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FACTORS AFFECTING DEPOSIT MOBILIZATION IN COMERCIAL BANK OF ETHIOPIA: THE CASE OF ADDIS ABABA CITY BRANCHES

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Declaration/Confirmation

I Ashenafi Goche, hereby declare that the thesis work entitled, ''FACTORS AFFECTING DEPOSIT MOBILIZATION IN COMERCIAL BANK OF ETHIOPIA: THE CASE OF ADDIS ABABA CITY BRANCHES'', is outcome of my own effort and study and that all sources of materials used for the study have been properly acknowledged. I have produced it independently except for the guidance and suggestions of the research advisor. This study submitted by me for the award of the degree of Masters of Business Administration (MBA) in graduated studies of St. Mary's University at Addis Ababa Ethiopia, it is original work and it hasn't been presented for the award of any other Degree, Diploma, Fellowship or other similar titles of any other university or institution.

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Date: February, 2017

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Advisor Dr. Arega Seyoum   Signature_____Date_____

Statement of Certification

This is to certify that Ashenafi Goche carried out his project on the topic entitled "FACTORS AFFECTING DEPOSIT MOBILIZATION IN COMERCIAL BANK OF ETHIOPIA: THE CASE OF ADDIS ABABA CITY BRANCHES". This work is original in nature and is suitable for submission for the award of Master of Business Administration (General Management).

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Abstract

The study primarily aims at factors that affect deposit mobilization of Commercial Bank of Ethiopia. The study uses both primary and secondary data and uses both descriptive and regression analysis by using SPSS and EViews software's. The study empirically ascertains that, managing deposits is not possible without knowing and controlling the factors affecting it. For the qualitative analysis a total of 130 respondents answered the entire survey. The overall response rate for survey was approximately 86.09%. The survey find out that the key factors for deposit growth are employees' skill, awareness, capabilities and commitment, top management cooperation, government rule and regulation, service quality, customers awareness. The student researcher identified one dependent (CBE total deposit) and six independent variables (deposit interest rate, inflation rate, foreign remittance, nominal GDP, exchange rate and branch expansion). The researcher used a twenty three years data for each variable and this data is deeply discussed under chapter four. The student researcher had used the econometric model of multiple regressions. Based on regression analysis result nominal GDP, exchange rate, branch expansion and foreign remittance was found to have a positive relationship with bank deposit growth and the effect on bank deposit is significant. On the other hand deposit interest rate and Inflation are affects positively and can increase CBE's deposit but these factors are insignificant, since p value of those variables is greater than the significant level. Finally the hypothesis is tested by using wald test and the result shows rejection of the null hypothesis and this shows that the independent variables are positively affects the total deposit of commercial banks. Managing deposits is not possible without knowing and controlling the factors affecting it. Thus CBE should identify the sources of deposit by considering the determining factors of bank deposit. These results have important policy implications for both domestic policy makers and the bankers working in the country and specifically for developing of reliable deposit mobilization policy by the commercial bank of Ethiopia.

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List of Abbreviations

CBE   Commercial Bank of Ethiopia

CLRM   Classical Linear Regression Model

CSA   Central Statistics Authority

EViews 8.2   Econometric Views Software version 8.2

NGDP   Nominal Gross Domestic Product

OLS   Ordinary Least Square

SPSS   Statistical Package for Social Science

CHAPTER ONE

1. INTRODUCTION

1.1 Background to the Study

From the classical times, saving has been considered as one of the determinants of growth. To lead the underdeveloped countries to the path of development, rate of savings must be enhanced. For the individuals and households, savings provide a cushion of security against future contingencies, whereas for the nation, savings provide the fund needed in the developmental efforts. To achieve higher rate of growth with relative price stability, the marginal propensity to save should be raised by appropriate incentives and policies. Also, in an era of international financial integration, for macroeconomic stability, higher domestic savings are essential (Russell & Bamindele, 2009). At all level of national economy, high level of saving increases the amount of national resources and decrease the need to resort to foreign indebtedness in order to cover domestic investment and consumption demand. Numerous countries with long internal saving rates must borrow from abroad, which results in a debt service burden. This clearly underlines the importance of saving mobilization to sustain economic growth with national financial resource (Payn, 2000).

Thus, it is very important that policy makers of these countries adopt strategies to reduce their dependence on external sources of funding for their own growth plans. One of the ways is by turning towards maximizing domestic savings.

Banks are the most capable institutions because of their capabilities in their widespread branch networks, which gather unutilized funds in the form of savings. Fry (1997) emphasized that, banks as financial intermediaries bring savers and investors, and/or lenders and borrowers together. According to him, they create money and administer the payment system.

One major problem of developing countries seems to be the form rather than the amount of savings that can be mobilized. One way, banks can solve this challenge is to encourage capital formation initiatives such as working capital financing and financial savings. In order to continue

saving a sustainable economic growth, the emphasis should be on the mobilization of domestic savings (Aryeetey and Udry, 2000).

To achieve the millennium development goals, "it is recommended that African and other low income countries must, on the average, grow at 8% per annum [which requires an investment] … to the tune of 25% of GDP [gross domestic product]" (UNCTAD 2008).

The Ethiopian economy has exhibited growth in the last few years. To sustain this growth the government of Ethiopia has implemented growth and transformation plan (GTP) which has the overall aim of doubling the country's GDP. To achieve this GTP, many mega projects and private investments are processed in the country. These projects require large resources. To meet this requirement, there is a need to increase domestic savings in the country. The key player in this regard is financial institutions. As government owned bank commercial bank of Ethiopia has greater responsibility on deposit mobilization. The banking sector can be profitable and also viable only if it can mobilize deposits at the required rate. And this can be done only by making a bank deposit more attractive.

The above points indicate that the role of deposit for economic growth as well as viability of financial banks in financial sector. Accordingly, this thesis examines the factors affecting deposit mobilization in the commercial bank of Ethiopia and also suggests the mechanisms necessary to attract more deposits.

1.2 Statement of the Problem

As mentioned in the introductory part, deposit mobilization for Ethiopia and commercial Banks is very crucial to fill the increasing demand of finance. Ethiopia is experiencing resource gap. According to MOFED (2015) from the year 1999 to 2015 average domestic savings (%GDP) was 13.2% and average investment (%GDP) was 28.8%. In general, the severe saving deficit in the country result very low rate of investment.

The total investment required for GTP II is estimated at ETB 1.26 trillion (US$ 77 billion). About 54.8% of this will be funded directly from the budget, out of which 11% is expected from DPs while 45.1% will be contributed by state enterprises. Given the financing challenge, Government of Ethiopia plans to expand tax revenues and domestic savings

mobilization (Ethiopia CSP, 2011-2015). This shows researches on the topic of deposit mobilization are crucial at this time.

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

As mentioned above, various studies were conducted on the factors affecting deposit mobilization by commercial banks. Their findings revealed that there is inconsistency among researchers on factors affecting deposit mobilization. This paper is prepared to fill the above stated gap and to identify both the internal and external factors that can affect deposit mobilization activities of Commercial Bank of Ethiopia using both descriptive statistics and regression analysis method.

1.3 Research Questions

This research tries to address the factors affecting commercial bank of Ethiopia's deposit mobilization. This study tries to answer the following basic research questions:-

1. What are the significant factors that affect CBE's deposit mobilization in Addis Ababa city branches?

2. What is the relationship between dependent and independent variables?

3. What is the effect and role of CBE's marketing team leader and other staff capabilities and activities on deposit mobilization?

4. What should be done to increase the volume of deposit in CBE?

1.4 Hypotheses

The researcher uses the multiple regression technique to show the relationship between CBE total deposit and the factors that affect total deposit of CBE. The null and alternate hypotheses of the regression are explained as follows:

Ho: There is no any relationship between independent and dependent variables, i.e. CBE total deposit and interest rate, foreign remittance, exchange rate, inflation, number of branch, and nominal GDP.

H1: There is relationship between independent and dependent variables, i.e. CBE total deposit and interest rate, foreign remittance, exchange rate, inflation, number of branch, and nominal GDP.

1.5 Objectives of the Study

1.5.1 General Objective

The research is intended to scrutinize those influential factors that affect deposit mobilization and to give relevant recommendation on the necessary and applicable solution to the problem.

1.5.2 Specific Objectives

1. To explore and evaluate the factors affecting CBE deposit Addis Ababa city branches.
2. To evaluate the relationship between the CBE's total deposit against the most significant factors.
3. To examine the role and effects of CBE's marketing team leader and other staff capabilities and activities on deposit mobilization.
4. Suggest mechanisms to increase volume of deposit.

1.6 Significance of the Study

Understanding factors that determine commercial bank's deposit will play a crucial role for adequate bank deposit management tools. The researcher believe that the study have great contribution to the existing knowledge in the area of the internal and external factors affecting Commercial Banks deposit in the case of Commercial Bank of Ethiopia. This in turn contributes

to the well-being of the financial sector of the economy and the society as a whole. Therefore, the outcome of the research also benefits other depository financial institutions like banks, MFIs, cooperatives. It also can be used as a benchmark for regulatory bodies and the academic staff of the country. Furthermore, it can serve as stepping stone for further research in similar area.

1.7 Scope of the Study

In Ethiopia there are more than eighteen commercial banks under operation. From the number of the banks under operation the study uses Commercial Bank of Ethiopia as case study. The research specifically concerned on saving activities conducted in Addis Ababa area district. When discussing factors of deposit mobilization, both selected internal and external factors are considered.

1.8 Limitation of the Study

The deposit mobilization activity in Ethiopia is made by the entire nineteen commercial banks and other financial institutions such as microfinance institutions. However, the study used data of the oldest and huge bank in Ethiopia (i.e. commercial bank of Ethiopia) with respect to gathering quantitative and qualitative data. This is because one can acquire long periods of data for research that can be used to analyze trends and make reasonable comparison. Further, this bank is presumed to have been able to mobilize largest volume or share of deposit. For instance, in the year 2014/15, this sampled bank held 65.7% of the total deposit volume of all commercial banks in Ethiopia (NBE annual Report, 2015/16). The scope of the study is limited to twenty three years of financial data as well due to unavailability of sufficient data.

