future. Unanticipated inflation occurs when people, businesses and governments make errors in their inflation forecasts, Actual inflation may end up below or above expectations causing losses in real incomes and a redistribution of income and wealth from one group to another.
- ❖ **Money Illusion:** People often confuse nominal and real values because they are misled by the effects of inflation. For example, a worker might experience a 6 per cent rise in his money wages – giving the impression that he or she is better off in real terms. However if inflation is also rising

at 6 per cent, in real terms there has been no growth in income. Money illusion is most likely to occur when *inflation is anticipated*, so that people's expectations of inflation turn out to be some distance from the correct level. (ibid).

## The Economic Costs of Inflation

We must be careful to distinguish between different degrees of inflation, since low and stable inflation is less damaging than hyperinflation where prices are out of control.

1. **Impact of Inflation on Savers:** When inflation is high, people may lose confidence in money as the real value of savings is severely reduced. Savers will lose out if interest rates are lower than inflation – leading to negative real interest rates. This has certainly happened in the UK during 2009-2011.
2. **Inflation Expectations and Wage Demands:** Price increases lead to higher wage demands as people try to maintain their real living standards. This process is known as a 'wage-price spiral'.
3. **Arbitrary Re-Distributions of Income:** Inflation tends to hurt people in jobs with poor bargaining positions in the labor market - for example people in low paid jobs with little or no trade union protection may see the real value of their pay fall. Inflation can also favor borrowers at the expense of savers as inflation erodes the real value of existing debts.
4. **Business Planning and Investment:** Inflation can disrupt business planning. Budgeting becomes difficult because of the uncertainty created by rising inflation of both prices and costs - and this may reduce planned investment spending.
5. **Competitiveness and Unemployment:** Inflation is a possible cause of higher unemployment in the medium term if one country experiences a much higher rate of inflation than another, leading to a loss of

international competitiveness and a subsequent worsening of their trade performance.

#### **2.5.5.1 Who is hurt by inflation?**

Inflation does not hurt everyone like many may think. Inflation hurts the individuals or businesses that lend out money. In addition, it hurts the elderly and those whose income is not indexed to inflation.

#### **2.5.5.2 Who is benefitted from Inflation?**

**Debtors benefit by inflation.** In inflation, the dollars decrease in value. So, the debtor borrowed the dollars when they were worth a certain amount, but repays the debt with dollars that are worth less. People who save money are hurt, because the dollars they have saved will decrease in value due to inflation.

**Creditors may be hurt,** because they are repaid with dollars less valuable than those they lent out. This may be offset, however, by the rate of interest they charge on the loans. People on fixed incomes, such as retired people, are hurt because this year's dollars will not buy as much as last year's dollars.

#### **2.5.5.3 Benefits of inflation**

Can inflation have positive consequences? The answer is yes although much depends on what else is happening in the economy. Some of the potential advantages of benign inflation are as follows:

**1: Higher revenues and profits:** A low stable rate of inflation of say between 1% and 3% allows businesses to raise their prices, revenues and profits, whilst at the same time workers can expect to see an increase in their pay packages. This can give psychological boost and might lead to rising investment and productivity.

**2: Tax revenues:** The government gains from inflation through what is called 'fiscal drag effects'. For example many indirect taxes are ad valorem in nature, e.g. VAT at 20% - so as prices rise, so does the amount of tax revenue flowing into the Treasury.

**3: Cutting the real value of debt:** Low stable inflation is also a way of helping to reduce the real value of outstanding debts – there are many home owners with huge mortgages who might benefit from a period of inflation to bring down the real burden of their mortgage loans. The government too might welcome a period of higher inflation given the huge level of public sector debt!

