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DETERMINANTS OF DEPOSIT GROWTH IN ETHIOPIAN PRIVATE BANKS

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DETERMINANTS DEPOSIT GROWTH IN ETHIOPIA, THE CASE OF PRIVATE BANKS

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ADDIS ABEBA, ETHIOPIA

Declaration

I, the under signed, declare that this thesis is my original work, prepared under the guidance of (Asst.Prof). Asmamaw Getie. All sources of material used while working on this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any type of degree

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Contents

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ACRONYMS

ATM	Automated Teller machine
CAD	Cash Against Document
CD	Certificate Of Deposit
FDI	Foreign Direct Investment
FMOLS	Fully Modified Ordinary Least Square
GDP	Gross Domestic Product
IMT	International Money Transfer
LC	Letter of Credit
OLS	Ordinary Least Square
ROA	Return on Asset
TT	Telegramming Transfer
VAR	Vector- Auto Regression
WDI	World development Indicator

LIST OF TABLE

LIST OF FIGURE

ABSTRACT

This purpose of this study was to find out the determinants of deposit growth in private banks of Ethiopia; the research specifically intends to identify important factors that influence private bank deposit and examine to what extent the factors determine bank deposit. The research employs quantitative research approach and design; and 52 observations coming from 13 year panel data of four banks ranged from 2005 to 2017. The research employs a regression model of ordinary least square model to estimate deposit growth of private banks. Totally, seven variables were identified; however, two of the variables were removed due to multicollinearity problems. The findings of the study revealed that private banks on average had annual deposit of 8.95 billion Birr deposit and contribute a yearly total deposit of 35.77 billion birr. The findings of the study revealed that bank deposit determined by different factors; accordingly, number of banks branch and the banks spending on advertising had a positive and significant effect on banks deposit; particularly number of branches were highly significantly determine bank deposit than the other factors; likewise, the bank's profitability also had a positive and significant effect of bank deposit which implies the banks the more they become profitable the more will be their deposit. Apart from these, the exchange rate also determine the banks deposit positively, as the national official exchange rate increases the banks deposit also responds positively. Therefore the bank should give due emphasis to its deposit mobilizing tasks by considering mobilizing deposit and banks should invest on create working and promote them for aggressively. In addition private banks should expand their branches in order to increase their deposits and the bank should give priority for branch opening than other determinants.

Key words: Banks Deposit, Determinants, growth, Private

CHAPTER ONE

INTRODUCTION

1.1.Background of the study

Deposit mobilization is among of the corner stone of the banking business. Banks and financial institutions are striving to mobilize deposits as a fundamental objective and basis of its operations. Without enough deposits banks and financial institutions might fail on achieving their business targets. Deposit mobilization in Ethiopia are increasingly becoming agenda in banking industry, the agenda is worth noting at times when the number of banks and financial institutions are increasing both chasing for deposit for their survival. Deposit for banks is savings from the public, people deposit funds for emergence cases, source of capital investments and to balance future consumptions. Banks and financial institutions uses deposit as source of funds for loans and investments which are core business for their income and wealth. The study is significant for financial sector as it touches factors influences deposit mobilization which is in turn stimulates the country investments this study was carried out to assess deposit mobilization in private commercial banks. This chapter begins with an introduction, background of the study, statement of the problem, research objectives, research questions, significance of the study and ends up with the way the study is organized (Tegenu, 2015).

In the recent period, there has been an animated debate around the slowdown in the growth of deposits in the banking system. The issue has attracted attention in the context of revival of credit demand that has taken hold since November 2017 when bank credit growth rose to 9.3 per cent from an all-time low of 4.4 per cent in February, 2017, after a 75-month prolonged deceleration (Behera & Raut, 2019). Deposits are the part of income placed in banks and are the main source of bank’s liquidity (Mehdi, 2017). Mishra, (2009) distinguishes three types of deposits: demand deposits which can be withdrawn at any time and on which no interest is paid; time deposits which can be withdrawn after a fixed period of time and on which a higher rate of interest is paid; and saving deposits which can be withdrawn to the limited extent in a given period and on which some interest is paid.

Banks represent specialized institutions whose primary function is intermediation in the sphere of money with the goal of reproduction supplying by required amount of funding. Contemporary business conditions demand a new approach to managing liquidity risk for banking organizations and it's relevant for their ability to withstand the pressure of global market. The forming of deposit potential on the level of commercial banks is strongly influenced by the macroeconomic and microeconomic factors. With the realization of stable deposit growth rate it's achieved the stability and efficiency of the banking and financial system. Increasing the volume of unstable deposits may threaten the bank's liquidity, while a longer period of illiquidity can lead to the insolvency of a bank which is a great danger. The basis for measuring the liquidity represents a ratio analysis. The liquidity of bank is its ability to settle financial liabilities on their maturity period. Internal and external factors, where the most important factors of investment funds (own growth and development) and factors of placing funds (to bank's clients) affects to the ability of the banks (Avdalović & Kalaš, 2016).

According to (Wubitu, 2012) literatures factors affecting commercial bank deposits are divided into two, namely exogenous and endogenous factors. Exogenous factors are the factors that are not controlled by bank and endogenous factors are factors that are controlled by the bank. Exogenous factors are further sub divided into two, i.e. country specific factors and bank specific factors. Country specific factors includes saving interest rate, inflation, real interest rate, population growth of the country, per capita income of the society, economic growth (as measured by real GDP), consumer price index and shocks. Bank specific factors include liquidity of the bank, profitability of the bank, security of the bank, number of commercial bank's branches, bank size, reserves and transaction cost. The endogenous factors include awareness of the society, convenience of bank's office and services in the bank. These are the variables that are claimed in the literature to affect the volume of total deposit of commercial banks. In this study these variables are studied theoretically and empirically and the relationship between these variables and total deposit of commercial banks is identified (Gebre, 2019). In line with this this study intends to analyze the determinants of deposit growth at private bank.

1.2.Statement of the problem

The fast economic development in the entire world led to the inevitable competition in all sectors of the country's economy, including the banking sector, which is considered as the lifeline of the economy. The effect of the increased globalization and financial development particularly the integration of information technology in banking sector exposed the sector to increasing competition and thus resulted in decrease in their interest rate margins (Shubiri & Jamil, 2017).According to Banson (2013), deposit is the collection of cash or funds by a financial institution from the public through its current, savings and fixed amounts and other specialized schemes. Normally deposits are considered as the cost effective working funds that can increase the sustainability and profitability of the deposit taking institutions (Garo, 2015). Richard (2015), defines deposit mobilization as the main function of financial institution. Mobilizing funds from the surplus economic agents to the deficit economic agents is the process of deposit mobilization and it is thus affected to increase the economic growth.

In banking sector deposit mobilization is a scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. Furthermore, the key role of the loans, banks offer the more profit they make. However, the success of the deposit mobilization process depends on development of the financial system as well as the strategic practices adopted by banks (Richard., 2015). According to Richard, Florence and Zenon (2015), advocate that to mobilize enough deposits, banks should present various kind of deposit schemes to attract customers. Normally customers have various kinds of needs and wants with respect to their gender, age, profession, level of income, type of necessity, tenure, size of business and so many other factors lead to make a discrepancy among customers when they deposit their money in banks.

To meet unsatisfied demand for financial services, more commercial banks have been established and joining the industry in Ethiopia. As a matter of fact all of the commercial banks are locally based. Each of these commercial banks uses varieties of their strategies to actively mobilize deposits to penetrate and position themselves better in the market. According to BoT (2007) showed that local based commercial banks are automating their operations and foreign based banks are coming up with the new automated ways of offering the services. Yet the importance, applicability and effectiveness of the actual factors that influencing the deposit mobilization of commercial banks are unknown; in line with this, this study analyze the determinants of deposit growth in private banks.

1.3.Objectives of the study

1.3.1. General objective

The general objective of this study is to assess determinants of private bank deposit growth

1.3.2. Specific Research Objectives

- to identify the r/ship between bank loan and bank deposit
- to examine the effect of bank advertising on banks deposit
- to find out the r/ship between number of branches and banks deposit
- to scrutinize the effect of bank profitability on deposit growth
- to identify the effect of exchange rate on bank deposit growth

1.4.Research Hypothesis

- H1: bank loan and bank deposit has positive relationship
- H2: Bank advertising has a positive effect on banks deposit
- H3: High number of branches increase banks deposit
- H4: Bank profitability and their deposit have positive relationship
- H5: there is a negative relationship between exchanger rate and bank deposit

1.5.Significance of the Study

This study conducted on the Determinants of Private Banks deposit. Accordingly, the following are the significances that are attained from the study:

- ➢ This study is helpful to banks to manage their deposit by identifying factors determining deposit mobilization and further identify which variable is the most important so that more emphasis has to be given
- ➢ It is also helpful to the regulatory body to take as an additional input for future policy making

- It provides information for all stakeholders especially for boards and management of the banks in order to minimize the impact of factors determining deposits by making them to design effective strategies
- It serves as source of reference for further studies in the area of deposit mobilization.

1.6.Scope of the study

The work of this research is delimited to some major macro (exchange rate) and micro level factors such as exchange rate, profitability, branch number and etc. that determine private banks deposit in Ethiopia. The research is not cover all private banks and all factors which affects the bank deposit of the private banks; banks were selected purposively based on seniority, data availability and etc.