1.9 Organizing the Study

This research paper organizes in six chapters. Chapter one provides the general introduction about the whole study. Chapter two describes the review of related literatures. Chapter three provides detail description of the methodology. Chapter four contains data presentation about the dependent and independent variables. Chapter five provides data analysis and discussion. Finally, the last chapter concludes the total work of the research and gives relevant recommendations based on the findings.

CHAPTER TWO

2. LITERATURE REVIEW

Introduction

Literature review is prepared in two parts, the theoretical review and the empirical review part. In the theoretical review part the theories that states about the commercial banks deposits and the variables that is claimed to affect it are discussed. The empirical literature part discusses past studies that were conducted on the area of factors determining commercial banks deposits.

2.1 Theoretical Review

There are articles, journals and different information on the issue of the commercial banks deposits and the factors which controls the commercial banks deposits. Some authors had classified the factors and explain their relationship with commercial banks deposits.

Commercial Banks deposits are dependent on depositor's money as a source of funds. According to the Keynesian theory of demand for money, there are three main motives why people hold money: transactions, precautionary and investment motives. In order to cater for these motives, commercial banks offer three categories of deposit facilities that are demand, savings and time deposits. Demand deposit facility is most commonly referred to as current account and is designed for those who need money for transaction purposes. This motive can be looked at from the point of view of consumers who want income to meet their household expenditure and from the viewpoint of businessmen who require money and want to hold it in order to carry out their business activities. Hence, the purpose of deposit facility is for convenience or for making daily commitments. 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 (Sergeant, 2001). Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts, time deposit accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited.

2.1.1 Purpose of Deposit

From depositors' point of view, the key purposes to use deposit in bank are safety of their money, easy access and a possible real return. In general depositors keep their money in banks for a motive to undertake some activities in the future. According to Bhatt (1970), there are motives to save money, the followings are the example of some motives:-

- ❖ to own house
- ❖ to provide for children's education and marriage
- ❖ to provide for old age
- ❖ to bequeath property to children
- ❖ to provide for emergency expenditure

2.1.2. The Function of Banks in Financial Systems

Understanding the many roles that banks play in the financial system is one of the fundamental issues in theoretical economics and finance. The efficiency of the process through which savings are channeled into productive activities is crucial for growth and general welfare. Banks are one part of this process. Lenders of funds are primarily households and firms. These lenders can supply funds to the ultimate borrowers, who are mainly firms, governments and households, in two ways. The first is through financial markets, which consist of money markets, bond markets and equity markets. The second is through banks and other financial intermediaries such as money market funds, mutual funds, insurance companies and pension funds (Sheku, 2005).

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 (Samolyk, 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 & Heiko, 2008). Banks perform various roles in the economy (Franklin & Elena, 2008):-

❖ They improve the information problem between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' fund.

❖ 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.

❖ Banks contribute to the growth of the economy.

Commercial banks are institutions that engage in two distinct types of activities, one on each side of the balance sheet deposit-taking and lending. So that banks are playing mainly intermediation function, this is supported by (Russell & Bamindele, 2009). Mahendra (2005), 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. Therefore banks are important of all other financial institutions. Banks influence macroeconomic environment, as to Adam (2005), bank failures involve significant macroeconomic costs. Adam (2005) 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. 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. Banks lend in many areas or sectors of the economy.

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 an increase as explains by Kelvin (2001). 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 function 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 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 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.

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). Therefore to maximize its profit the bank should increase its deposit. 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. 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 (N. Desinga, 1975). Hamid (2011) said that if banks lose their deposit base they rely on non-deposit based funding which is expensive.

Deposits are of three kinds N. Desinga (1975), 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 (Devinaga, 2010).

Commercial banks earn a return on their deposits and capital by investing deposit funds and capital funds in assets (Richard, 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 is made up of shareholders' funds, borrowing and deposits. Therefore, deposits are one of the sources of capital for commercial banks.

2.1.3.1 The Importance of Deposits for Banks

Deposits are the foundation upon which Banks thrive and grow. They are a unique item on banks' balance sheet that distinguishes it from other types of business firms.

A. Deposits as a Source of Fund for Loan

States deposits are the main source of banks to provide loan (Herald & Heiko, 2008). This deposit is mainly provided by people as (Salehi, 2010). 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.

B. Focusing on Deposit is Cheaper than Raising Equity

Banks as any other business organizations can collect 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).

C. Banks make profit using their deposits

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

D. 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 (Herald & Heiko, 2008).Individual investors and government are mainly depending on the deposits of banks to fund their investments and/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 (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 (Kaufman, 1972), mentioned the reasons why the variability of banks' deposit is important as follows:-

❖ 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.

❖ 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.

❖ To the extent deposit variability affects the mix of banks assets; it affects the availability of funds for loans and consequently the loan rate.

❖ 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.

❖ Deposit variability is an important factor influencing bank use of the Federal Reserve discount window and thereby affects discount administration.

2.1.4 The Determinants Commercial Banks Deposits - theory

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 classify 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 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.

2.1.4.1 External Factors

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

A) Country Specific Factors

The country's economic, social and political factors can affect the commercial banks deposit. According to Herald & Heiko (2008), 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 affected 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

One of the most effective factors for deciding to deposit in banking system is the interest rate (Mohammad & 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 & Heiko (2008) 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 & Sayera (2009) said that low deposit rates are discouraging saving mobilization. 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 & 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 & 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 the 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 & 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. 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 & Ekki, 2004). On the other hand, Erna & Ekki (2004) states 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 & Heiko (2008), inflation is one of the factors that determine commercial banks deposits. Fischer showed that in Latin America the effect of inflation on savings and time deposit to GDP was significantly negative (Mohammad & 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 Devinaga (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 Din terms of deposit absorption and facilities grant (Mohammad & Mahdi, 2010). As to Mohammad & 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 & Mahdi, 2010). Banking system as an important effective factor in economic performance has also been under the influence of inflation. 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 & 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 & Mahdi, 2010). In that case as Mohammad & 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 & Richard L. Meyer, 1987). According to M. A. Baqui & Richard L. Meyer (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 & Mahdi (2010) said that in negative real interest rate condition, people withdraw their resources from banking system. According to this author 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.

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 in terms 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. So the relationship between income and deposit is positive, 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& Richard L. Meyer, 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.

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'. It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity.

According to Herald & Heiko (2008), 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. Erna &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.

B) Bank Specific Factors

1. Liquidity of the banks

The concept of liquidity in finance principally lies in two areas:-

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 (2010) the latter discusses the obligation of banks to make payments to third parties. Some examples of this includes: setting up liquidity management policies, reserve liquidity, balancing assets and liabilities and preparing liquid financial instruments (Ismal, 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 (Devinaga, 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). The basic need for liquidity, asset, liability, capital adequacy, credit and interest rates risks management are now more challenging than before. The banks' liquidity management involves acquiring sufficient liquid asset to meet the bank's obligation to depositors. 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, 2010). According to (Ismal, 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, 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.

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 & Heiko, 2008). A higher liquidity buffers (measured by the ratio of liquid assets to deposits) tend factor favoring deposit demand (Herald & Heiko, 2008). Liquid banks as well as banks with a higher loan exposure are associated with higher deposit growth. Herald &Heiko (2008) 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 & Ekki (2004) finds that 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 & Heiko, 2008). 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 security of banks has 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. Banking Accessibility

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 & Richard L. Meyer, 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 & 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. Mark & 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. 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 & Kris, 2006). Restrictions on branching have been linked to the instability of banking systems. Daniel (2005) suggests 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 (Kaufman, 1972). Herald & Heiko (2008) founds that although insignificant once controlled by other variables bank size have an effect on deposits. Smaller banks have to generate fewer 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 & Heiko, 2008).

6. Reserves

Thorn & S. (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 (Thorn & S., 1959). Till money, according to Thorn & S. (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?

8. Financial technologies

Financial technologies such as card banking enable customers' access to cash services 7-days-24 hours by making large cash carrying unnecessary (Mr. Gunnar & Mr. Zhao, 2013). It shifts out the traditional frontier of access to banks. Deposit per capita of countries had grown well after the introduction of card payment, ATM and mobile/internet banking technologies in their financial system. A study in Georgia indicated that these technologies have reduced public preference to holding cash in purse.

9. Foreign remittance

Remittance from Diasporas to families in home-country has become another significant determinant of household saving and domestic private savings (Athukorala&Sen, 2001). Remittance is part of the disposable income of recipient households, and as their combined income increases, saving is expected to do so. It is, however, alleged that remittance makes households rather loose in their spending and pressurize families to Western life-style. According to this pessimistic view, remittance is spent on conspicuous consumption, and unproductive investment when viewed in terms of the economy. On the optimistic side is that remittances allow poor households to invest on durable goods and human capital – improving children's education and health, and should therefore be encouraged and facilitated.

10. Awareness of the society

According to M. A. Baqui & Richard L. Meyer (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. Since the study of M. A. Baqui & Richard L. Meyer (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.

11. 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 & Richard L. Meyer, 1987). Banks can mobilize more deposit when they make themselves closer to their customers (depositors).

12. Services in the bank

Services can be defined as "any primary or complementary activity that does not directly produce a physical product that is the non-goods part of the transaction between customers and providers.

It is known that banks are service giving organizations and the service delivery can affect their business undertakings. M. A. Baqui & Richard L. Meyer (1987) stated that there is some empirical evidence demonstrating the positive influence of services rendered to depositor. 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.

- ❖ 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 (Bhatt, 1970). The followings are services that 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 agro-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 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 community would have more effective control over the allocation of financial resources for plan purposes.