**4: Avoiding deflation:** Perhaps one of the key benefits of positive inflation is that an economy can manage to avoid some of the dangers of a deflationary recession. ([www.perrsuneduc.com](http://www.perrsuneduc.com))

## **2.6 Relationship between Monetary Policy and Inflation**

Monetary policy is illustrated as a very simple concept, yet it becomes complex when discussing the effects it can have on the economy and inflation. Changes made to monetary policy serve as a mechanism to control inflation over time, and this action affects financial markets and individual investors, as well as everyone else in the nation. (Paul.M.horwitz, 1963)

### **Monetary Policy Defined As**

Monetary policy functions as a regulation mechanism for the nation's money supply and interest rates. This regulation is orchestrated by a central bank in order to stabilize the currency and control inflation. The Federal Reserve Board manages monetary policy in the United States. Simply put, the government's effort to control its money supply defines monetary policy.

Inflation can be defined as the persistent increase in a level of consumer prices, or the persistent decline in the purchasing power of dollars. This decline in purchasing power, or price inflation, stems from monetary inflation, caused

by the government's injection of additional currency into the money supply. When the nation has an increase in currency and manufactured goods cannot keep up the pace, this creates monetary inflation and prices start to rise. (ibid).

### **How Monetary Policy Influences Inflation**

Monetary policies basically work by either stimulating or discouraging consumer spending for goods and services in an effort to smooth the effects of economic booms and recessions over time. For example, monetary policies may get enacted to cause wages and prices to raise faster, which decreases unemployment and increases the output of products. The Fed attempts to stimulate demand enough through monetary policy to get production of goods and the lending of money to increase beyond current capacities, to reduce the currency supply, and hence, lower inflation. (ibid).

Additionally, monetary policy can influence inflation in a roundabout way through the expectations of people in financial markets. When the financial markets think the Federal Reserve has not focused on controlling inflation, they start to add their own risk premium to interest rates, in other words, the financial markets create a rise in interest rates rather than waiting on the actions of the Fed, as a safety mechanism due to their own expectations about future monetary policy changes and inflation.

### **Length of Time for Changes**

Changes in monetary policy do not have quick effects on inflation and the economy. Effects on manufacturing output can take at least three months, or up to two years. Additionally, it may take one to three years or longer to see any effects on the rate of inflation.

## **2.6.1 Relationship between saving and inflation**

The observed relationship arises primarily because in time of inflation measured income & measured saving over the corresponding real & perceived quantities (www.ask.com)

### **1. on the rate interest**

The amount of saving was determined by the rate of interest i.e. arise in the tare of interest would call fourth more saving however, the real interest rate was negative but people save significantly more. The real interest rate is arrived all by subtracting the rate of inflation from the rate of interest. (Andrew 2011)

### **2. on the counters economy**

Saving may be under taken by households firms & even by the government. The households in invested this saving in the capital market in the purchase of bonds and Shares debentures etc. The business sector borrow funds from the capital market for making investments, and also the government uses the saving to facilitate economical developmental activities & make away for economic growth. But inflation has a lot of effect on economic growth. This is because it increases uncertainty & discourages investment causes deflation, while excess of investment over savings causes inflation. The government can contract these situations by regarding investment through its monetary policy (banking system 2002).

## **CHAPTER 3**

### **DATA ANALYSIS AND INTERPRETATION**

#### **3.1. Characteristics of the study population**

This chapter presents the data collected through questionnaire of interview the analysis made on such data and the interpretation of such analysis on the data. The questionnaires were utilized to collect primary data from saving account customers of the bank. In such endeavor 70 questionnaires were distributed for 70 customers of the bank located in three branches. From those 66 were dully filled and returned. The interview is made with the branch manager and saving account pc operator of the bank the data gathered in the presented in tables showing frequency distribution percents and analyzed using descriptive analysis technique. The data the analysis and interpretation made on the data are presented here with.

##### **3.1.1 Data presentation & analysis and of questionnaires.**

One of the basic primary date gathering tool that the researchers use is a questionnaire in an intend of getting a standardized response on the item it is designed to address this section presents and discuss the data gathered from primary sources of questionnaires.

##### **3.1.2 Background of the respondents**

Knowing the background of research respondents is one of the basic prerequisite for and study undertakings according the researcher gathered the general characteristics of respondents as sex age employment status educational level of respondents in the sub section below.