1.7.Limitation of the study

The study is conducted using the data for 13 years from the year 2005 GC and 2017 GC. The number of banks engaged in operation reached 18 in Ethiopia which includes 17 commercial banks and 1 development bank. Out of these 16 banks are private banks; But this study was conducted on four selected commercial private banks in Ethiopia, excluding 12 private commercial banks with less than 16 years services. The study focused only on one of the area of finance which the factors determining private commercial banks deposit. The regressions have one dependent variable (total deposit of selected commercial banks), and six independent variables

1.8.Organization of the study

This thesis paper organized into five chapters. The first chapter is the introduction part which consists of the background of the study, history of banking development in Ethiopia, statement of the problem, objectives of the study, research questions, significance of the study, and delimitation of the study. The second chapter introduces related literature review which deals with the theoretical and empirical literatures on commercial bank deposits. The third chapter deals with research design and methodology of the study. The fourth chapter concerned with findings and discussion of the study. The fifth chapter which is the last but not the least focused on conclusions, limitations and recommendation of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1.Theoretical Background

2.1.1. Introduction

The banking industry and its monetary reforms all over the world recognize the imperativeness of bank deposits in its resource mobilization drive. A precursor to reaching any economy's dream in this regard is the understanding of how banks generate their funds, which essentially has its roots in bank deposit creation. Bank deposits have been of interest to many scholars, investors and the government in past decades yet not much has been realized in terms of research and literature. Most studies in recent past tended to focus on interest rate spread rather than on determinants of deposit creation in banks in defense of efficiency in the banking sector (Sologoub, 2006). However there seem to be a slightly counter view by Brock and Franken (2002) holding on to the view that individual bank's specific characteristics are more potent in impacting on commercial banks net interest margins. This study however takes a look at the determinants of bank deposits recognizing bank investment, interest rate, bank branches and consumer price index (proxy for inflation) as relevant macroeconomic indicators of bank deposit creation(Eriemo, 2014).

To an investor, deposits are the most secured and liquid financial assets available, which can accelerate bank lending to various sectors. In this nexus it is imperative to state that deposit mobilization behavior in any economy is closely tied with the lending behaviors and as a consequence an analysis of the determinants of bank deposits imperative. To buttress this need, bankers of international repute Nwankwo (2000); Herald Finger and HeikoHesse (2009) made sounding observation on the need for deposit creation. According to Nwankwo (2000), credit constitutes the largest single income-earning asset in the portfolio of most banks in Nigeria hence the need for banks to spend enormous resources to estimate, monitor and manage credit quality. This is undoubtedly a practice that impact greatly on the lending behavior of banks as large resources are involved. Similarly, Finger and Hesse (2009) observed that commercial bank deposits are key to ensuring continued government financing in Lebanon because with the high government debt largely held by the domestic commercial banks, their continued funding mainly from resident and non-resident deposits is an important gauge to the viability of the Lebanese financing model. They argued further that available statistics do not shed more light on the origins of deposit; it is pretty difficult to substantiate bank deposits in isolation without recourse to lending behavior theories which provide the basis for fund mobilization in the banking industry.

Financial sector mainly constitute financial markets and financial institutions. A financial market is a market in which financial assets (securities) such as stocks and bonds can be purchased or sold. Financial markets, thus, facilitate the flow of funds and thereby allow financing and investing by households, firms and government agencies (Madura, 2011). Examples include commodity markets, money markets and capital markets. Financial institutions (intermediaries) are institutions that provide financial services for their customers. They play an important role in the economy because they provide liquidity services, promote risk sharing and also solve information problems thereby allowing small savers and borrowers to benefit from the existence of financial markets.

2.1.2. Bank Deposit

Deposits are the part of income placed in banks and are the main source of bank's liquidity. MISHRA1 distinguishes three types of deposits: demand deposits which can be withdrawn at any time and on which no interest is paid; time deposits which can be withdrawn after a fixed period of time and on which a higher rate of interest is paid; and saving deposits which can be withdrawn to the limited extent in a given period and on which some interest is paid. According to the permanent income hypothesis (Friendman, 1975), deposits (or savings) depend on the permanent income while life-cycle hypothesis (Ando And Modigliani, 1963) suppose that individual's age is the main determinant of deposits in banks.

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.

Commercial bank deposits are major liabilities for commercial banks. (Kelvin, 2001) said that deposits of commercial banks account for about 75% of commercial banks liabilities. Commercial banks keep lending as long as they possess adequate deposit. Therefore, banks will be better off if they are mobilizing more deposits. However, as (N. Desinga, 1975) indicates deposit mobilization is a very difficult task. The cost of intermediation for mobilizing deposits is also very important part of overall intermediation cost of the banking system as (E.A. Shaw 1995) indicates. In spite of the difficulties, deposits play an important role not only to the banking sector but also the overall economy. All the financial performance of most of the commercial banks in one way or the other related to the deposit it managed to be mobilized. Deposits provide limits to the working capital of the bank. The higher the deposit, 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 foundation up on which banks thrive and grow and deposit is unique items on a bank's balance sheet that distinguish them from other type of business organizations.

Commercial banking is a service industry with a high degree of built in profit potential (Meenakshi, 1975). Commercial banks mainly depend on the funds deposited with them by the public to lend it out to others in order to earn interest income (Davinaga, 2010). However, banks attract deposits by paying a risk free return to the savers. Interest expense is number one expense on the income statement of most commercial banks. (Hamid 2011) said that if banks lose their deposit base they rely on non-deposit based funding that is very expensive and consequently minimizes the profit margin.

2.1.3. Types of Deposit products

Deposit account is a savings account, current account or any other type of bank account that allows money to be deposited and withdrawn by the account holder. These transactions are recorded on the bank's books, and the resulting balance is recorded as a liability for the bank and represents the amount owed by the bank to the customer. Some banks may charge a fee for this service, while others may pay the customer interest on the funds deposited. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The following are most common type of bank deposit.

- **Demand Deposit**

It consists of funds held in an account from which deposited funds can be withdrawn at any time without any advance notice to the depository institution. Demand deposits can be "demanded" by an account holder at any time. Many checking accounts today are demand deposits and are accessible by the account holder through a variety of banking options, including teller, ATM and online banking.

- **Savings Account**

Saving account is a deposit account held at a bank or other financial institution that provides principal security and a modest interest rate. Depending on the specific type of savings account, the account holder may not be able to write checks from the account (without incurring extra fees or expenses) and the account is likely to have a limited number of free transfers/transactions.

- **Time Deposit**

Time deposit or certificate of deposit (CD) held for a fixed-term, with the understanding that the depositor can make a withdrawal only by giving notice. A time deposit is an interest-bearing bank deposit that has a specified date of maturity. Generally speaking, the longer the term the better the yield on the money (Dereje, 2017)

- **Wadi'ah Savings Account**

It is an interest free deposit account held at a bank or other financial institution that provides principal security without interest. Depending on the specific type of Wadi'ah savings account, the account holder may not be able to write checks from the account or he/she/it access the account without incurring extra fees or expenses and the account is likely to have no limited number of transfers/transactions.

- **Qard Demand Account**

It consists of funds held in an account from which deposited funds can be withdrawn at any time without any advance notice to the depository institution. Qard demand deposits can be "demanded" by an account holder at any time. It is similar to Demand Deposit account, but established based on Sheriah compliance or it is Islamic banking scheme. Many quad accounts today are demand deposits and are accessible by the account holder using chequesthrough a variety of banking options, including through tellers window, ATM, online banking and agent banking.

- **Mudarabah Saving Account**

It is a deposit account held at a bank or other financial institution that provides principal security and a modest income based on initial agreement with the bank. Depending on the specific type of Mudaraba Saving account, the account holder may not be able to write cheques from the account. He/she/it access the account without incurring extra fees or expenses and the account is likely to have limited time period to free transfers/transactions.

- **Mudaraba Fixed Account**

It is a deposit account held at a bank or other financial institution that provides principal security and good or better income based on initial agreement with the bank. Depending on the specific type of Mudaraba Fixed account, the account holder may not be able to write cheques from the account and the account is likely to have limited time period or maturity to free transfers/transactions or withdrawal.

2.1.4. Importance of Deposit mobilization

A. A Source of Investment

According to (Ongore & Kusa, 2013), Intermediation function of banks play a vital role in the efficient allocation of resources of countries by mobilizing resources for productive activities. They transfer funds from those who don't have productive use of it to those with productive venture. (Nwanko, Ewuim, & Asoya, 2013) States that, savings are resources which one decides to put aside for investment purposes and not for luxury. What people save, avoiding to consume all their income, is called "personal savings". These savings can remain on the bank accounts for future use or be actively invested in houses, real estate, bonds, shares and other financial instruments.

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

B. Low cost

According to (Shettar & Sheshgiri, 2014) the success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund.

Elser, Hannig, & Wisniwski, (1999) savings are a source of funds with low financial costs i.e., interest costs, Compared to other commercial funds. With regard to financial costs, most of the institutions apply a differentiated interest rate schedule, compensating for the higher administrative costs with no or low interest rates on small savings and increasing them according to the size of the deposit.

C. A source of profit

According to (Varman, 2005) the ability of a bank's management and staff to attract checking and saving accounts from business and individuals is an important measure of the bank's acceptance by the public. Deposits provide most of the raw materials for bank loans and thus represent the ultimate source of bank profits and growth.

Tuyishime, Memba, & Mbera, (2015) also affirmed that, Deposits are an indispensable tool commercial banks use to enhance its profitability through advancing deposits mobilized to its customers in form of loans which make in return interest to commercial banks.