2.2 Empirical Review

2.2.1 Factors Affecting Deposits Mobilization

Commercial banks are the most dominant depository institution. They serve investors by offering wide variety of deposit accounts, and they transfer deposited funds to deficit units by providing direct loans or purchasing debt securities. Commercial banks serve both the private and public sectors, as their deposit and lending services are utilized by households, businesses, and government agencies. In doing activity commercial bank faces numerous challenges.

Asele (1997) conduct a study to analyze the relationship between real deposit rates and financial savings in Kenya and found that 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 devolution resulted in currency substitution.

Maende (1992) obtaining time series date between 1968 and 1991 and employed ordinary Least Squares, Two –Stage Least and the Granger test of causality. He examined determinates of demand for commercial bank deposits in Kenya. It was revealed that the number of branch network and national income levels and stability where the main determinants of deposits in the banking industry. He also observed that there is a unit-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 capita aggregate savings as the dependent variable in a cross –sectional model with alternate interest rate as independent variable. He concluded that though per capita income levels were low incentives such as positive real interest rates have an effect on the structure of savings. In his findings, financial savings as a percentage of total savings increases with increases in deposit rates.

Herald Finger and Heiko H. (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 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 praying 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.

As mentioned above, various studies were conducted on the factors affecting deposit mobilization by commercial banks. Most of these studies adopted a macroeconomic approach yet the behavior of economic units on the aggregate level may not necessarily be the same as on an individual or household level. In addition to that the solution to individual problems is on the hands of the bank. Thus, this research was focused on factors affecting deposit mobilization on the individual level.

Teseaye (2011) and Mahlet (2014) both indicate on their study due to the existence of competitors some customers are inclined to the service of other banks creating challenges on the deposit mobilization effort on the commercial bank of Ethiopia. The commercial bank of Ethiopia should examine its overall service excellence and try to improve service quality by excel competitors bank by implementing different mechanism to decrease the waiting time

.Beside more effort are required to meet customer expectation and bring the service excellence to the required level.

Summarizing the result from numerous studies on factor affecting deposit are both internal and external factors .Internal factors related to bank management and staff capability, service quality, branch network, number of bank branches, and bank liquidity (Danel, 2005; Deaton, 1997; and Wibetu, 2012). On the other hand external factors which highly affect the task of saving mobilization are related to the environment in which the bank operates includes GDP, growth rate, economic growth, inflation, interest rate, wealth of society, exchange rate, and monetary policy (Sowa, 1994).Above stated factors need to be considered in this paper for further analyses because for two reasons. Firstly the variables supposed to have huge impact on deposit mobilization process positively and negatively as shown by privies findings. Secondly though these factors studied by different scholars on whether these factors general sensitivity to saving which lacks detailed and specific impact of each variable on saving mobilization. Besides the study is conducted based on business environment mainly using business environment of developed countries so this paper need to investigate further on variables which needs more study in our country business environment.

In general this paper tries to analyze previously studied factors in more detailed and with circumstance existing in our country at the same time identifying further internal and external variables which affect deposit mobilization so as to measuring the level of their effect.

CHAPTER THREE

3. METHODOLOGY OF THE STUDY

3.1 Research Design

The nature of the research is descriptive and it serves to discover correlation among different variables. This study used regression analysis in estimating the relationship between CBE's deposit and variables that emerge as determinants.

In order to study the factors affecting deposit in case of Commercial Bank of Ethiopia, the student researcher used both quantitative and qualitative research approaches. The qualitative approach has been used to collect and evaluate the factors of deposit mobilization by developing and distributing questionnaires to the employees of the bank. The quantitative approach used regression analysis in estimating the relationship between the dependent variable (i.e. CBE's Deposit) and independent variables (i.e. interest rate, foreign remittance, exchange rate, inflation, number of branch, nominal GDP).

3.2 Target Population, Data Source and Sampling

This study is conducted in Addis Ababa city branches of the Commercial Bank of Ethiopia. The numbers of branches in Addis Ababa city are 242 as of Sep 2016 (www.combank.com). The researcher used both primary and secondary data. The primary data collected from employees of CBE who are participating in deposit mobilization (those who are members of branch's marketing team). The student researcher believed that they have close information on deposit mobilization. This helps the student researcher to make specific study. The student researcher used secondary data from the annual reports of the bank, National Bank of Ethiopia (NBE), the reports of the Central Statistical Authority and from Ministry of Finance and Economic Development. The student researcher used judgmental sampling which enable the researcher to pick out respondent and branches that have close information and knowhow with regard to saving mobilization activity of the bank. Accordingly the respondents is selected from the organizations based on the following bench marks namely level of experience, understanding or the approach to the topic from different sections that can give better image of problems and challenges regarding saving mobilization.

Respondents for this study were marketing team leaders who work in Addis Ababa city branches i.e. 242. It is well known that exist only one marketing team leader in every branch that found in Addis Ababa.

Research generality is highly affected by sample size. Hence determining the number of representative sample size is a pivotal concern of every researcher to a given population. The following sample size determination formula, by Taro Yamane (1969), will be used to identify sample size of employees.

$$n = \frac{N}{1+N(e)^2}$$

Where n is the sample size,

N is the total population and

e is the level of precision or sampling error

Therefore the sample size is

n = 242/1+242(0.05)² =150.778 ~151

Hence, the study has taken the sample size of 151 marketing team leaders that is working under 151 Addis Ababa branches.

3.3 Data Collection Instruments

The student researcher distributes Questionnaires to branch marketing team leaders. And the data collection for the questionnaires is distributed through the bank internal email address (CBE Outlook) and it is filled and collected electronically through this email. The student researcher use different techniques to increase the response rate through continuous email contact and phone Calls to the respondents. Also the student researcher collects and use 23 years of annual data (i.e. from 1986 up to 2008 E.C).

3.4 Method of Data Analysis

The student researcher analyzed the collected data by using both descriptive analysis and regression analysis methods.

3.4.1 Descriptive Analysis

The student researcher used this method to summarize data collected from sample respondents. The student researcher used Statistical package for social science (SPSS) Version 20. The student researcher used descriptive analysis techniques like frequency, graph and percentage.

3.4.2 Regression Analysis

For quantitative data the student researcher employs multiple regression models. Multiple regression analysis used to build better models for predicting the dependent variable and it can incorporate fairly general functional form relationship and the model allows for much more flexibility. This analysis is conducted by using EViews software version 8.2.

3.5 Model Specification

Quantitative data received analyzed through multiple regression technique. It contains one dependent variable (deposit) and six independent variables and the constant term. Because of the data nature the researcher used time series OLS method and the data interpreted with the help of different financial relationship and statistical description. Also different diagnostic tests will exercise to know whether the model is valid or not, for this purpose the researcher is supported by EViews 8.2 software.

The student researcher estimated the linear regression equation by calculating the log values of the variables except inflation and deposit interest rate in the following equation.

TD=B0+B1DIR+B2IF+B3EX+B4FR+ +B5NBR+B6NGDP+

Where, TD= CBE total deposit (dependent variable)

B0= represent the slope coefficient to the dependent variable.

B1, B2, B3, B4, B5, B6 = represents coefficient of independent variable

DIR=deposit interest rate for period t

IF=inflation rate for period t

EX= exchange rate for period t

FR=foreign remittance for period t

NBR=number of branches

NGDP= nominal gross domestic product for period t

 =error term of the multiple regression model.

3.6 Validity and Reliability of Data

It is well known that secondary data are vulnerable to some errors by data collection process. This definitely affects the outcome of the study. But the methodology used for this study was selected because of its suitability in its dependence on certified information from recognized institutions other than subjective opinions only, which would have been associated with primary sources. To test the validity and reliability 5 %(0.05) significant level is used then carried out multicollinearity test by using the correlation matrix and Heteroskedasticity test by using Breusech-Pagan Godfrey. In the preceding chapters, we are going to see the result of the analysis that is the effect of each independent variable on the dependent variable.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

A) Dependent Variable – CBE Bank Deposit

CBE plays a catalytic role in the economic progress & development of the country. In terms of technology also it is the first bank in Ethiopia to introduce ATM service for local users. As a result the bank has more than 10 million account holders and it takes the lion share as compared to total private banks in the country. It has strong correspondent relationship with more than 50 renowned foreign banks, including the Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank and others. CBE has a SWIFT bilateral arrangement with more than 700 others banks across the world. CBE has also reliable and long-standing relationships with many internationally acclaimed banks throughout the world. As a result, the bank's asset is increasing rapidly in the past years. Large share of deposit of the bank is mainly from privates and individuals. Others like cooperatives, pubic enterprises and agencies, domestic banks and other financial institutions, central and local governments and foreign banks have their own share in total banks deposit. CBE total deposit has been stagnated in the previous years. During the Derg period the growth of deposit was stagnant due to its restrictive policy. However, deposit growth has shown a sharp increase after the policy reforms made by the current bank since 1998 E.C.