### 3.1.3 Sex distribution of respondents

Saving is not an activity which is presented by one gender than the other. That is it is expected to be carried out by females as equally as males. In this regard the researcher gathered the following data regarding the gender of the respondents as summarized in the table below

**Table -1 Gender information**

<b>Gender information</b>	<b>Respondent</b>	
	<b><u>No</u></b>	<b><u>Percent</u></b>
Male	39	59%
Female	27	41%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from table I above the majority (59%) of the respondents are male while the rest 31% are female in the researcher view, having male customers dominating in a country where female – male ratio is almost equal is surprising. however this may be partially resulting from the fact that most male are recruited and hence have relatively more earning than females are not well aware about saving, or now even females be further aware about the imposed of inflation an saving and preferred to save their money in a form of jewellery made of gold or other invaluable items the researchers would like to advice the bank's management to boost the ratio of its female customers.

### 3.1.4 Age category

Saving is motivated by age. There is through difference among individual for the custom of saving with age in this regard the researchers gathered the following data regarding the age category of the respondents as summarized in the table below.

**Table-2 Age category**

Age	Respondents	
	<u>No</u>	<u>Present</u>
18 – 25	14	21%
25 – 35	29	44%
35 – 45	13	20%
Above 45	10	15%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from table 2 above 44% of the respondent are between the age categories of 25 – 35 followed by 21% of the them are between the age category 18 – 25 thereafter 20% of the respondent are at the age of 35 – 45 & unfortunately 15% of the respondent are above the age 45

In this researches view saving has preferential on age according to this individual set to make saving in younger age than the older one affording the basic necessity getting influenced saving. This perfectly reflects the Ethiopian productive age. As people get older this productivity declines and so are their income and apparently their saving.

### **3.1.5 Employment status**

An employs has a significant knowledge on the customization of saving the relative impactions towards quality of life and high standard of living assort the value of this activity in this regard the researchers gathered the following data regarding the employment status of the respondents as summarized in the table below:

**Table-3 Employment status**

<b>Employment status</b>	<b>Respond</b>	
	<b>No</b>	<b>Percentage</b>
Employed	48	70%
Unemployed	2	3%
Businessman	8	12%
Other	10	15%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from table 3 above the majority of the respondent (70%) are employed (12%) of the respondents are business man and the remaining 3% are unemployed in the researcher view the employed customers and typicaling the businessman have strong saving intensity. hence are more or less significantly affected by the national's inflation. therefore, the researchers expect that they are the perfect study population to assess the impact of inflation on their saving. furthermore all citizens whatever are their saving capacity must active the necessity of saving.

### **Educational level**

Educational direct and guides through the approaches of saving through creating awareness that is the merits of saving are clearly comprehended through education. In this regard the researchers gathered the following data regarding the educational level of the respondents as summarized in the table below.

**Table-4 educational level**

Educational level	Respondent	
	No	percentage
Less than 12 grade	7	11%
12 grade complete	7	11%
Certificate	5	8%
Diplomat	17	26%
1 <sup>st</sup> degree and above	30	44%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from table 4 above the majority respondents (44%) are 1<sup>st</sup> degree and above holders while the rest 26% have Diploma and none of the respondents are below diploma.

In this researchers view education background advocates and share critical reason for having the customer and accomplishment of the behavior of saving as a result it can be concluded that the respondents are in comfortable situation to address the issues regarding the impact of inflation on their saving

### **3.2 Analysis of the findings of the study**

#### **3.2.1 Saving account information of customers in CBE**

Knowing the saving account information of the customer helps the researchers to draw useful conclusions as to which types of account is commonly used by the customers and to address the customers preference of normal saving accounts. This knowledge of the saving accounts. Information also tells the level of knowledge of the customer towards the nature of these account types and tradeoffs associated with these saving accounts.

#### **Types of saving**

There are 4 types of saving account in a bank the 1<sup>st</sup> one is special saving and the 2<sup>nd</sup> one is normal saving 3<sup>rd</sup> young saving account 4<sup>th</sup> women saving

account in this regard the researchers gathered the following data regarding types & saving a respondent has as summarized in the table below.