D. Economic Growth and Development

According to (Ongore & Kusa, 2013), In addition to resource allocation good bank performance rewards the shareholders with sufficient return for their investment. When there is return there shall be an investment which, in turn, brings about economic growth. On the other hand, poor banking performance has a negative repercussion on the economic growth and development. Poor performance can lead to runs, failures and crises. Banking crisis could entail financial crisis which in turn brings the economic meltdown.

E. 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.

F. 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).

G. 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.

2.1.5. Determinants Commercial Banks Deposits

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

2.1.5.1.Bank Branching

In recent years and particularly with the entry of private banks into the era of activities we have been seen the fierce competition in the banking subsidiaries establishing that the situation has become more competitive edge. The number of branches can be influenced in the amount of bank deposits and banks are more successful in mobilizing resources that the number of its branches more than others. Today, an increasing number of bank branches and credit institutions and the development of its activities, the necessity for cooperation between banks in order to create harmony between requirements and economic development and the banks activities and banking developments is felt. And banks play effective role in investment in the economic development and in productive. Increasing the number of branches and the increasing of the volume of the bank turnover nationwide, banking system became as a fundamental goal of economic development. (Alipour, 2014).

(Tareq, 2015), also stated that, Expansion of bank facilities increases the amount of aggregate savings in the economy. As volume of economic activities increases in a community the potentiality of establishing bank branches increases, which ultimately increases the level of voluntary savings of the households.

According to (Tegene, 2012) unrestrained access to public goods and services is an essential condition of an open and efficient society. It is argued that as banking services are in the nature of a public good, it is essential that the availability of banking services to the entire population without discrimination should be the prime objective of public policy of any country. Expectations of poor people from the financial system is security and safety of deposits, low transaction costs, convenient operating time, minimum paper work, frequent deposits, and quick and easy access to credit and other products, including remittances suitable to their income and consumption.

Apart from the above-mentioned factors, branch banking is yet another important factor that determines bank deposits. M. Nishat, (1986) in his write up "Growth of Bank Deposits in Pakistan" pointed out that as more and more people have access to the banking system, more people would be willing to deposit their idle cash holding or at least a part of their wealth in banks as deposits. Logically, therefore bank deposit can be increased if only Banking services and facilities are extended to people most especially those in the rural areas. Consequently this credit expansion function could be said to an important role in facilitating growing economic activity in the country. This is because once credit is granted to an individual, the credit or at least part of it will be retained in the bank as deposits. This behavior therefore implies that one would expect demand for deposits to be an increasing function of bank credit. Finally, motives for deliberate saving constitute the other factors that determine bank deposits. People have different motives to save for future events and uncertainties such as sickness, unemployment and education. This is why the development of comprehensive social service (free hospital care, free education e.t.c.) has encouraged people to increase deposits because they no longer spend on these facilities. Also, lack of encouragement by banks as well as the availability of an array of domestic financial assets induces many to hold foreign securities and private investment in formal financial sector. To conclude this section which deals with the factors that influence or determine bank deposits, it is vital to point out that in a developing country like Nigeria, commercial banks are recognized for their important role in the economy and to enable them meet the ever growing demand for credit, it is necessary to enhance the deposit rate of the country.

There is a relationship between branch expansion of banks and deposit growth of banks (Banqui, 1987). Banks make their expansion decisions based on level of competition, deposit potential, regional income and development of infrastructure (roads). However, since deposit mobilization is the main role of banks, branch expansion also decided on the level of deposit mobilization (Samuel, 2014). According to the study of Bhattacherjee (2012), reveal that branch expansion is a significant factor affecting for deposit mobilization. Murthy and Haresh (1991), explains how branch expansion determines the deposit mobilization. Among many factors affecting for deposit mobilization, to deposit money in a bank depositors first take into consider location of branch (whether bank is rural, urban or semi-rural) and second, they consider the region of bank belongs. The study further reveals that regions with high income earners and abundant of branches have high deposits per branch while regions with low income earners and also associate with low spread of branches denote low amount of deposits. This study has been concluded by deciding branch expansion is the most effective factor for deposit mobilization.

Commercial banks use different strategies to strengthen the level of deposits and number of customers. One of the strategies is branch expansion at different location of home country as well as opening of multinational banks at host country. Branch expansion is opening new branches or service outlets inside and outside the country. (Carlson and Mitchener, 2005), Commercial banks in Ethiopia expend huge investment budget for branch expansion in and outside Addis Ababa yearly, because branch expansion play significant role for resource mobilization and customer attraction. Opening bank branches at different locations facilitate for proximity to customers, supports the bank mobilize deposit and attract more customers. However, before opening branch at a certain location the marketing department of a bank conducts feasibility study and identify the target market. Then assignment of employees and customer attraction endeavor will take place. Therefore branch expansion to banks is very crucial with regard to deposit mobilization and customer attraction.

2.1.5.2.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 in 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.

2.1.5.3.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.

According to (Alipour, 2014) Banks as one of the key financial intermediaries play an important role in the communication between the owners of surplus funds and required groups to the resources to development and advance their economic activities. In fact, banks collect the surplus resources in the hands of people on the supply side of the money market and then allocate resources among different required sectors.

According to (Ongore & Kusa, 2013) Commercial banks play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational cost they incur in the due course. In other words for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth.

As (Zhang & Daly, 2013) mentioned GDP is one of the most commonly used macroeconomic variables to measure cyclical output effects within an economy where GDP is expected to influence numerous factors related to the supply and demand for loans and deposits. Favorable economic conditions will affect positively on the demand for banking services, but may have either positive or negative influence on bank profitability levels. In general we expect a positive relationship between GDP and bank performance

2.1.5.4.Profitability of the bank

Profitability is considered by different researchers as one of the determinants of banks liquidity. For providing information concerning the performance and survival of many businesses, liquidity and profitability are key variables. Profitability measured by return on asset (ROA) has a positive impact on the liquidity of banks (Singh & Sharma, 2016; Roman & Sargu, 2015; Melese, 2015) which is inconsistent with standard economic theory. But, Mehdi and Abderrassoul (2014) found out that the return on asset has a negative impact on the liquidity position of banks.

(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. The financial sector is vast field, which comprises of banks, cooperatives, insurance companies, financial companies, stock exchange, foreign exchange markets, mutual funds etc. These institutions collect idle and scattered money from the general public and finally facilitate investment in different enterprises of national economy. Thus, today's concept, the financial institutions and commercial banks have become one of the bases for measuring the level of economic development of nations. (Mitali Gabra, 2009-2011). Commercial Banks should maintain their competitive position by resource mobilization and deployment of same to various shot, medium and long term financing. The more the loans the banks disburse the more profit they could make. Banks do not have a lot of their own money to give as a loan. They depend on customer deposits to generate funds for granting loans to other customers. So a deposit mobilization scheme would encourage customers to deposit more cash into bank and this money in turn will be used by bank to disburse more loans and generate additional revenue. Kazi (2012) also confirmed that "Banks depend on customer deposits to generate funds for granting loans to other customers". Moreover, commercial banks play their pivotal role in the economy through facilitating financial payment system, granting loans to existing and potential investors, facilitating financial and economic integration between different nations through import & export and above all support the economic growth in industrialization, unemployment reduction and inflation regularization. (RichardTuyishime, Dr.Florence, MEMBA and Dr. Zenon MBERA 2015) said “the growth of any economy depends on capital accumulation, which in turn depends on investment and an equivalent amount of saving to match it.”

2.1.5.5.Exchange Rate

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

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

Banks play their pivotal role in the development of national economy through both local and foreign currency generation and deployment of same to those who need it. They facilitate financial settlement through the payment system, and provide a means for international payment. Foreign currency is another form of resource mobilization for which commercial banks strongly strive to mobilize acceptable hard currency. Foreign currency can be generated in the form of remittance or International Money Transfer (IMT), Export, Foreign Direct Investment (FDI), acquisition of existing company by foreign company, borrowing in hard currency, and through gift from abroad. Export policy of a country plays its role in attracting foreign companies as well as domestic exporters. Adoption of good market system in the economy also boosts foreign currency generation. However, commercial banks should devise way to attract foreign currency or the scarce resources. Because, financial performance by use of foreign currency equally contribute to the profit of banks mainly through L/C(Letter of Credit), CAD(Cash Against

Document), and TT(Telegramming Transfer), Kimberly Amadeo (2013). Commercial banks should facilitate international trade to support countries with comparative advantage and in the meantime generate foreign currency which part and parcel of deposit growth.

2.1.5.6.Loan

Loan growth is also another important determinant of banks liquidity. It can be measured as (Loan at time t-(Loan at a time (t-1))/(Loan at time t-1). Loans & advances are the major earning asset of the bank. They are granted to customer from the amount collected from depositors of the bank that are considered as illiquid assets and generate higher revenue to banks. Therefore, the increase in loan means an increase in illiquid assets and decrease liquid assets. The studies of Tam & Tu (2017) and Melese (2015) found out that loan growth has a negative but insignificant effect on the liquidity of banks in Vietnam. The study of Fekadu (2016) found out that there is an inverse relationship between loan growth and liquidity. Since loans are illiquid assets, an increase in the number of loans means an increase in illiquid assets in the asset portfolio of a bank that decreases banks liquidity (Tibebu, 2019).