The following diagram reveals that CBE deposit increased over the years from 1986 to 2008 EC.
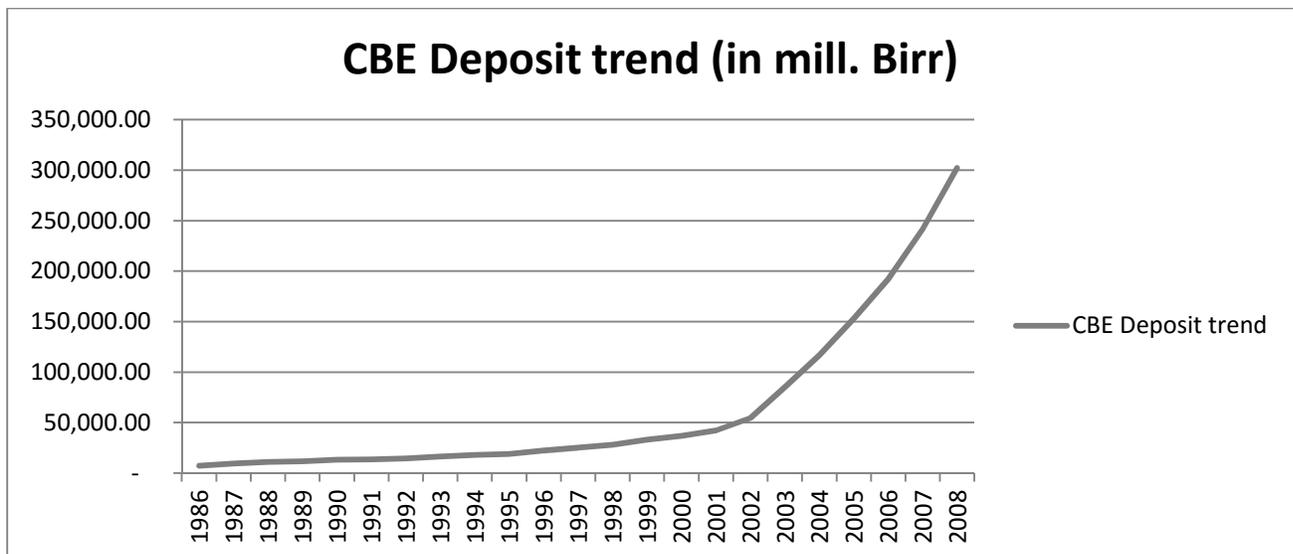
Figure 4.1 CBE Deposit trend (in million birr)

B) Independent Variables

1. Branch Expansion

The total number of branches opened by commercial bank of Ethiopia is shown drastic increase since 2002 E.C. Before 2002, there was limited branch expansion while during the period of 1986 and 2001 E.C only fifty two additional branches were opened throughout the country. Since 2002, CBE aggressively increase the number of branches, mainly intended to deposit mobilization. Currently, the bank opened nearly 200 branches per year and now number of branch reached 1,043 as of June, 2008 E.C.
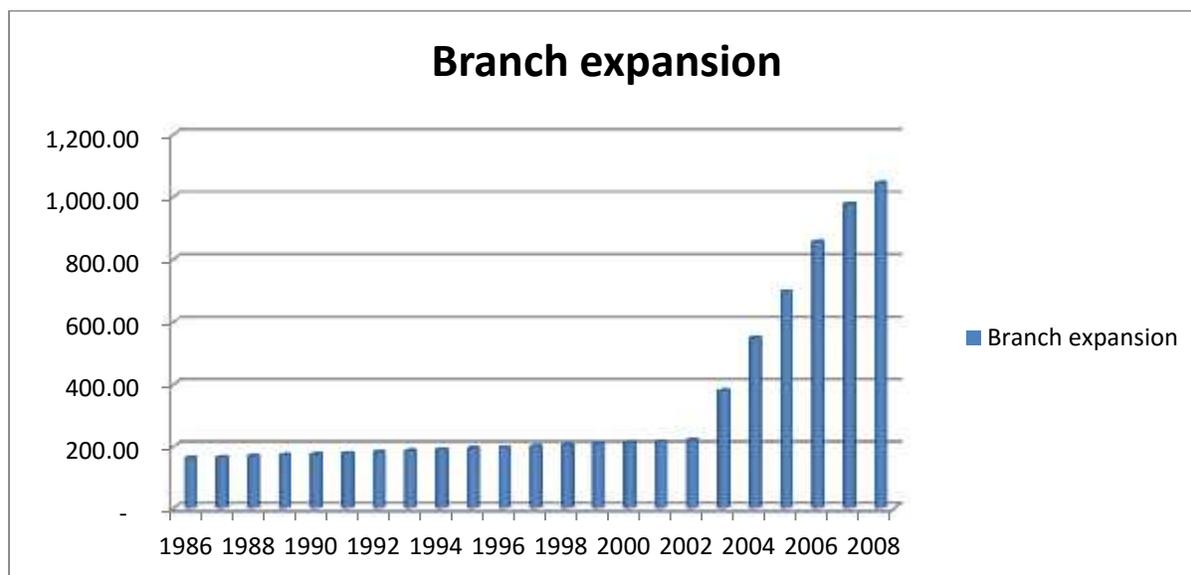
Figure 4.2 Branch expansions over years since 1986 – 2008 EC.

2. Nominal GDP

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

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

rates. In essence, saving rate is larger for high income countries, and the overwhelming empirical studies have witnessed the positive correlation between income and saving as well as with deposit.

The following diagram reveals that nominal GDP of and as we shown, it is increasing over years.
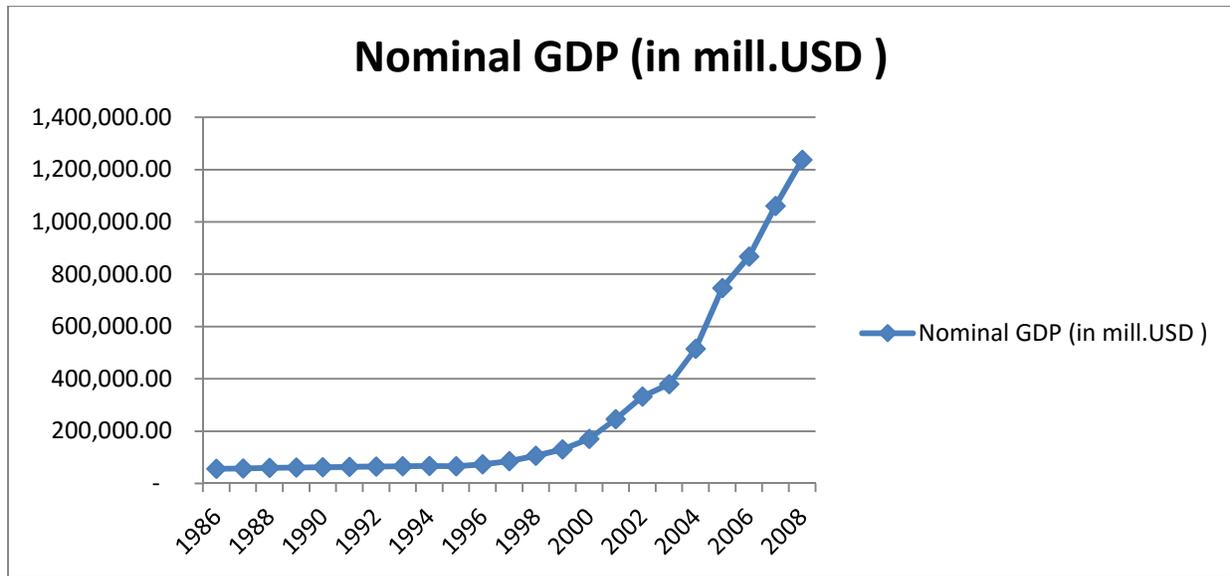
Figure 4.3 Nominal GDP over years since 1986 – 2008 EC.

3. Inflation

Historically Ethiopia has been one of the low inflation economies with average inflation rate of less than 5 % until 1993 E.C. However, In July 2001 E.C, an all time high inflation rate of 36 % was recorded. The major causes were suggested to be the then high fuel and food prices shocks, weaker foreign exchange earnings, and rising demand for imports that depleted international reserves of the country. The highest price increase was observed in food, housing, fuel and transport services, making the urban poor the most vulnerable to the impacts of inflation (MoFED, 2014).

Inflation reemerged in 2002 E.C and reached about 34 %. Looking at the components, the food and nonalcoholic beverages category has been the main drivers of overall price movements. However, year on year food and nonfood inflation rates contained back to single digits in 2005 E.C. In January 2007 E.C while headline inflation became 10 %, food inflation tumbled down to 5.1 % and non-food inflation to 10.9 %. Although inflation is low compared to the previous two

years there are signs of the rate increasing in recent months especially in then on food category (MoFED, 2015).
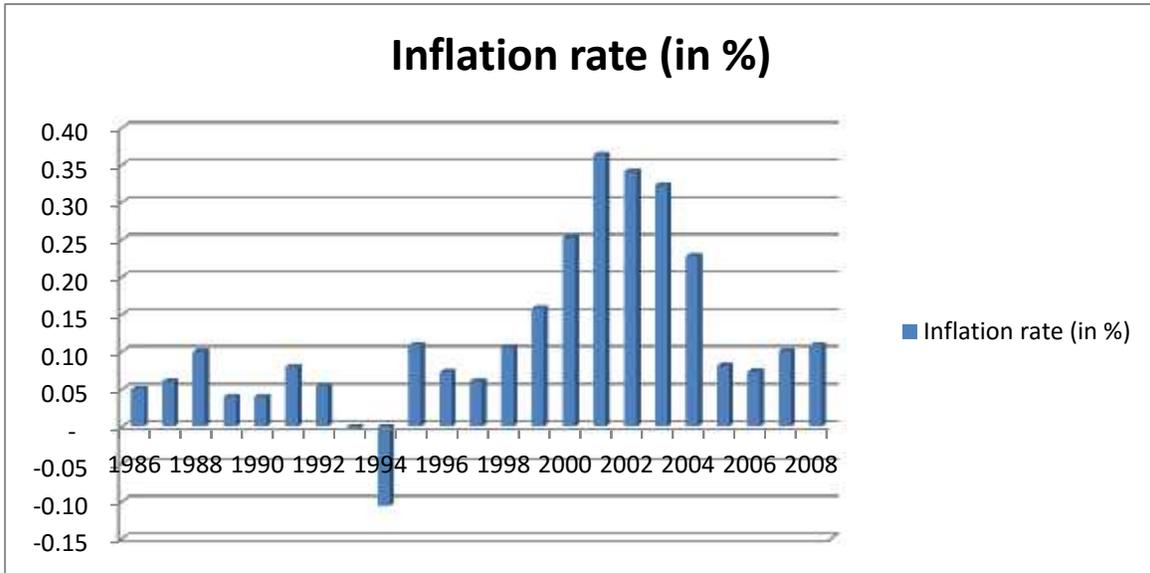
Figure 4.4 Inflation rate over years since 1986 – 2008 E.C.