**Table-5 saving account type**

<u>Type</u>	<u>No</u>	<u>Percentage</u>
Special saving account	7	11%
Normal saving account	50	78%
Both	6	10%
Young saving account	3	5%
Women saving account	0	0%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from table 5 above 11% of the respondent's have a special saving type, 78% of the respondent's have a normal saving account only and 10% of the respondents, 3% of the respondent's have a Young saving account have both types of account at the same time this shows that a majority of to respondents have a normal saving account. In the researcher view. Because of tolerability nature for entering and with drawing their saving amount most of the respondents have a normal saving account however due to the inflexibility nature and number of requirements in the women saving account no one has opened only this account from our respondents

### **3.2.2 Satisfaction of customers on the current interest rate**

Today's free market trend opted for customer satisfaction survey as there are more number of alternative for the customers there days the banks should work analysis on customer satisfaction in order to decrease the migration in order to decrease the migration of customers to other state owned or private bank service. The customer satisfaction is not related to interest rate but also

on the facilities and fast services provide by the bank. In this regard the researchers gathered the following data as summarized in the table below.

**Table -6 Satisfaction of customers**

Do you believes that the interest that you earn on your solving account satisfactory?	Respondents	
	No	Present
Yes	20	30%
No	46	70%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As if can be seen from table 6 above 30% of the respondents were satisfied but 70% of the respondents were not satisfied by the current rate of interest more than half of the respondents were not satisfied by the bank's interest rate.

In this researches view the majority's dissatisfaction on the current interest rate of the bank could be due to the fact that these customers are aware of the fact that they are currently receiving a negative return after adjusted for inflationary basis. Thus the bank has to reorganize the motivation of satisfying its customers through better interest policies which are intended to address the current aggravated inflation rates. Limitations on satisfaction may causes disrupting of business.

### **3.2.3 Objective of savers**

The objective if saving may be viewed as a multidimensional entity. Someone may save money in the bank due to safety reason and others may same due to the return they can get from the bank regardless of the above facts it is true that some intellectuals may save money in the bank due to their good person that the money can do much return to the country it is collectively manipulated by the government or some larger business firms that individuals

in this regard the researcher gathered the following data as summarized in the table below.

**Table 7 objective of customers**

Why do you save your money?	Respondents	
	No	Percentage
Return	35	53%
Safety	21	32%
Both	4	6%
Other specify	6	9%
Total	66	100%

**Source: primary data**

As it can be seen from table 7 above 53% of the savers are deposited their money with the basic aim of earning a relative high return on the other hand, 32% of the savers have an aim of safety. The other 6% of respondents have an aim of both return and safety. The remaining 9% of the savers stated other reasons as manage properly when risk happens and also for future requirement of their needs.

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

### 3.2.4 Duration of being customer of CBE

The customer's experience of saving in the bank helps the researchers to analyze and investigate the people's habit of saving money. It also helps to develop the awareness to create local strategies in a country.

Accordingly the researcher gathered the following data regarding duration of saving customer the respondent have with the bank as summarizing in the table below

**Table 8 Duration of being customer of CBE**

Duration of being customer?	Respondent	
	No	percentage
Less than one year	15	23%
1-3 years	28	42%
4-7 years	18	27%
Above 7 years	5	8%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from the above table 8 beyond 23% of the respondents were customers less than a year, 42% of the respondents were customer ranging from 1-3 years, 27% of the respondents were customer for 4-7 years and remaining 8% of the respondents were customer above 7 years of duration

As it can easily be understood majority of the respondents were customer with duration range of 1-3 years in the bank.

As for the research's consumption, the customer of the bank has ample experience about the service of the bank. However in the researcher view to have permanent customers the bank must adjust prolonged service providing styles, mark extreme emphasis on customer need and also adjust its service on current technological system. Respondent are casual basis to keeping the

respective duration for as to long their interest is well maintained the verification of the researchers data has indication of the decrease and shift of respondents there for the bank must review the taste of customers and the provision of service.

### 3.2.5 Attainment of customer's objective

As it is stated in section 3.2.4 every customer has his own objective in saving money in the bank. Regardless of the interest of the customer the bank should carefully consider the attainment level of the objective of their customer table of summarizes the response respondents up on the issue.