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

Lewis (1955) noted that people would save more if saving institutions were nearer to them than if they were farther. As a result, a negative relationship is assumed to exist between population per bank branch and household financial saving. However, whether increased financial intermediation itself significantly increases the overall propensity to save depends also on the degree of substitution between financial saving and other items in the household’s asset portfolio. Consequently, the expected sign of this relationship in the private saving function is ambiguous.

Murthy and Haresh (1991), explains how branch expansion determines the deposit mobilization. Among many factors affecting for deposit mobilization, to deposit money in a bank depositors first take into consider location of branch (whether bank is rural, urban or semi-rural) and second, they consider the region of bank belongs. The study further reveals that regions with high income earners and abundant of branches have high deposits per branch while regions with low income earners and also associate with low spread of branches denote low amount of deposits. This study has been concluded by deciding branch expansion is the most effective factor for deposit mobilization

2.1.6. 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.

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) Also states banks as the backbones of the trade and commerce playing the intermediary role of capital formation and supply. Even if other financial institutions are available banks play a major role in facilitating the way the financial sector operates. 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 (Kelvin, 2001) explains. So the event in the commercial banks will affect the country's economy in general.

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

Not only commercial banks are affecting the economy but also the economy affects the 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.

2.2.Empirical Review

Assfaw (2019) study aimed to examine the firm-specific and macroeconomic variables which can affect the liquidity position of private commercial banks in Ethiopia. For the current study, secondary data were extracted from audited annual financial reports of eight purposefully selected private commercial banks covering the period of 2011-2017. The panel data was analyzed by adopting the balanced panel fixed effect regression model. The study revealed that firm (bank) specific factors namely the size of banks, loan growth and deposit are found to be significant determinants of the banks' liquidity. Moreover, macroeconomic determinants consisting of interest rate margin, national bank bills purchase, GDP and annual inflation have a significant influence on the liquidity of private commercial banks of Ethiopia. This study recommends that private commercial banks in Ethiopia should be more concerned with the macroeconomic environment in addition to the internal environment in formulating strategies to enhance their liquidity position. Despite its limitations, this study contributes to the scarce knowledge of firm-specific and macro-economic determinants of banks liquidity by giving equal attention to the long aged banks and banks that were emerged on later periods.

According to Nathanael (2014) extensive studies have also been conducted with the focus on determinants of commercial bank deposit mobilization for developing countries. The paper empirically examined the macroeconomic determinants of bank deposits in Nigeria using data covering the period between 1980 and 2010. It tried to analyze the effects of various macroeconomic indicators, on the performance of banks within the context of deposit mobilization of banks and its determinants. The parsimonious ECM result showed that in Nigeria, bank investment, bank branches, interest rate and the general price level are important determinant of bank deposit. The Vector Error Correction and Johansen co-integration test indicates a long run relationship among the variables and the ECM result showed a satisfactory speed of adjustment

Akuma1, Doku and Awer, (2017 investigate the relationship between deposit mobilization, credit risk and profitability of Ghanaian banks from 2002 to 2011. Secondary data were obtained from financial statements of 17 Ghanaian banks that have operated consistently within the study period. Panel regression analysis is used in the estimation of a function relating to the return on assets (ROA) to measures of credit risk and deposit mobilization as well a few control variables. The results reveal a significantly positive relationship between credit risk, deposit mobilization, growth in interest income, capital adequacy ratio and profitability of Ghanaian banks. However, a significantly negative relationship between year-on-year inflation and ROA was found. With regard to the relationship between bank size and profitability, the results found no significant association between the two. The research suggests that profitable banks in Ghana depend more on bank deposits as one of their main financing options. In the Ghanaian case, a high proportion (64.33%) of total liabilities is represented by bank deposits; attesting to the fact that Ghanaian banks largely depend on deposits for financing their operations. The study recommends that banks should implement effective strategies to mobilize more deposits from both the formal an informal sectors of the economy. They should also invest heavily in credit risk management. Both strategies will enhance their profitability.

Alfred (2010) study factors which affect the deposit mobilization operations of commercial banks in Nigeria; The study tried to find out the relationship between total volume of commercial bank deposits and interest rate, inflation rate, loans and advances and the number of bank branches. The study relied primarily on secondary data published by official sources. The diagnostic statistic used in the study was the ordinary least square (OLS). From the study, it was found out that all the independent variables were positively related to bank deposit (dependent variable). The result also shows that there is a positive and moderately significant relationship between bank deposit and loans and advances with a coefficient of 0.53. Hence, loans and advances is inelastic to bank deposit. Number of bank branches has a positive but weak relationship with bank deposit and is also inelastic in nature. Inflation rate has a positive – weak relationship with bank deposit, while real interest rate has a negative – weak relationship with bank deposit with the value of -0.05. From the value of the t-statistic, the coefficients of the four explanatory variables were all significant and the probability of rejecting any of them was less than 1%. The standard errors for the four explanatory variables were all very low. Hence, all the variable coefficients were all significant and accepted. Based on the findings, my recommendation therefore, is that inflation rate which is currently standing on 1 digit contrary to what it was from 1991 – 2005 has reduced its severe constraint on agricultural and industrial sector, thus, advantage should be taken on this by banks to direct loans towards these sectors of the economy. Also, interest rate which when increased encourages savings that would eventually lead to improved bank deposit, should be given priority. It is clear from the study that the more the branch network, the higher the deposit mobilized which implies that the number of bank branches affects the bank deposit and positively too. Therefore, there should be a proliferation of bank branches both in the rural and in the urban areas.

Siaw & Lawer (2015) the study investigates the influence of selected macroeconomic and financial level variables on bank deposits in Ghana. It specifically examines the dynamic effect of deposit interest rate, inflation, and monetary policy rate, growth of money supply and stock prices on the level of bank deposits. The dataset for the study consisted of quarterly data spanning the years of 2000 to 2013 gathered from the Bank of Ghana monetary time series database and the World development Indicator (WDI) database. Employing a Co-integration analysis and Fully Modified Ordinary Least Square (FMOLS), both short and long run elasticity's of the model are estimated. The short run effects of a change in the independent variables on bank deposit were found to have the expected influence on bank deposits. However, only inflation and growth of money supply variables were found to be significant in explaining the short run dynamics of bank deposit.

Mauki (2004) hypothesized loans, interest rates and cost of advertising among others as the determinants of deposit mobilizing in commercial banks. Among of the independent variables used, interest rate and cost of advertisement were found to have the positive relationship with total deposits, although interest rate was found to be statistically insignificant deposit mobilization. The implication of the study is that banks should not aim to increase deposits through raising interest rate on deposit, but rather the amount to be charged should depend on the type of deposit. Maje (1981) on the other hand dealt basically with determinants of savings that are income, real rate of interest and expected inflation. Therefore Maje (1981) considered income, real rate of interest and expected inflation as independent variables, while saving deposits was treated as dependent variable. She attempted to quantify the role of financial intermediation in savings mobilization in Tanzania for the period of 1966-1974. She wanted to see if financial intermediation enhances savings in Tanzania as it has been supported by other studies done in other countries. Her empirical findings indicated that savings are significantly influenced by income and financial intermediation. She also found that income is an important determinant of savings and financial intermediation in Tanzania influences the income generating process.

Keynes (1936) carried out an empirical study regarding bank deposits. In his framework; he examined how the rate of interest and inflation determine bank deposits. In his studies, Keynes argued that in the absence of a rate of interest an individual will hold his savings in the most liquid form. Since there is a cost associated with converting financial assets to cash, an individual will not want to part with his liquidity without the payment of interest, most especially during inflationary periods when the value of money declines over time. Hence, the rate of interest is the premium offered to an individual to part with his liquidity. He asserted that it is that rate of interest that customers consider before saving part of their surplus with commercial banks. Keynes concluded his study by emphasizing that the rate of interest is not the price which brings into equilibrium the demand for resources to invest with the readiness to abstain from present consumption. It is the price which equilibrates the desire to hold money or wealth in the form of cash with the available quantity of cash.

Epapher (2014) Empirical examine the Determinants of Tanzania's National Savings during the period of 1970-2010. The study reveals that disposable income, real GDP growth and population growth have a positive impact on savings in Tanzania. Regarding to interest rate, Tochukwu E. Nwachukwu and Peter (2009) examines the determinants of private saving in Nigeria during the period covering 1970 – 2007 and suggested that it is positively influences on domestic saving on Nigeria. Similarly Mashamba, Magweva & Linda (2014), study the relationship between banks" deposit interest rates and deposit mobilization in Zimbabwe for the period 2000-2006, found that deposit rate have positive effect on bank's deposit in Zimbabwe. Likewise, the study by Eriemo (2014), on Macroeconomic Determinants of Bank Deposits in Nigeria using data covering the period between 1980 and 2010, suggested that interest rate and bank branches are important determinant of bank deposit. However, Simon & Jolaosho (2013) found real interest rate has negatively impacted on the level of savings mobilization in Nigeria while they undertaking empirical assessment on the impact of real interest rate on savings mobilization in Nigeria using the time series data from 1980 to 2008 by using The Vector- Auto Regression (VAR).On other study in same country, Musa, Iyaji, Success (2014), examines the determinants of private domestic savings in Nigeria during the period covering 1986 – 2010.The study reveals per capita income are strong determinants of private domestic savings but interest rate impotent to drive savings mobilization.