4. Exchange rate

The National Bank of Ethiopia (Central Bank) follows a managed floating exchange rate regime where the local currency Birr is pegged to the US Dollar. Accordingly, drastic movements in the nominal exchange rate are not expected. Birr continued to depreciate but at a very slow rate and it reached 18.19/USD in 2005 E.C and in 2008 E.C, the exchange rate reached 21.60 Birr/USD.
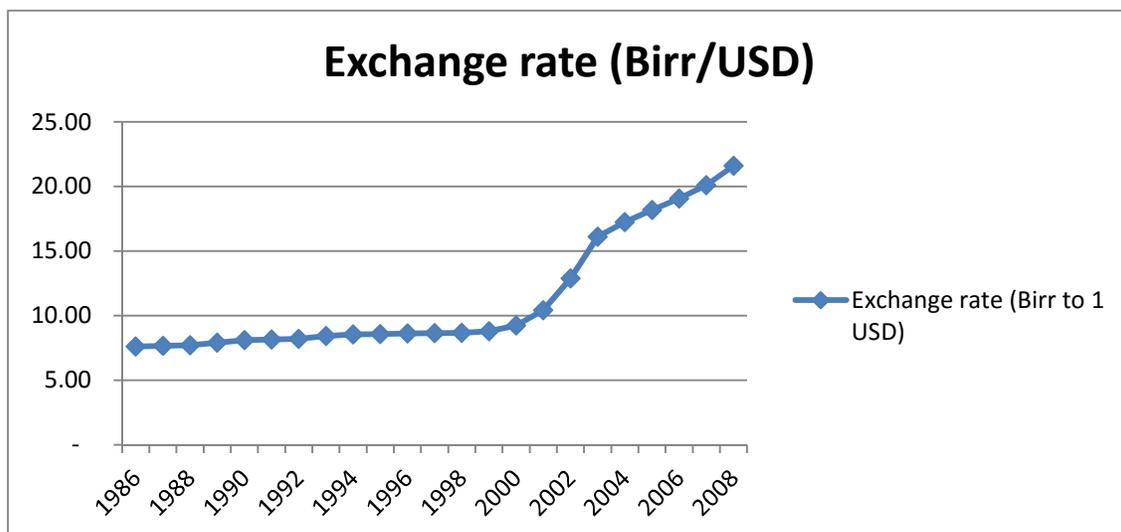
Figure 4.5 Exchange rates over years since 1986 – 2008 EC.

5. Foreign Remittance

Remittance from Diasporas to families in home-country has become another significant determinant of household saving and domestic private saving nowadays (Athukorala & Sen, 2001). Remittance is part of the disposable income of recipient household, and as their income increases so does their savings. It is however alleged that remittance makes households rather loose in their spending and pressurize families to Western life-style, thereby influencing adversely their saving habits and that of the domestic private savings. According to NBE report, in Ethiopia remittance from Diaspora is one of the most beneficial sources to offset foreign trade deficit of the foreign currency for the country. It has positive impact on individual's income and savings.

The diagram above (Figure 4.6) reveals that individual's foreign remittance growth rate in Ethiopia is increased over the 23 years with having consistent growth rate. This consistent increase in foreign remittances directly or indirectly affects the CBE's deposit. This indicate that the relationship between bank deposit and remittance in Ethiopia have positive relationship.
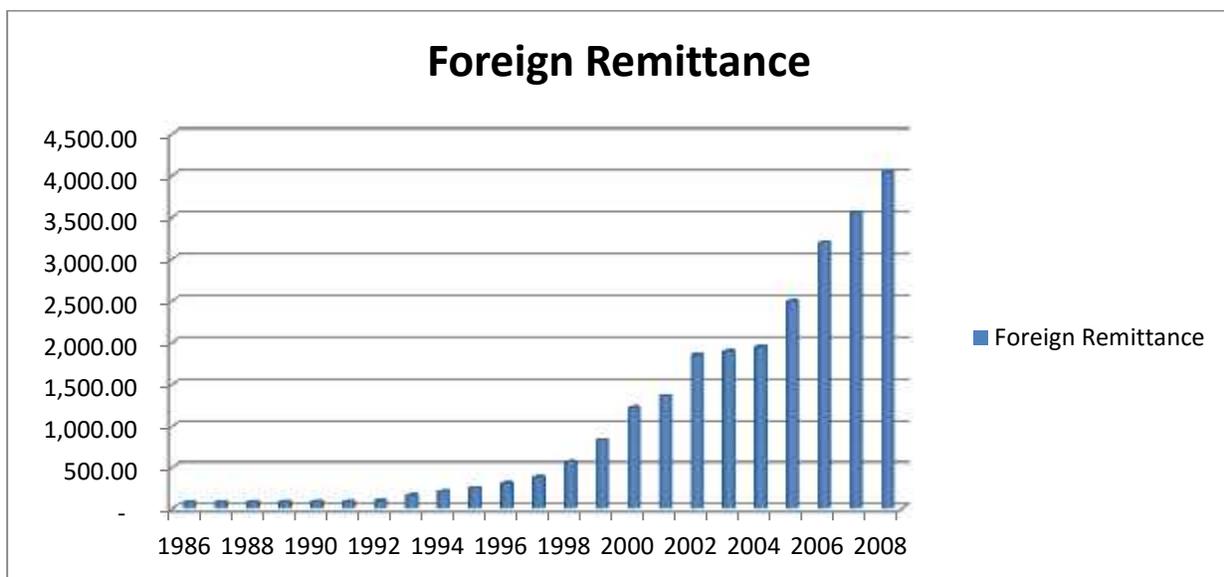
Figure 4.6 Foreign remittances over years since 1986 – 2008 EC.

6. Bank deposit interest rate

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

rate. This means the level of inflation influences that of deposit interest rate, while deposit interest rate in turn influences bank deposits.

The Deposit interest rate in Ethiopia is set by the governing body of banks, National Bank of Ethiopia. As for interest rate, the NBE continued to set the minimum interest rate on saving and time deposits while leaving lending rates to be freely determined by banks.

Based on this, the value for average deposit interest rate (saving and fixed time deposit interest rate) in Commercial Bank of Ethiopia was between 3% and 6% from 1986 to 2008 E.C. As the figure 4.7 shows, over the past 23 years this indicator reached a maximum of 6% and a minimum of 3%. This trend indicates that the interest rate in CBE not adjusted on the bases of the market demand relative to the incremental deposit demand.
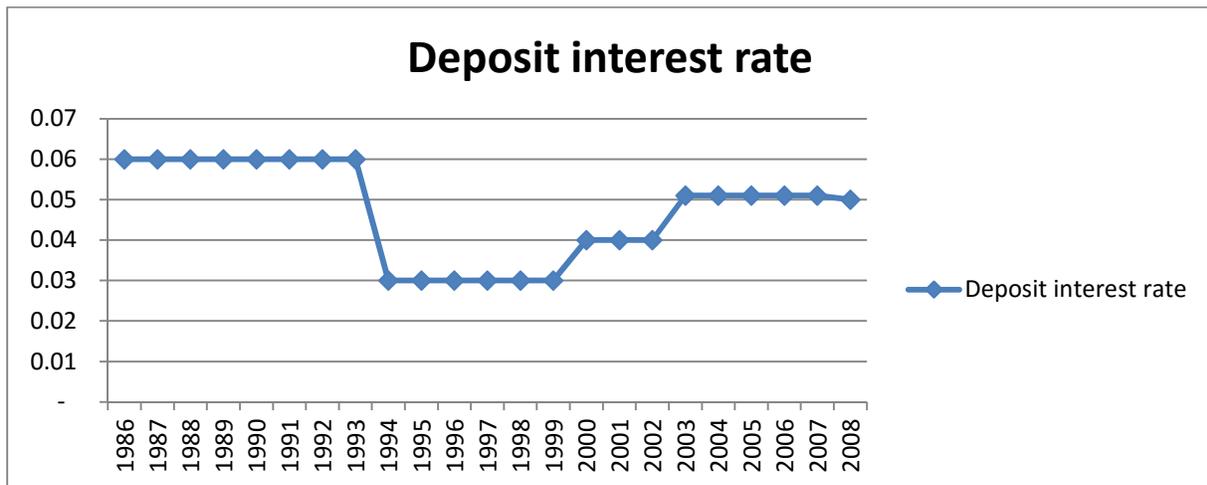
Figure 4.5 Deposit interest rates trend since 1986 – 2008 EC.

CHAPTER FIVE

DATA ANALYSIS AND RESULT DISCUSSION

This chapter consists of the analysis of descriptive statistics and regression analysis. Thus, correlation and regression analysis have been made to see the association and effect of independent variables on the dependent variable (i.e. deposit mobilization).

5.1 Demographic characteristics of Respondents

Demographic characteristics under the study include gender, age, level of education, and years of experience of respondents.

The sample sizes as discussed in chapter 3 a total of 151 questionnaires were prepared to potential respondents to fill the structured questions. Out of the 151 potential respondents, a total of 130 questioners were collected and the remaining 21were not returned. In the end, a total of 130 respondents filled and returned the questionnaire. The overall respondent rate for the survey was approximately 86.09%. As we can see from the result most respondents were females (60.77%), while 39.23% were males.

The majority of respondents' age was between 20-30 years old, which represents 90 (76.15%) of the total sample. Moreover, the remaining 31 (23.85%) of the respondents indicated that they belong to the age category of 31-40 years old.

Furthermore, respondents were asked about their educational status. Accordingly, the most majority of the respondents (95.38%) were having BA Degree, and only 4.62% of the respondents were having MA/MSC Degree.

Respondents were also asked about their occupational experience and from the total of 130, the greater portion were having 1 to 5 years of work experience which accounts 80.77%. On the other hand, 10.77% of them were having less than one year work experience. Only 8.46% of the sample respondents have a work experience of 6 to 10 years.

As we discussed in chapter three, all the respondents works in a position of marketing team leaders in Addis Ababa district branches.