**Table-9 Attainment of customer's objective**

Done your objective was attained as a result of opening the account?	Respondents	
	No	percentage
Agree	5	8%
Disagree	46	69%
Do not know	15	23%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source: primary data**

As it can be seen from table above, 8% of the respondents were agreed. Moreover, 69%of respondents were disagreed on the attainment customers objective, 23%of the respondents did not have known reason if their objective is attained or not.

In the researcher view, the bank follows a well participated and calculated managerial decision making procedures intended to specifically attain customer related objectives. Risk element and conception may restive to all action of the management and administration process.

### 3.2.6 Customer attitude towards the problems on saving account

Customer of a bank may have various attitudes regarding the services rendered by the bank and problems countered in such service provision. Accordingly, the table below summarized the bases to sort how the customers approach on this point view.

**Table-10 Customer attitude towards the problems on saving account**

Do you think any problem would arouse on your saving account?	Respondents	
	No	Percentage
Yes	10	15%
No	56	85%
<b>Total</b>	<b>66</b>	<b>100%</b>

**Source primary data**

As it can be seen in the table 10, above 15% of the respondents through problem may arise on their saving account. However, 85%of the respondents were not thinking trait a problem happened on saving account. Most the savers thought the problems did not arise on saving account.

In the researcher view, the bank presumably shares the unbalanced dual happening of risks to the respondents and itself. There by protecting its customers, vital achievement sewers the affinity to hold expected involvement in duty. Roles can also assume an effective manipulation of working environment this has to be the dynamic allocation of the bank system.

### 3.2.7 Response of the company for customer's comment

Table-11 response of the company

Response	Respondents	
	No	Percentage
Good	20	30%
Very good	37	56%
Poor	3	5%
No response	6	9%
Total	66	100%

Source: primary data

As it can be seen in the table 11 above, 28% of the respondents said it is good, 58% of respondents said it is very good 3% of the respondents said poor and 11% said no response is given by the company.

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

### 3.2.8 Customer awareness of inflation

Information affects different people differently. This is because of far in the view of money when the value of money falls, some group of the society gain, some lose and some stand in between. Being affected or not goes in line with people's awareness to ward inflation. To know the attitude of customers the researchers gather the following data

### 3.2.9 Awareness of customer on the current inflation rate

Know the customer awareness about the current inflation rate helps the researchers to measure the awareness level of customer on the issue of inflation rate currently on the nation customer's response summarizes in a proper manner must have deep consideration. To summarize the awareness of customers on the current inflation rate the table below presents the Following:-

**Table 12 Awareness of customer on the current inflation rate**

Are you aware about the current inflation rate of the nation?	Respondents	
	No	Percentage
Yes	13	20%
No	53	80%
Total	66	100%

**Source: primary data**

As it can be seen in the table 12 above 20% of the respondents have awareness, but 80% of the respondents were not aware about the current information rate.

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

### **3.2.10 Consideration of customer to open the account**

The customer considers a wide range application as emphasized through the data on the following table. The data summarized on the consideration of customer in respect of two rates (i.e. inflation rate and saving rate)

**Table-13 Consideration of customer to open the account**

Have you ever compared the inflation rate is the available interest rate?	Respondents	
	No	Percentage
Yes	11	31%
No	25	69%
Total	66	100%

**Source: primary data**

As it can be seen from table 13 above, 31% of the respondents predetermined the inflation rate assumed with the available interest rate before opening an account however 69% of the respondents insisted do not making such comparisons in opening in the account.

In the researcher's view, most respondents received relatively low aspiration to support their determination for the comparison of inflation rate. The bank devises effective steps to establish conclusive recommendation to respondent's determinations.

### 3.2.11 Level of awareness on the relation of inflation and saving

Knowing level of awareness helped the researchers to identify most of customer are which level and to know how customers relate inflation and saving based on their level of awareness. This build up awareness of respondents on the basis of inflation and saving the table below summarizes level of awareness on the relation of inflation and saving.