2.3.Literature gap

Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization is an indispensable factor to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund. As it was discussed in the literature review part, Most of study undertaken in our country related to the topic of determinates of deposit mobilization focus on a separately treating the total deposit amount to the private banks and the public Banks and some internal and external factors that are reviewed by different researchers indifferent research techniques also showed different effect on Bank deposit. Thus, the inconsistency funding among researchers and little attention given by researcher on the determinate of the overall deposit mobilization commercial banks of Ethiopia, motivated the researcher to undertake a research in this particular area by adding new additional variable to fill these gap.

2.4.Conceptual Framework

The research describes the determinants of deposit in private banks. There are independent variables that determine private commercial banks deposit such as Number of Branch, loan, advertising, bank profitability, exchange rate, inflation and GDP.

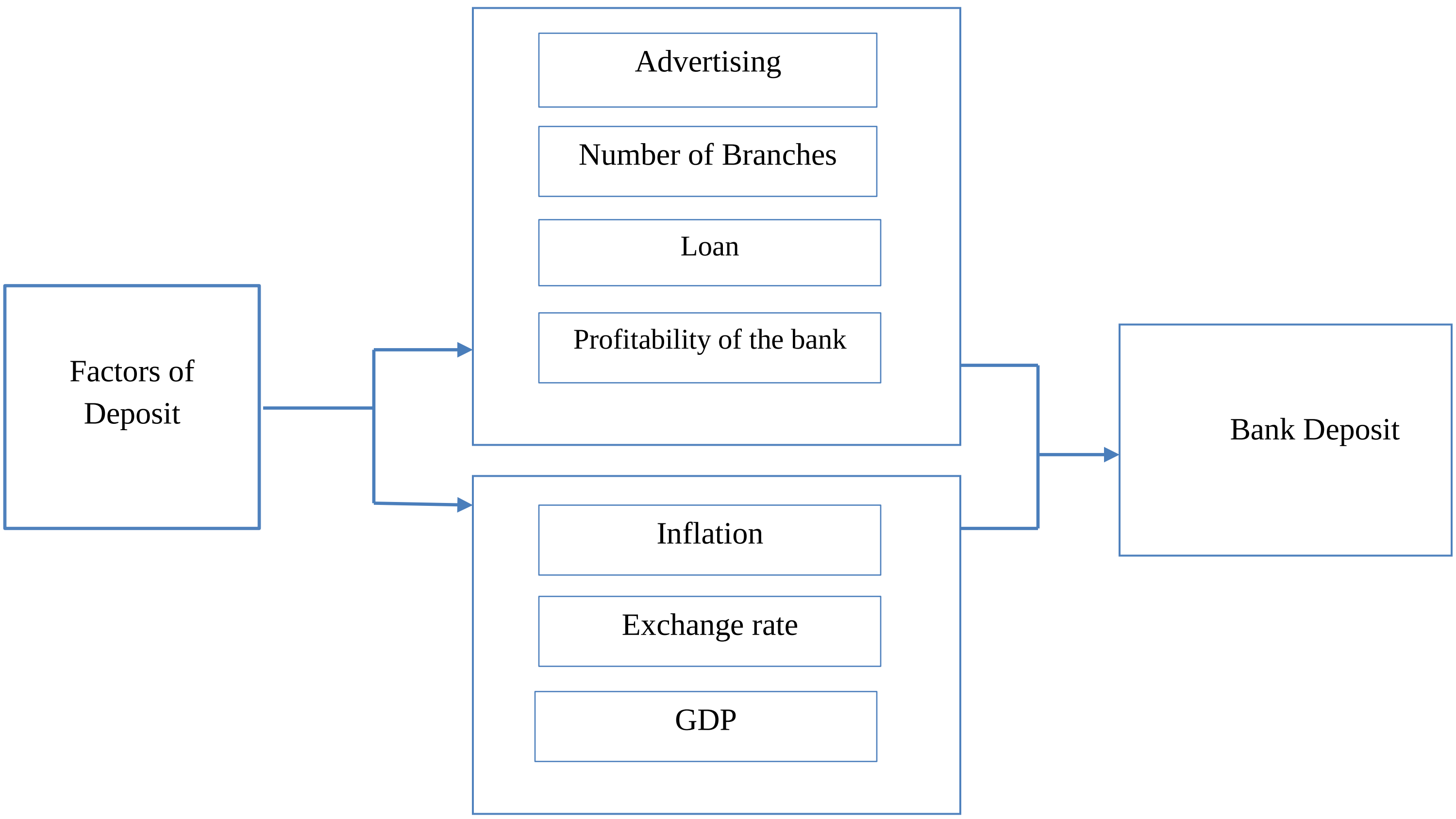

Figure2.1 Conceptual framework showing the determinants of private banks deposit

(GIsovic, EI-Zoghbi, & Forster, 2011)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter covers the research approach, the type and source of data and the research design. It explains the type of data used for the study and the techniques employed in identifying the factors that influence deposits as well as the method of data analysis.

3.1.Research Design and Approach

The objective of this study was to examine the determinants of deposit in private banks. This research employed quantitative method of research approach; Quantitative research is an approach for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. It involves the processes of collecting, analyzing, interpreting, and writing the results of a study. In quantitative research, they provide a proposed explanation for the relationship among variables being tested by the investigator (Creswell, 2013). Furthermore, explanatory research design was adopted to analyze the determinants of deposit; explanatory research seeks explanations of observed phenomena, problems, or behaviors, where it seeks answers to why and how types of questions. It attempts to "connect the dots" in research, by identifying causal factors and outcomes of the target phenomenon.

3.2.Data Collection Procedure

This research majorly depend on secondary data sources; the secondary data were collected from different secondary sources banks and national bank of Ethiopia web address and other concerned government organization where adequate data is available. Currently, 17 private banks are working in Ethiopia. Previous related researches indicated that some of the private banks didn't have more than ten years data, hence, the researcher took purposely those banks that have more than ten years data; these are Awash, Dashen, Wegagen and United bank. Furthermore, the research employs a panel data ranged from 2005 to 2017 which is 13 years comes from four private banks Dashen, Awash, Wegagen and United. And totally, 52 observations were considered.

3.3.Method of Data Analysis

Upon collection of all data, the data are processed, edited, classified and organized in order to enable the researcher interpret and summarize the data. Data were analyzed using both descriptive and inferential statistics techniques. In descriptive statistic the researcher use percentages, correlation and frequencies as well as mean and standard deviation that help to analyze the data where as in the inferential techniques which is known as regressions particularly ordinary least square (OLS) was employed which shows not only the relationships or associations existing between variables it helps to analyze the extent to which one (independent) variable predicts the other (dependent) variable. Further, the collected raw data were classified and compiled to make assessment manageable and understandable using STATA as well as Excel. The dependent variable were the yearly bank deposit, and the independent variables were yearly advertising expense, loan, number of branches, profitability, GDP, inflation and the national exchange rate. All of the variables were transformed to a log form to avoid diagnostic problems.

3.3.1. Model Specification

Given economic theory and existing literature, the study used annual deposit of banks as dependent variable, and the factors that are expected to affect deposit growth as independent variables. The functional form of the regression equation is presented as:

$$Y = f(X1, X2, X3, X4 \ldots\ldots X7) \ldots\ldots (3.1)$$

Where, Y is the deposit rate of banks per year given as a function of the independent variables, X's. For functional form expression, the researcher used *Xij* to indicate the variable Xi with the value of the j^{th} observation. Base on this the conditional mean $E(Y \mid Xi)$ is a function of *Xi*, where *Xi* is a given value of *X*. Symbolically,

$$E(Y \mid Xi) = f(Xi) \ldots\ldots (3.2)$$

Where $f(Xi)$ denotes some function of the explanatory variable *X*. Equation (3.2) is known as population regression function (PRF) or population regression (PR) for short. It states merely that the expected value of the distribution of *Y* given *Xi* is functionally related to *Xi*. In simple terms, it tells how the mean or average response of *Y* varies with *X* and the derived equation is:

$$E(Yj) = B0 + B1X1j + B2X2j + B3X3j \ldots\ldots + BkXkj \ldots\ldots (3.3)$$

Where $B1$, $B2$, $B3$… Bk signifies coefficients of the X's variables indicating population parameters. The interpretation of Bi represents the expected value of Y due to a unit change in Xi given all other explanatory variables assumed constant. However, qualitative regressor coefficients interpretation is quite different if there is any. It is the expected change in the value of Y owing to the variation in dummy variables within the sub-groups relative to their reference; While $B0$ is a constant term (Gujarati 2003). Moreover, YJ individual observation is assumed to be estimated and determined by an equation with an error term and represented as:

$$Yj = B0 + B1X1j + B2X2j + B3X3j \ldots\ldots\ldots\ldots. + BkXk + \varepsilon j \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.4)$$

The term ε is a random disturbance, so named because it "disturbs" an otherwise stable relationship. The disturbance arises for several reasons, primarily because we cannot expect to capture every influence on an economic variable in a model. The net effect, which can be positive or negative, of those omitted factors is captured in the disturbance term (Green 2003). For our case the error term represents the value of Yj deviation from its mean. The error term can be imputed to either the effect on the level of deposit (Y) from the variables which are not included in the model or a random residual element in the regressand. Since population parameters are not easy to determine directly, their values can be estimated from finite sample size taken from the population. Thus, equation (3.4) which is population linear regression equation can be expressed as sample linear regression model written as follows:

$$Yj = b0 + b1X1j + b2X2j + b3X3j \ldots\ldots\ldots\ldots. + bkXk + ej \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots. \quad (3.5)$$

Estimating the sample linear regression function, as the most common method, is to use the OLS regression given that OLS assumptions are satisfied. Therefore, the general model of deposit per year will have a form of:

$$\text{Deposit growth} = B0 + B1\ \text{logBankBranch} + B2\ \text{logLoan} + B3\ \text{logGDP} + B4\ \text{logExchangerate} + B5\ \text{logAdvertizing} + B6\ \text{logProfitabiliry} + B7\ \text{logInflation} + \text{eij} \ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \quad (3.7)$$

3.1.1. Anticipated Variables

In this study six variables were considered as independent variables which are expected to affect bank deposit growth of private banks such as advertising, branch number, loan, profitability, exchange rate, inflation and GDP.