Table 5.1 Demography of the respondent

Respondent Gender frequency		Frequency	Percent	Valid Percent	Cumulative Percent
	Female	79	60.77	60.77	60.77
	Male	51	39.23	39.23	100
Valid	Total	130	100	100	
Respondent Age frequency					
	20-30	99	76.15	76.15	76.15
	31-40	31	23.85	23.85	100
	Total	130	100	100	
Respondent Education frequency					
	BA degree	124	95.38	95.38	95.38
	MA/MSC degree	6	4.62	4.62	100
	Total	130	100	100	
Respondent work experience frequency					
	Below 1	11	8.46	8.46	8.46
	1 – 5	105	80.77	80.77	89.23
	6 – 9	14	10.77	10.77	100
	Total	130	100	100	

Source: - SPSS output form Survey Data, 2016

5.2 Questionnaire Finding on Factors of Deposit Mobilization Activity

Table 5.2 About the importance of adequate skills & Knowledge to promote deposit

How do you rate your skills and knowledge in relation to promoting and collecting of intended deposit amounts?		Frequency	Percent	Valid Percent	Cumulative Percent
	Very High	33	25.4	25.4	25.4
Valid	High	97	74.6	74.6	100.0
	Total	130	100.0	100.0	

Source: - SPSS output form Survey Data, 2016

The question aims to know whether existing employee skills and knowledge help them for promoting and collecting the intended deposit amount and among 130 respondents, 97 or 74.6% of the respondents are responded high that they believe their knowledge and skill will help them

to promote and collect intended deposit amount. Furthermore, the remaining 33 (25.4%) of the respondents responded very high.

On the other hand, some employees answer the question, "in addition to your current capability, what kind of skill and knowledge you need to increase your capability?" The respondents reported that, their skill and knowledge will enhance if they get customer handling training.

According to the following table, majority of the respondents believe marketing team members are highly committed to increase and improve the branch deposit. According to the result, 50% (65) select high and 18.5% (24) select very high and the remaining 19.2%, 11.5% and 0.8% select neutral, low and very low respectively.

Table 5.3 evaluation of respondents on the Understanding & Commitment
of marketing team members for deposit mobilization

How do you evaluate the understanding and commitment of your branch marketing team members for deposit mobilization?				
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	24	18.5	18.5	18.5
	High	65	50.0	50.0	68.5
	Neutral	25	19.2	19.2	87.7
	Low	15	11.5	11.5	99.2
	Very Low	1	.8	.8	100.0
	Total	130	100.0	100.0	

Source: - SPSS output

Table 5.4 Adequacy of training given to staffs on deposit mobilization activities

How do you rate the adequacy of training given to the staff regarding deposit mobilization activities?				
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	6	4.6	4.6	4.6
	High	35	26.9	26.9	31.5
	Neutral	22	16.9	16.9	48.5
	Low	67	51.5	51.5	100.0
	Total	130	100.0	100.0	

Table 5.4 shows the employees response on their perception of the adequacy of training given to them regarding deposit mobilization and most of the respondent answer that the training is not helpful. According to the result 51.5% respondents select low and 16.9% select neutral and the remaining 26.9% and 4.6% respond high and very high respectively. This result revealed that CBE should give due attention to the adequacy of training on deposit mobilization.

As we can see the result in the following table, the majority questionnaire respondents choose low which accounts 53.1% and 20% select very low and this result explains, the majority of employees believe that higher officials of CBE concern and work to address branch challenges on deposit mobilization activity is low. The remaining 19.2% and 7.7% choose neutral and high. This response gap indicates that the higher managements should work very closely by seen the reality that exist in the branch rather sit in office and make decisions.

Table 5.5 Perceptions of Respondents on the support of higher officials in addressing branch specific challenges of deposit mobilization

How do you rate the cooperation of concerned higher officials in addressing branch specific challenges in deposit mobilization?				
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High	25	19.2	19.2	19.2
	Neutral	10	7.7	7.7	26.9
	Low	69	53.1	53.1	80.0
	Very Low	26	20.0	20.0	100.0
	Total	130	100.0	100.0	

Source: - SPSS output

The next question aim to know, whether the government role and regulation affects the deposit mobilization activity of the bank or not and the majority of the respond goes to high with 51.5% and very high with 46.9% and the remaining 1.5% respondent choose neutral. The majority respondent say that it has positive effect by stating the condominium saving which regulates the customers to open and save only on CBE branches and according to the respondent this increases significantly the bank deposit.

In relation to the above, one respondent believe that the government force CBE to provide LC service for prioritized and selected areas of business but this have huge effect on level of branches deposit and because of this regulation, other business depositors discouraged and close their CBE account and go to other private banks.

Table 5.6 Perceptions of Respondents on the Effect of Government rules and regulations on deposit mobilization of CBE

How do you rate government rules and regulation effect on deposit mobilization process of CBE?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	61	46.9	46.9	46.9
	High	67	51.5	51.5	98.5
	Neutral	2	1.5	1.5	100.0
	Total	130	100.0	100.0	

Source: - SPSS output

According to the gathered data, 34.6% and 3.1% of bank employees believe that, the bank customer have appropriate and enough awareness about importance of saving by selecting high and very high. But majority of the bank employee believe that, the bank customers didn't have enough awareness about saving which accounts 13.1% (very low) and 36.2% (low).

The employees, who say no to this question, recommend that the bank should increase awareness about saving but not only by promotion and prize techniques, but the bank also should increase deposit interest rate by considering the current country inflation rate and by considering the value of money.

Table 5.7 Perceptions of Respondents on the awareness level of Clients on the importance of saving

How do you rate the awareness of your customer about the importance of saving?		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	4	3.1	3.1	3.1
	High	45	34.6	34.6	37.7
	Neutral	17	13.1	13.1	50.8
	Low	47	36.2	36.2	86.9
	Very Low	17	13.1	13.1	100.0
	Total	130	100.0	100.0	

Source: - SPSS output

Majority of respondents choose high for the question '' How do you rate your customers' satisfaction?'' and this counts about 67.7% (high) and 17.7% (very high). the remaining 11.5% and 3.1% responds low and neutral respectively also this employee recommends that, the bank should improve customer satisfaction through improving the network, improving the mobile banking service and ATM services and one of the respondent also recommend that the bank first must satisfy the employees otherwise the unsatisfied employee will create dissatisfaction to the customer.

Table 5.8 Perceptions of Respondents on Customer's Satisfaction

How do you rate your customer's satisfaction?		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	23	17.7	17.7	17.7
	High	88	67.7	67.7	85.4
	Neutral	4	3.1	3.1	88.5
	Low	15	11.5	11.5	100.0
	Total	130	100.0	100.0	

Source: - SPSS output

The respondent also answers for the question "From the information we identified that, the total deposit of Commercial Bank of Ethiopia is growing, what is the major reason?" summarized as follows.

- ➢ Commercial Bank of Ethiopia have larger market share
- ➢ The service given by the bank
- ➢ Awareness creation
- ➢ Products launch by CBE
- ➢ Introduction of PLS (Prize linked saving) or coupon
- ➢ Wide branch network

The respondents also answer for the question "What do you think the most determinant factors in deposit mobilization activity, which make people to deposit in your branch?" as follows.
- ❖ Trust and reliability
- ❖ Customer handling
- ❖ Big depositor Rewarding system
- ❖ Service efficiency
- ❖ Accessibility
- ❖ Different packages of bank product

The respondents also answers for the question "What are the main challenges or problems in your deposit mobilization endeavor" as follows

- ❖ Low deposit interest rate compared to the other competitors
- ❖ Employee awareness
- ❖ Service quality
- ❖ Network problems
- ❖ Foreign currency procedures
- ❖ Some of the bank procedures

5.3 Statistical Analysis of the Dependent and Independent Variables

The descriptive statistics gives a broader picture that the residuals from the regression using these variables were expected to follow a normal distribution for efficient and unbiased

estimators. It includes mean, median, maximum, minimum, standard deviation and others statistics value. The table below shows the descriptive statistics of the variables used in the model and its interpretations are presented as follows.

Table 5.9 Statistical analysis of the variables

Variables	DIR	EX	FR	IF	NBR	NGDP	TD
Mean	0.047174	2.357242	6.117732	0.117217	5.585798	11.93672	10.42431
Median	0.051	2.157791	5.927459	0.081	5.298317	11.35977	10.14191
Maximum	0.06	3.072693	8.302372	0.364	6.949856	14.02794	12.61933
Minimum	0.03	2.029463	4.356709	-0.106	5.09375	10.94077	8.905973
Std. Dev.	0.012287	0.365341	1.466849	0.113657	0.626603	1.086376	1.104389
Skewness	0.358717	0.917283	0.079716	0.756609	1.276983	0.752909	0.649597
Kurtosis	1.558626	2.133571	2.446931	3.227727	2.96908	2.014932	2.203094
Jarque-Bera	2.484259	3.944816	2.335883	2.24412	4.951881	3.102933	2.226174
Probability	0.288769	0.139121	0.311007	0.325608	0.043896	0.211937	0.328543
Observations	23	23	23	23	23	23	23

Source: Research Data output from EViews 8.2

As we can see the mean in the above summary statistics of the variables, the average total CBE deposit grew by 10.42% whereas the average deposit interest rate, exchange rate, foreign remittance rate, number of branches growth rate and nominal GDP growth rate was 4.71%, 2.35%, 6.11%, 11.72%, 5.58% and 11.93%, respectively.

The skewness which measures the asymmetry of the distribution around its mean has values greater than 0 in all occasion. This is an indication that the distribution has a long right tail. The kurtosis measures the flatness of the series. The result shows that all variables have values nearer to 3 and satisfies that condition except deposit interest rate. The result from the Jarque-bera test indicates an acceptance of the null hypothesis that the random variables are normally distributed because the JB statistics are greater than critical values at 5% level. The probability value of the model also conform that the null hypothesis of variables being normally distributed as the result there is no reject region.