**Table-14 Level of awareness on the relation of inflation & saving**

Response	Respondents	
	No	Percentage
Poor	12	50%
Fair	9	25%
Very good	9	25%
Total	36	100%

**Source: primary data**

As it can be seen from table 14 above 50% of the respondents indicated their level of awareness to be poor, 25% of the respondents confirm it as fair, and 25% of the respondents indicated as they have a very good awareness.

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

### 3.2.12 Saver action during inflation period

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

**Table-15 savers action during inflation period**

Response	Respondents	
	No	Percentage
Withdraw	27	41 %
Nothing done	35	53%
Any other	4	6%
Total	66	100%

**Source: primary data**

As it can be seen from table 15above, 41%of the respondents took action on withdrawing their money, 53%of the respondents remained on keeping their saving account, and 6%of the respondents specify alternative reasons i.e. Purchasing materials.

In the researcher view, savers awareness is poor, they could not do anything about their saving deposits during inflation happened, developing a technique may help savers to increase their awareness level.

### 3.2.13 Are customers' savings growing during inflation period?

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

**Table-16 Are customers' savings growing during inflation period?**

Response	Respondents	
	No	Percentage
Yes	55	83%
No	11	17%
Total	66	100%

**Source: primary data**

As it can be seen from table 16 above, 83% of respondents think that the saving amount is growing during an inflation period. However, 17% of the respondents did not think that the customers' saving amount grows.

In the researcher's view, most of the savers think the amount is growing during the inflation period, since most savers didn't have knowledge of what inflation means. They simply think that the amount of their savings will grow on times of inflation occurrence. But it declines in real terms.

### **3.3 Data presentation and analysis of interview**

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

#### **3.3.1 Overview**

This section presents the data collected through interview during the data collection. The researcher focused on how the banks tolerate inflation to saving and also understands the controlling mechanism of CBE through interviewing the pc operator and managers.

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

### **3.3.2 Banker emphasis on relationship between inflation and saving**

The pc operator of the bank handles all saving activities of the bank and many their focus on saving account transactions. It doesn't focus the relationship of them.

In the researcher view, most of the bankers i.e. the operator function on routine account transactions. It doesn't relate and does not emphasize deeply on the issues.

### **3.3.3. Banker recommendations when inflation occurs**

The banker cannot give recommendations for issues as well as raise ideas

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

### **3.3.4. Control mechanisms of the bank during the occurrence of inflation**

The bank didn't have any control mechanism up on inflations. As the banker said it doesn't have an adverse effect on the banks saving account services. There is no control mechanism in the bank system.

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

### **3.3.5 Raising questions on the issue of customers**

Few numbers customers raise questions about the issue of inflation. Instead, most of the customer deposit and withdrawing their sum.

In the researcher view, most of savers are not aware of what inflation means and its impact. They didn't raise questions about it. So the bank must provide and guide its customers to have awareness about such considerations.

### **3.3.6 Separate departments of the bank linked to banks services**

The bank separate departments to assess the banks services and associated problems. This termed 'as operation department'. The banks also have a corporate planning research and business development to analyze as such things like market conditions and the like.

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

### **3.3.7 Interest rate of the bank**

The bank has an interest rate of 5% for normal saving account. But, also pays above for a time period of certificate of deposit or special saving on 6-9 month, 9-12month, 12-18month and 18-24month fixed deposits. Here also, the interest rate increases when the deposits are higher i.e.25000-1000000, 1-12million and above 2 million .the bank pays above 5% i.e.5% up to 5.5%.

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

### 3.4. Data presentation and analysis of secondary data

Secondary data are those, which have been collected by some other person for their purpose and publish this section presents and discusses the data gathered from secondary data.

#### 3.4.1 Trends of saving deposit in CBE

Throughout the years of services of four years the bank provides a service of saving account and has many savers .through the experience of saving account services ,the bank encountered different trends .the four years saving deposit of the bank are as follow:-

**Table-17 saving deposit**

<b>Annually</b>	<b>Amount</b>
June 2009	1,775,941,521
June 2010	21,885,877,992
June 2011	31,163,200,000
June 2012	42,087,000,000
June 2013	52,547,895,300

**Source: CBE Annual report of 2009-2013**

As shown the above table 17, the saving deposits increase as for durations from 2009 based on the above table the deposit balance has increased from birr 1775941521 up to 52547895300 bill annually deposits in 2009-2013.