Variables	Description	Type	Expected sign
Deposit	yearly deposit of the banks	Dependent	
Number of branches	The total number of branches occurred annually	Independent	+
Advertising	The yearly total advertising expenses of the banks	Independent	+
Loan	Annual load provided by banks	Independent	+
Profitability	Yearly profit ratio	Independent	+
Inflation Rate	The rate of inflation typically refers to changes in the overall level of prices within an economy	Independent	-
Exchange rate	Annual exchange rate	Independent	-
GDP	The total value of goods and services produced in a given nation over a specified period of time usually a year	Independent	+

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This is the fourth chapter of the paper, in this chapter; primarily the descriptive analysis will be discussed followed by the inferential statistics. Under the inferential statistics the preliminary test of ordinary least square and the regression analysis will be discussed.

4.1. Descriptive Statistics

Totally four private banks were taken, Awash, Dashen, United, and Wegagen; annually the private banks had 8.95 billion Birr deposit; where the yearly deposit of Awash, Dashen, United and Wegagen is 10.2, 12.7, 6.67, and 6.2 billion Birr respectively. The four banks contribute to the overall all economy 35.77 billion birr deposit by the end of 2017. Apparently, the banks spend much amounts of money to promote and advertise their organization, on average Awash bank spent 6.9 million Birr to advertise its banking, and Dashen 10.7 Million, United bank 4.6 Million Birr and Wegagen Bank spent 7.76 million birr annually to advertise their bank. Overall, private banks on average invest about 7.5 Million birr for advertising annually. Furthermore, their total annual advertisement investment was 30.10 million Birr.

Between the 2005 and 2017 private commercial banks give yearly 5.64 billion Birr loan for their customers, when we see specifically, the maximum average loan was provided by Dashen bank, Dashen bank was provided an average yearly 7.52 billion birr loan with is the last thirteen years for its customers, followed by Awash bank, with in the consecutive 13 years Awash bank provide average yearly loan of 6.93 billion birr. United bank was the third private bank in terms of delivering the maximum average yearly loan; with in consecutive thirteen (2006-2017) year united bank give average yearly 4.16 billion birr loan. The last but not the least bank which were considered in this study was wegagen bank, this bank offer yearly 3.96 billion birr loan between 2005 and 2017. Totally between these years the four banks totally deliver 22.57 billion birr to the national economy.

Until the end of 2017 the four banks had a total branch of 999 branches; where awash bank had 248 branches, Dashen 333 branches, and United and Wegagen Banks had 205 and 213 branches respectively. Annually, the banks increase their branch on average by 20 percent from the previous years; specifically, Awash Bank increase its branches by 18.15 percent, Dashen by 21.23 percent, United by 23.98 percent and Wegagen bank by 19.19 percent increased their branch number yearly. Furthermore, on average the profitability of private banks were 0.045, which indicates that around 4 cents after tax were generated from 1 ETB investment on assets of banks.

Table 4.1 descriptive statistics of variables by bank

	Mean of variables					
Banks	**Deposit**	**Advertisement**	**Loan**	**profitability**	**Bank branch**	**Total branch at the end of 2017**
Awash	$10,200,000,000	$6,979,735	$6,930,000,000	0.036107	108.3846	248
Dashen	$12,700,000,000	$10,700,000	$7,520,000,000	0.0790756	104.2308	333
United	$6,670,000,000	$4,659,829	$4,160,000,000	0.0299871	73.15385	205
Wegagan	$6,200,000,000	$7,764,770	$3,960,000,000	0.0360001	78.15385	213
Mean	$8,950,000,000	$7,531,967	$5,640,000,000	0.0452925	90.98077	
Total	$35,770,000,000	$30,104,334	$22,570,000,000			999

4.2. Trend Analysis of the Variables

4.2.1. Trend Analysis of Deposit of private banks

The graph below shows the trend of deposit of the four private banks; accordingly, comparatively, the deposit of Dashen bank is better and it has high increasing rate, especially, the growth of the deposit after the year 2015 is high as shown in the trend graph below. Next to Dashen bank the deposit of Awash bank seems better; starting from the year 2005 the deposit is growing tremendously, the growth rate increases at increasing rate although around the year 2015 it grows at a slower rate. Apparently, the deposit growth rate of Wegagen bank shows some fluctuations it still increases at an increasing rate except around the year 2011/12. Finally, the deposit growth rate of united bank as shown in the trend graph below also shows increasing rate, although the growth was increasing at a slower rate at the beginning of the trend however, is increases at a better increasing rate at the end of the trend graph. In summary, the deposit of all of the banks shows an increasing rate starting from the year 2005.

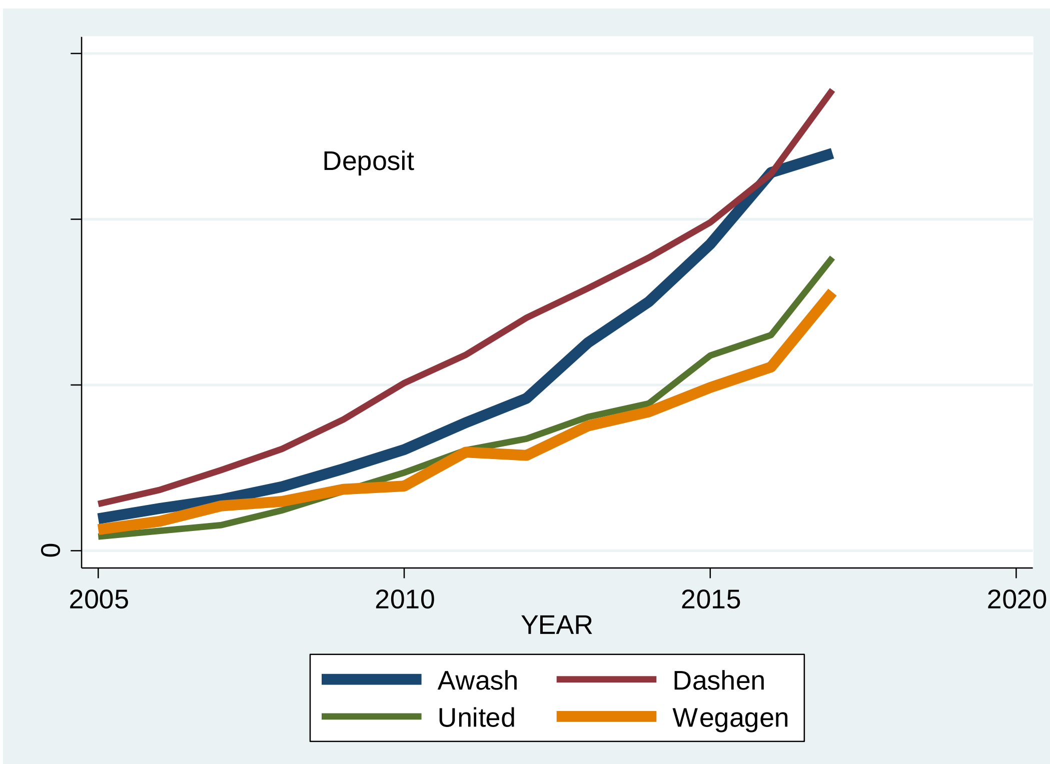

Figure 4.1 trend of deposit of the banks

4.2.2. Trends of Advertising

Under this sub-topic the trends advertising of the private banks each, as the trend shows among the given four banks Dashen bank incurs the highest spending of advertising; the trend of Dashen bank shows between the year 2005 and 2010 the graph seems constant; however, since the beginning of 2010 the advertising expenditure of the bank increases year to year at an increasing rate. Next to Dashen bank as shown in the trend graph below the advertising expense of Awash bank took the second place; between the year 2005 and 2011 the advertising expenditure of the banks goes ups and down shows a little fluctuations, however, since the begging of the year 2011 the advertising and promotion expense of Awash bank increases at an increasing rate even the spending of the bank increases highly at the end of the trend. Likewise, the trend of advertising expense of Wegagen bank show similar trend with the other bank awash; accordingly, the trend of advertising expense of wegagen bank shows a constant trend between 2005 and 2010, however, after the year 2010 the trend shows an increasing trend and again it goes down in the year 2014; after the year 2014 the trend increases at an increasing rate. In the graph the last bank was the united bank which shows a lower performance in advertising expense, the advertising expense trend of united bank increases at a slower rate than others in all years.