5.4 Econometric analysis and results interpretation

This study focuses on the relationship between banks deposit and the determining factors of bank deposit. The researcher had used the econometric model of multiple regressions. The model contains one dependent variable, six independent variables, the constant term and the error term. The ordinary least square (OLS) method is used to come up with the econometric results.

For the test statistics 5 %(0.05) significant level is used to reject or not to reject the null hypothesis. In view of that before running the regression equation the following tests were carried out; multicollinearity test using the correlation matrix and Heteroskedasticity test using Breusech-Pagan Godfrey. As these tests prove the validity of the model, the study had continued into regression analysis. Accordingly, the output of the tests which are displayed by EViews 8.2 software are presented and interpreted as follow.

1. Test for Heteroskedasticity

The test of heteroskedasticity is a test of the second assumption of OLS estimator that says the variance of errors term is constant. The researcher uses Breusch Godfrey test (BG test) to test for heteroskedasticity.

Ho: The assumption that there exists homoscedasticity

H1: There is no homoscedasticity (there is Heteroskedasticity)

Table 5.10 Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.736939	Prob. F(7,16)	0.5275
Obs*R-squared	6.979896	Prob. Chi-Square(7)	0.3464
Scaled explained SS	5.973442	Prob. Chi-Square(7)	0.8401

Source: Research Data output from EViews 8.2

Based on the result displayed in the above table 5.10, the three different types of tests for heteroskedasticity conducted and all fails to reject the null hypothesis of homoscedasticity presence. Therefore it can be concluded that the variance of error term is constant or the second assumption of CLRM is not violated.

2. Test for Multicollinearity

The results of correlation matrix are presented as follows

Table 5.11 Correlation Matrix

Variables	TD	DIR	EX	FR	IF	NBR	NGDP	E
TD	1	0.14	0.47	0.45	0.37	0.45	0.48	0.49
DIR	0.14	1	0.04	0.33	0.16	0.07	0.03	0.16
EX	0.47	0.04	1	0.38	0.34	0.47	0.48	0.33
FR	0.45	0.33	0.38	1	0.55	0.32	0.44	0.23
IF	0.37	0.16	0.34	0.55	1	0.15	0.43	0.19
NBR	0.45	0.07	0.47	0.32	0.15	1	0.44	0.03
NGDP	0.48	0.03	0.48	0.44	0.43	0.44	1	0.44
E	0.49	0.16	0.33	0.23	0.19	0.03	0.44	1

Source: Research Data output from EViews 8.2

The correlation matrix presented in Table 5.11 indicates a positive relationship between Total deposit (dependent) with explanatory variables (deposit interest rate, exchange rate, foreign remittance rate, number of branches growth rate and nominal GDP growth rate). As expected, all explanatory variables are positively related or correlated to the explained variable. And also there is no higher correlation between independent variables. Therefore it can be concluded that there is no strong and higher correlation between the explanatory variables.

5.5 Regression analysis

The main variables in this analysis are dependent, independent and error terms. The relationship between one dependent variable and six independent variables and error terms is regressed using econometric software called EViews 8.2. Dependent variable, in this case is CBE annual total deposit and independent variables are factors that mostly affect the commercial banks deposits. These are deposit interest rate, exchange rate, foreign remittance, inflation rate, number of branches and nominal GDP. And for the purpose simplicity we include only these six explanatory variables in this model and others are collectively contained in error term. The regression is used by ordinary least square method with the data of successive 23 years from the 1986 to 2008 E.C.

Table 5.12 OLS regression result

Dependent Variable: TD
Method: Least Squares
Date: 12/22/16   Time: 17:00
Sample: 1986 2008
Included observations: 23

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DIR	2.684367	5.406572	0.496501	0.6263
EX	1.616072	0.470369	1.309764	0.0088
FR	0.824122	0.148604	2.181108	0.0444
IF	0.039013	0.530926	0.073482	0.9423
NBR	1.674825	0.283290	2.382097	0.0300
NGDP	2.919923	0.271730	0.073321	0.0425
E	1.200487	0.293875	2.093019	0.0654
C	3.113142	1.372270	2.268607	0.1375

R-squared	0.791133	Mean dependent var		10.42431
Adjusted R-squared	0.677808	S.D. dependent var		1.104389
S.E. of regression	0.321942	Akaike info criterion		1.124746
Sum squared resid	1.237919	Schwarz criterion		1.779161
Log likelihood	-9.093458	Hannan-Quinn criter.		1.037833
F-statistic	5.084123	Durbin-Watson stat		1.772094
Prob(F-statistic)	0.009631			

Source: Research Data output from EViews 8.2

5.5.1 OLS regression results interpretations

A) Coefficient of determination of the model

The above table 5.12 shows the results of regression analysis. An F statistics of 5.084123 (with Probability >F= 0.009631) indicates the significance of the model in explaining the factors that influence the growth of total bank deposits from customers. The coefficient of determination of R-squared 0.791133 means that 79.11% 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. Based on the regression results also, the model proved to be consistent with the OLS assumption of no autocorrelation. On the other hand the D-W test is less than two (i.e 1.77209), means there is evidence of positive serial correlation.

B) Coefficient of determination of the constant term

The coefficient estimate of the constant of the regression is 3.113142 shows that the value of dependent variable if all independent variable becomes zero. This indicates that the total deposit

of commercial banks will be increased by the unit 3.113142 given all independent variable zero. Then the probability of 0.1375 showed that this variable was insignificant.

C) Coefficient of determination of average deposit interest rate

Deposit interest rate was found to have a positive relationship with bank deposit growth but the relationship is however insignificant according to the model in Table 5.12 above. This could be attributed to the fact that in CBE interest rates hardly reflect market conditions thus the effects of other macroeconomic indicators in determining CBE's deposits. The correlation coefficient for deposit rates is 2.684367 indicating that ceteris paribus a 1 unit increase in deposit interest rates leads to a 2.684367 units increase in CBE deposits. And also probability value of 0.6263 is greater than 0.05 critical value showed that this variable was insignificant in assessing the research problem.

D) Coefficient of determination of exchange rate

Exchange rates are quoted as foreign currency per unit of domestic currency or domestic currency per unit of foreign currency (Bishop, 2006). According to Nugel (2012) as currencies depreciated in one country deposit will be reduced since investors tend to withdraw deposit and exchanged to keep it by appreciating currency (Hard currency) or invest in other form of investment rather than bank deposit.

The regression coefficient for exchange rate is 1.616072. This indicates that ceteris paribus, an increase in exchange rate by 1 unit leads to increase in deposits by 1.616072 units. This is inconsistent with economic theory so it needs further study why it didn't work in this subject. Also again the probability value of 0.0088 indicated that this variable is significant for the deposit growth in case of CBE deposit growth.

E) Coefficient of determination of foreign remittances

Remittance from Diasporas to families in home-country has become another significant determinant of household saving and domestic private saving nowadays (Athukorala & Sen, 2001). According to NBE report, in Ethiopia remittance from Diaspora is one of the most beneficial sources to offset foreign trade deficit of the foreign currency for the country. It has positive impact on individual's income and savings. The table 5.12 above in this model also

closely shows us the relationship between CBE's deposit and remittance from outside have positive and significant relationship against bank deposit growth.

The regression coefficient for foreign remittance is 0.824122. This indicates that ceteris paribus, an increase in foreign remittance by 1 unit leads to increase in deposits by 0.824122 units. Also again the probability value of 0.0444 indicated that this variable is significant for the deposit growth in case of CBE deposit growth.

F) Coefficient of determination of inflation rate

Inflation is a sustained rise in the general level of prices – the price level. The inflation rate is the rate at which the price level increases. Symmetrically, deflation is a sustained decline in the price level. It corresponds to a negative inflation rate. The practical issue is how to define the price level. Macroeconomists typically look at two measures of the price level, at two price indexes: the GDP deflator and the consumer price index. As Deaton (1991) explained inflation is measured alternatively by Consumer price index. The first theory he assumed that greater uncertainty should raise savings since risk-averse consumers set resources aside as a precaution against possible adverse changes in income and other factor. Hence inflation may increase precautionary savings by individuals. Precautionary saving is additional saving that result from the knowledge that the future is uncertain (D. Carroll, 2006). The second theory was, inflation can influence saving through its impact on real wealth. As inflation accelerates, deposits become less attractive, depending on the interest rate. In this case, the assumption would be that as deposit interest rates rise, deposits would increase in principle as well. The narrower the spread between deposit rates and inflation, the less attractive it should be to hold deposits above the required level.

The regression coefficient for inflation is 0.039013. This indicates that ceteris paribus, an increase in Inflation by 1 unit leads to increase in deposits by 0.039013 units. Consistent with economic theory, as inflation soars households forego banking products. Households are expected to buy properties and other real assets to cushion themselves against loss in purchasing power of their money. However, in many literatures the effect of inflation is not clearly defined but in this study the relationship between CBE deposit and inflation is positive but not significant

because probability value of 0.9423 is greater than 0.05 critical value showed that this variable is insignificant in assessing the research problem.

G) Coefficient of determination of branch expansion

Based on the model in the above regression analysis, 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. Also the probability value shows significant on CBE's deposit growth.

The coefficient estimate of the branch expansion is 1.674825 indicating that ceteris paribus a 1 unit increase in branch expansion leads to a 1.674825 units increase in CBE deposits. And also probability value of 0.0300 is less than 0.05 critical value showed that this variable is significant in assessing the research problem.

H) Coefficient of determination of nominal GDP

Theoretical and empirical evidence suggests that, economic growth is the main source of banks deposit growth. If there is a real growth in the economy, deposit will grow as well. This hypothesis was proved by the chakravarty committee in 1985. The committee reported that the growth of Indian deposit in 1985 at an accelerated pace was attributed to the higher real growth achieved by the economy (chakravarty committee, 1985).

The coefficient estimate of the nominal GDP is 2.919923 indicating that ceteris paribus a 1 unit increase in nominal GDP leads to a 2.919923 units increase in CBE deposits. And also probability value of 0.0425 is less than 0.05 critical value showed that this variable is significant in assessing the research problem.