#### 3.4.2 The current inflation rate

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

**Table-18 inflation rate**

Year	Inflation rate
June 2008	43.80
June 2009	10.57
June 2010	8.12
June 2011	33.00
June 2012	23.33
June 2013	8.07

**Source: CSA**

### **3.4.3 Correlation between inflation and saving deposit**

Correlation uses the correlation coefficient to determine the relation between two properties. To show the relation of inflation and saving the following table's presents below.

**Table -19 Correlations between inflation and saving deposit**

Year	General inflation rate	Saving deposit
2009	10.57	17,759,415,21
2010	8.12	21,885,877,992
2011	33.00	31,163,200,000
2012	23.33	42,087,000,000
2013	8.07	52,547,895,300

**Source: CSA&CBE REPORT**

Is shown in the table 19 above the correlation coefficient of inflation and interest rate is approximately 0.9. This shows the two i.e. the general inflation rates and savings deposits are similar & positively correlated them indicates both are increasing throughout the researcher's time taking period of data.

**A. lack of awareness of customer CBE about inflation.** As shown in the table 14 & 16 above, awareness of customers about the relationship of inflation & saving. Are poor and most customers think their saving amount was grown at the inflation period these lead customers to decide wrongly. I.e. having no knowledge of inflation, customer puts his/her money to the bank by not remind the inflation decreases its real interest rate. While the real interest rate

is arrived at by subtracting the rate of inflation from the rate of interest. To elaborate the above idea, the following example depicts below.

**For example:** - customers have birr 100 birr to his saving account on the bank. The current inflation rate on that period is 10% and the current interest rate of saving to calculate the real interest rate.

$$\begin{aligned}\text{Real interest rate} &= \text{Rate of interest} - \text{Rate of inflation} \\ &= 4\% - 10\% \\ &= (6\%)\end{aligned}$$

This shows the customer's losses 6% from his saving account deposit rather than getting return. If the customers have a knowledge about the relationships. May he/she decide other alternative rather than it deposits. So lack of awareness leads the customer to wrong decision.

### **B. Economical development of the country**

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

### **C. Branch expansion of the bank**

The opening of number of branches during the years has contributed to wands the growth of saving deposits of the bank.

- Due to an increasing of saving habit on the people

## CHAPTER 4

### SUMMARY, CONCLUSIONS & RECOMMENDATION

#### 4.3. Summary of the major findings

This research paper summarizes the main topic of the major findings. To research out such findings the researchers use primary & secondary sources of data collecting mechanisms. For primary data questionnaires & interview are used. Questionnaires provides to the customers to know their saving habits their saving information and to level their awareness about inflation on the other hand, interviews are conducted to know the bankers attitude to words inflation. Secondary data are used to know the effects of inflation over savings deposits in CBE. Based on this collected data the following findings are reached.

- In be regard to customer's background information, majority of respondents are males & ages between 25 & 35 about employment status, most of them are employers & business man & they are diploma holders and above.
- CBE as a bank, it provides a saving service the bank has. Two types of savings account, Normal saving & special saving accounts for the normal saving, it provides a 5% interest rate, but for this interest most of savers are not satisfied. However, the bank provides different interest rates for the special saving accounts.
- Inflation affects the trends of savings deposits and the habits of savers by deducting the interest rate of saving. However its effect couldn't show in the banks savings deposits of CBE at the researchers time taking period of this data.

### 4.3 Conclusions

The research was aimed to identify the impact of inflation on saving trends of commercial banks. In order to accomplish this, the researcher gathered data using primary & secondary data sources and reached in to the following conclusions.

The banks savings deposits are increasing from 2009 up to 2013 also the inflation rate is increasing at this period from this we conclude that both saving deposits and inflation rates are increasing on the period their trends are similar.