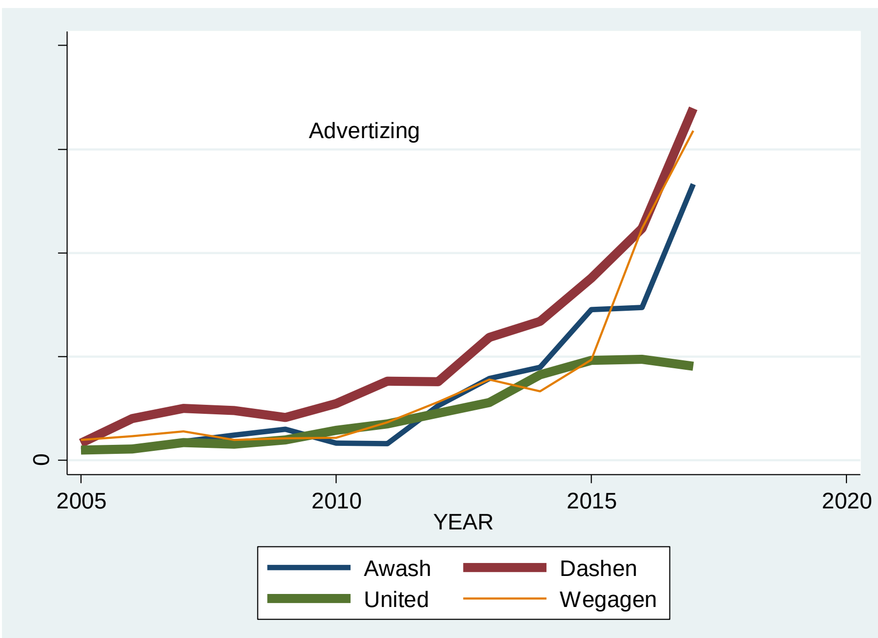

Figure 4.2 trend of advertising of the banks

4.2.3. Trend of Branch number

The graph below shows the trend of branch numbers of banks, as the trend shows below starting from the beginning the number of branches of all banks increases with similar rate, and it continuous up to the year 2010 although Awash and Dashen bank had a better number of branches. Since the year 2010 the trend of Awash and Dashen had similar increasing trend except after the year 2016, after this year the trend of branch number of Awash shows a slower rate however, the trend of Dashen bank increase at an increasing rate. On the other hand, the branch number trend of united and wegagen bank seems almost similar; which means this two banks relatively had a similar number of branches.

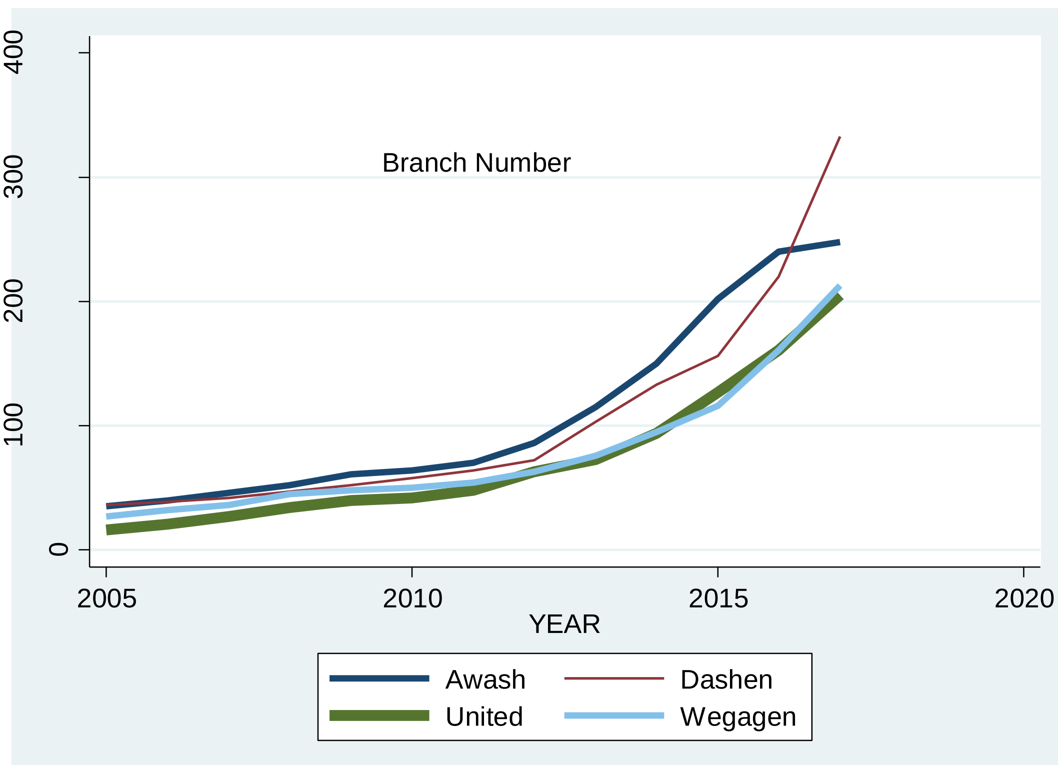

Figure 4.3 trend of branch number of the banks

4.2.4. Trends of Loan

Under this sub-topic the trend of loan of the four banks will be presented; accordingly, as shown in the trend analysis between the year 2005 and 2014 dashen bank had a better loan performance when compared to the others; its loan trend increases at a slight increasing rate; however after the year 2014 it is awash bank who had a better loan performance trend. Despite the two banks had different performances, they both had increasing trend of loan. On the other hand, the other two banks, United and Wegagen, had almost similar loan trend with a very slight differences; as shown in the trend graph below at the beginning of the trend they both had a trend which increases with a slower rate; however, after the year 2014 the loan trend of these two banks increases with an increasing rate. Overall, all of the banks had an increasing loan trend for thirteen consecutive years.

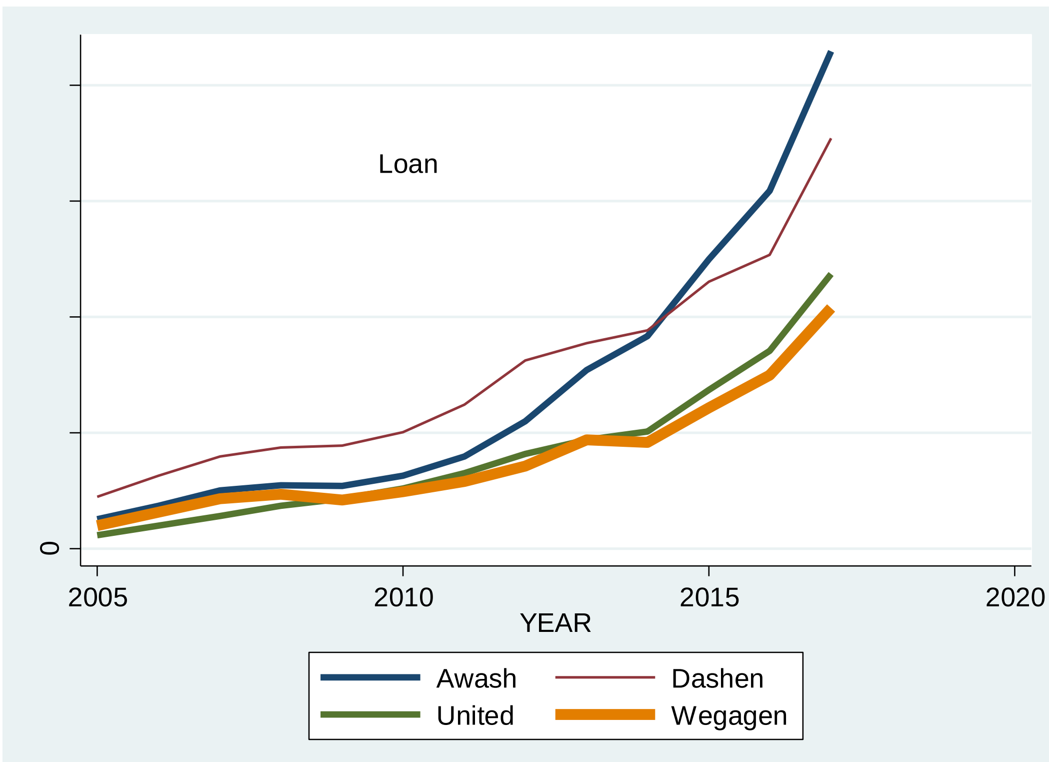

Figure 4.4 trend of loan of the banks

4.3.Inferential statistics: Determinants of Deposit Growth

4.3.1. Preliminary tests

4.3.1.1.Multicolliniarity Test

Variance inflation factor (VIF) test was used to test the existence of multicollinearity problem. If there is VIF value greater than 10, it is the indication of Multicolliniariy (Gujarati 2003). The results of the test indicate there are three variables which has a VIF value more than the stated standard which is 10. In order to avoid the problem among different remedial measurements removing the variables which diagnosed as a problem is the first recommended one. Accordingly, two variables that are loan and GDP were removed from the regression analysis. The following two tables are shows before and after removing the problem.