I) Coefficient of determination of error terms

The deposit market share of the CBE has been dropping for quite a long time with the entry of new banks although it maintained its dominant position in the market. This long term drop was somewhat reversed in 2011 because of some policy adjustment like opening new branches rather than only expansion of existing branch and using new banking technologies. Based on this policy

adjustment in end of year 2002 E.C, CBE has opened 210 new branches in 2003 E.C. This 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. Furthermore, extensive training of staff based on the HRD strategy, that will be responsive enough to the demands of customers, which results in service excellence. On the basis of this policy adjustment, the level of deposits by the CBE was reached 86,498 billion birr and 54.5% growth in the end of 2003 E.C compared with other years which was exceptional in the history of CBE' total deposit.

5.5.2 Hypothesis test

Wald test have been used to test the multiple hypothesis. The null hypothesis is rejected with p-value of zero to four decimal places.

Table 5.13 Hypothesis test

Wald Test:

Equation: Untitled

Test Statistic	Value	Df	Probability
F-statistic	67.32921	(8, 10)	0.0040
Chi-square	346.6460	8	0.0000

Source: Research Data output from EViews 8.2

The null hypothesis says that the coefficient of independent variables on the right hand side is zero that means the independent variables have no effect on the dependent variable, total deposit of commercial banks. The alternate hypothesis is therefore the coefficients of independent variables are different from zero that is the independent variables have effect on the dependent variable, total deposit of commercial banks. Therefore the rejection of the null hypothesis shows that the coefficients of variables on the right hand side are different from zero, i.e. independent variables have effect on the dependent variable. In this case all independent variables are positively affects the total deposit of commercial banks.

CHAPTER SIX

SUMMARY of THE FINDING, CONCLUTION AND RECOMMENDATIONS

This chapter summarizes the findings, discusses the conclusions drawn from the study, and provides recommendation.

6.1 Summary of the Findings

The main objective of this study was to investigate the factors that affect deposit mobilization of Commercial Bank of Ethiopia. Accordingly the study reveals certain basic facts about CBE's deposit along with factors determining bank deposit. As a result of the analysis and interpretation, the following are the summary of the findings:

The study empirically ascertains that, managing deposits is not possible without knowing and controlling the factors affecting it. It is well known that deposit mobilization is the major activity of commercial bank of Ethiopia. In view of that without having deposit CBE can't survive as a bank. For the reason that, the bank management, the staff and stakeholders of the bank has to be concerned about the deposit and the determining factors of deposit.

The study finds out that the key factors for deposit growth are employees' skill, capabilities, awareness and commitment, top management cooperation, rules and regulations, service quality, customers' awareness, foreign remittance, exchange rate, branch expansion and nominal GDP. Even if the regression result shows inflation and deposit interest rate is insignificant and didn't have key factors, according to reviewed literatures, they have role in determining deposit mobilization.

For the descriptive analysis a total of 130 respondents answered the entire survey. The overall respondent rate for survey was approximately 86.09%. The majority of the respondent believes that the branch marketing team members are highly committed to increase and improve the branch deposit. According to the result, 50% (65) select high and 18.5% (24) select very high commitment. Another question in the questionnaire aim to know whether the government role and regulation affects the deposit mobilization activity of the bank and the majority of the respond goes to high, with 51.5% and very high with 46.9%. The majority respondent say that it

has positive effect by stating the condominium saving which regulates the customers to open and save only on CBE branches and according to the respondent this increases significantly the bank deposit. The respondent also respond the question "What do you think the most determinant factors in deposit mobilization activity, which make people to deposit in your branch?" and the main determinants are trust and reliability, customer handling, big depositor rewarding system, service efficiency, accessibility ,different packages of bank product.

The respondent also answers the question "what are the main challenges or problems in your deposit mobilization endeavor" and the majority answer was, low deposit interest rate compared to the other competitors, employee awareness, service quality, network problems and foreign currency procedures.

The student researcher identified one dependent (CBE total deposit) and six independent variables (deposit interest rate, inflation rate, foreign remittance, nominal GDP, exchange rate and branch expansion). The researcher used a twenty three years data for each variable and this data is deeply discussed under chapter four. The student researcher had used the econometric model of multiple regressions. The model contains one dependent variable, six independent variables, the constant term and the error term. The ordinary least square (OLS) method is used to come up with the econometric results.

Before running the regression equation the following validity tests were carried out, multicollinearity test using the correlation matrix and Heteroskedasticity test using Breusech-Pagan Godfrey. As these tests prove the validity of the model, the study had continued in to regression analysis. Accordingly, the output of the tests which are displayed by EViews 8.2 software are presented and interpreted. Based on regression analysis result nominal GDP, exchange rate, branch expansion and foreign remittance was found to have a positive relationship with bank deposit growth and the effect on bank deposit is significant. On the other hand deposit interest rate and Inflation are affects positively and can increase CBE's deposit but these factors are insignificant, since p value of those variables is greater than the significant level. Finally the hypothesis is tested by using wald test and the result shows rejection of the null hypothesis and this shows that the coefficients of variables on the right hand side are different from zero, i.e. independent variables have effect on the dependent variable. In this case all independent variables are positively affects the total deposit of commercial banks.

6.2 Conclusion

The study investigated four research questions. The last question discussed under recommendation the remaining research questions of the study indicated the following findings:

1. What are the significant factors that affect CBE's deposit mobilization in Addis Ababa city branches?

The respondent also respond the question "What do you think the most determinant factors in deposit mobilization activity, which make people to deposit in your branch?" and the main determinants are trust and reliability, customer handling, big depositor rewarding system, service efficiency, accessibility ,different packages of bank product. On the other hand, Based on regression analysis result nominal GDP, exchange rate, branch expansion and foreign remittance was found to have significant on bank deposit.

2. What is the relationship between dependent and independent variables?

Based on regression analysis result nominal GDP, exchange rate, branch expansion and foreign remittance was found to have a positive relationship with bank deposit growth and the effect on bank deposit is significant. On the other hand deposit interest rate and Inflation are affects positively and can increase CBE's deposit but these factors are insignificant, since p value of those variables is greater than the significant level.

3. What is the effect and role of CBE's marketing team leader and other staff capabilities and activities on deposit mobilization?

The majority of the respondent believes that the branch marketing team members are highly committed to increase and improve the branch deposit. According to the result, 50% (65) select high and 18.5% (24) select very high commitment. Also Staff awareness, skill, capabilities and commitment, top management cooperation and Service quality is one of the most useful qualitative determinants of bank deposit.

6.3 Recommendations

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

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

- ❖ Managing deposits is not possible without knowing and controlling the factors affecting it. Thus CBE should identify the sources of deposit by considering the determining factors of bank deposit.

- ❖ Staff awareness, skill, capabilities and commitment, top management cooperation and Service quality is one of the most useful qualitative determinants of bank deposit. In view of that CBE should provide training to the staff and create administrative system that enables the bank to improve its deposit.

- ❖ Based on economic analysis model result foreign remittance, branch expansion, exchange rate and nominal GDP was found to have a positive relationship with bank deposit growth and the effect on bank deposit is significant. Inflation and deposit interest rate are affects positively and can increase CBE's deposit but these factors are insignificant. Therefore CBE should exploit the foreign remittance, exchange rate, branch expansion and the current economic growth of the country in order to increase the bank deposits.

- ❖ As shown in the result inflation has not significant effect on deposit this is because deposit interest rate is not as much increase as inflation so to exploit this, the bank must use better strategy for example increase deposit rate as inflation increase.

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Appendix

St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Dear respondent,

This questionnaire is prepared to undertake a research on factors affecting deposit mobilization in Addis Ababa city branches. The data will be used in writing research for partial fulfillment for the requirement of the post graduate general business administration by St. Mary University. Dear respondent your valuable response is vital for successful accomplishment of the study and you are kindly requested to respond as thoughtful and frankly as possible. Your responses are kept confidential and it will be used only for this research purpose. I am grateful to you for your co-operation.

- Please write any word or sign on your correct choice

General information about employees of CBE

1. Gender   Male ☐   female ☐

2. Age   20-30 ☐   31-40 ☐   41-50 ☐   Above 50 ☐

3. Academic level?   College diploma ☐   BA ☐ MA ☐   Doctorate degree ☐

4. Work experience in the bank:

Below 1 years ☐   1- 5 years ☐   5 - 9 years ☐   10 and above years ☐

5. How do you rate your skills and knowledge in relation to promoting and collecting of intended deposit amounts?

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

6. What kind of skill and knowledge you need to increase your capability?

_____

_____

7. How do you evaluate the understanding and commitment of your branch marketing team members for deposit mobilization?

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

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

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

9. How do you rate the cooperation of concerned higher official in addressing your branch specific challenges in deposit mobilization?

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

10. If your answer to the above question is low and very low, what should be made to minimize such challenge?

_____

_____

11. How do you rate government role and regulation effect on deposit mobilization process of CBE?

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

13. If your answer to the above question is high and very high, what kind of government intervention is imposed and does it positively or negatively affects the bank deposit mobilization activity?

_____

_____

12. How do you rate the awareness of your customer about the importance of saving?

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

13. If your answer is LOW or VERY LOW for the above, then what should be made by the bank to promote saving for the customer?

_____

_____

14. How do you rate your customer's satisfaction?

Very high ☐   High ☐   Neutral ☐   Low ☐   Very low ☐

15. If you replied LOW OR VERY LOW, what should be made to improve customer satisfaction?

_____

_____

16. From the information we identified that, the total deposit of Commercial Bank of Ethiopia is growing, what is the major reason?

_____

_____

17. What do you think the most determinant factors in deposit mobilization activity, which make people to deposit in your branch?

_____

_____

18. What are the main challenges or problems in your deposit mobilization endeavor?

_____

_____

Thank You for Your Cooperation to Fill the Questionnaire