- As we has discussed the trends in the paragraph, both the inflation rate and savings deposits are increasing the two are directly related, i.e. they are positively correlated. This means they are in similar direction. Bat in theory the two are in different directions. This is because of the following.
  - Due to lack of awareness of savers about inflation
  - Due to economical conditions of our country
  - Due to due to branch expansion of the bank during the years.
- The majority of the respondents are aware about inflation. But they didn't relate and compare the saving interest rate with the current information rate, except entering and withdrawing its saving amounts they also think that their amount is grown on this period, form this we conclude that most of savers did not aware the inflation, which affects their saving deposit.
- The bank didn't emphasize on the relationship of inflation and saving and also the pc operators is not emphasized such things. In addition the bank have not any professionals to analyze and recommend savers on such issues, more over the customers are not raise a question on this issues and this leads the bank as not to focus. On the area of this area of this

## 4.4 Recommendation

Based on the findings summarized. In the previous section the researchers for word the following recommendations.

- The bank shall invite all interested customers to deposit their requirements of special saving account.
- Endorsement of better planned policies of interest restores the ultimate response from all interested respondents. So the bank shall devise appreciable interest policies.
- Risk elements and conception may restive to all action of the management and administration process. This shall be progressively assembled in its course of attainment and pander.
- The bank have ample experience about the services of the bank, however its customers are not more than 3 years on the bank at a customer there for the bank must review the taste of customers and the prevision of services.
- Protecting its customers. Vital achievement sewers the affinity to hold expected involvement in duty. Can also. Assume an effective manipulation of working environment. This will be encouraged by the dynamic allocation of the bank system.
- The restoration of peoples admiration originates on gratified aspiration often han.ded for future assortments.
- May the bank at risk when the customer aware the inflation rate deducts its interest, so bank shall be aware and able to restore its relationships.
- Developing and utilization of better techniques may help savers to increase their awareness level. So the bank shall better developing such techniques.

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# APPENDICES



4. Educational level

Less than 12 grade  12 Grade complete

Certificate  Diploma

Degree & above

**Part II Saving account information of customers**

5. What kind of saving is opened by you?

Saving types	Yes	No
Current deposit		
fixed deposit		
Saving deposit		
Other		

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

Yes  No

7. If your answer for the above question is Yes, do you please tell as the reason?

\_\_\_\_\_

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

\_\_\_\_\_

9. Why do you save your money?

Return  Safety  Other Specify

10. How long have been offered you to open your account?

Less than one year  1-3 Years

4-7 Years  above 7 years

11. Has your objective been attained as a result of opening the account?

Agree  Do not know

Disagree  Other (specify)

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

Yes  No

13. Response of the company when problem arises?

Good  Very good

Poor  No response

### Part III customer awareness of inflation

14. Have you ever compared the inflation rate with the available interest rate when you make a decision to open account in Commercial Bank of Ethiopia?

Yes  No

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

Poor  Fair  Very good

16. How to manage your money when inflation happens?

With draw  Noting done  other (Specify)

17. Do you think your saving amount is growth during inflation period?

Yes  No

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

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# Interview to banker

1. Do you and your subordinate give emphasis on the relationship between inflation and saving?
2. Having you observed differences in saving amount after inflation occurs?
3. Do you recommend saver's when they raise such questions?
4. What do you think are the impact of the inflation on your customer saving trend?
5. Is there any method to control inflation at a bank level?
6. Does the bank have a separate department responsible for banks services and it associated problems on it?
7. What is the interest rate the bank provides?

## DECLARATION

We, the undersigned declare that this senior essay is our original work, prepared under the guidance of Ato. Tesfaye Negate. All source of material manuscript have been duly acknowledged.

### Names

### Signature

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\_\_\_\_\_

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\_\_\_\_\_

ZERIHUN TSEGAYE

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Place of submission: St. Mary's University

Date of submission: June 02, 2014

This paper has been submitted for examination with my approval as the university advisor.

Name\_\_\_\_\_

Signature\_\_\_\_\_

Date\_\_\_\_\_