Table 4.2 VIF test with the problem

Variable	VIF	1/VIF
logBANKBRA~H	17.34	0.057685
logLOANnAD~S	16.19	0.061784
logGDP	12.91	0.077484
logEXCHANG~E	8.87	0.112761
logADVERTS~G	7.85	0.127408
logPROFITA~Y	1.39	0.719298
logINFLA	1.18	0.849618
Mean VIF	9.39	

Table 4.3 VIF test after remedial action

. vif		
Variable	VIF	1/VIF
logBANKBRA~H	8.24	0.121330
logADVERTS~G	6.01	0.166421
logEXCHANG~E	5.55	0.180258
logPROFITA~Y	1.25	0.801400
logINFLA	1.09	0.918995
Mean VIF	4.43	

4.3.1.2.Hetrosckedasticity

One of the important assumptions of the classical linear regression model is that the variance of each disturbance term *ui*, conditional on the chosen values of the explanatory variables, is some constant number equal to $\sigma 2$ (Gujarati 2003). Although there are different ways and techniques to check the existences of hetroscedasticity, for the purpose of this research Breusch-Pagan test was employed, accordingly, the results of the test showed the p-value is greater than 5% which confirms that the error variance is constant; consequently, it is concluded that the data is free from the problem of hetroscedasticity.

Table 4.4 heteroskedasticity test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of logDEPOSIT
chi2(1) = 0.29
Prob > chi2 = 0.5920

4.3.1.3.Normality Test

The other important assumption of OLS is the error terms should be normally distributed; both histogram and Skewness/Kurtosis test were used to test the normality of the error terms. Accordingly, both tests show the error terms are seems normally distributed. The Skewness/Kurtosis test is also interpreted based on the p-value, if the p-value is less than 5% it shows the existence of the problem and the reverse is also true.

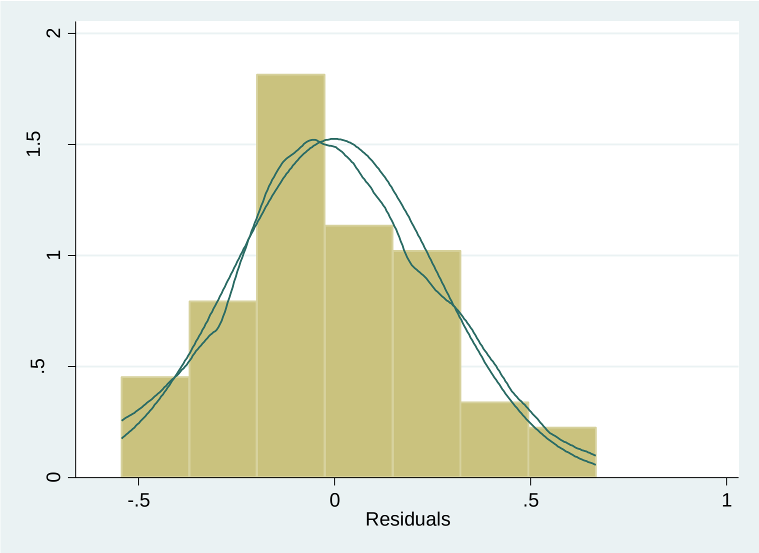

Fig 4.5 Histogram Test Of Normality

Table 4.5 Skewness/Kurtosis test of Normality

Skewness/Kurtosis tests for Normality					
				-------joint ------	
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
resid	51	0.7189	0.7579	0.22	0.8938

4.3.1.4.Linearity Test

The assumption of linearity says the dependent and each independent variable should have a linear relationship. Therefore, scatter plot technique was employed to test the linearity assumption and as shown in the graph below the assumptions are fulfilled.

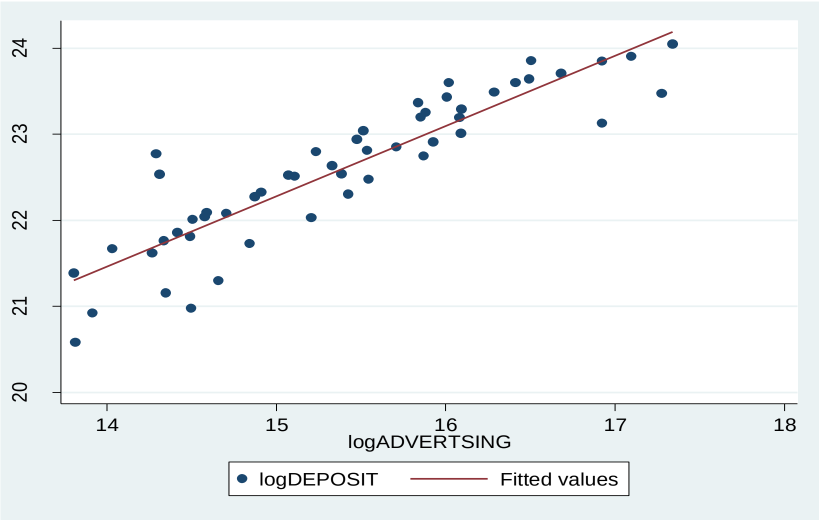

Fig 4.6 scatter plot Test of Normality (Deposit Vs Advertizing)

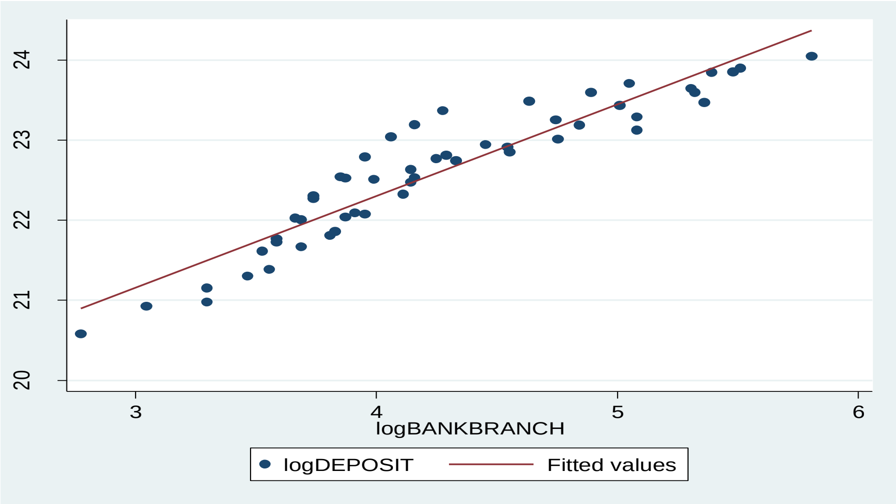

Fig 4.7 scatter plot Test of Normality (Deposit Vs Branch number)

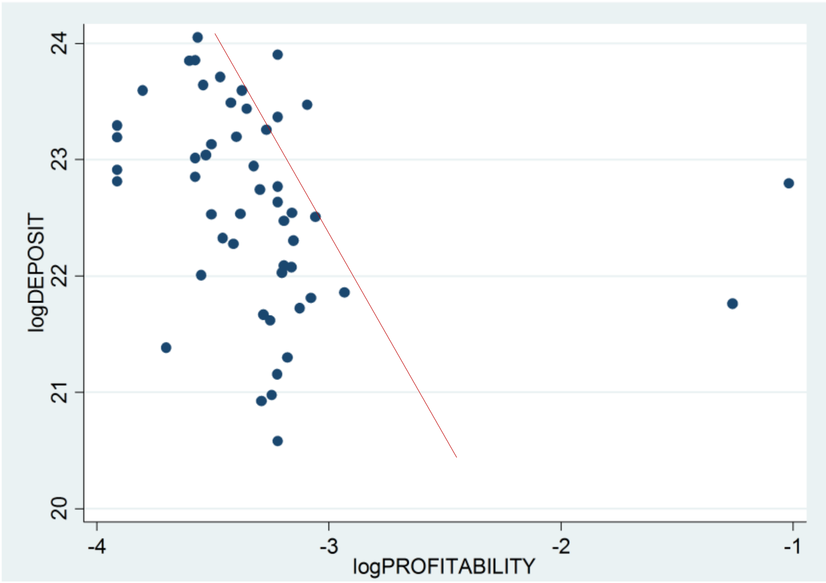

Fig 4.8 scatter plot Test of Normality (Deposit Vs profitability)

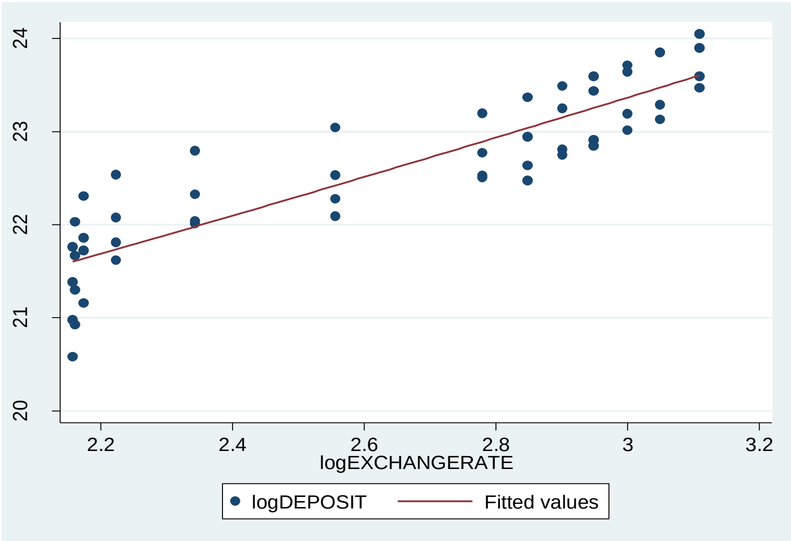

Fig 4.9 scatter plot Test of Normality (Deposit Vs exchange rate)

4.3.2. Estimation Results

The results of the econometric model estimation revealed that advertising, number of branch profitability and exchange rate had significant effect on the growth of bank deposit.

Advertising had a positive and significant effect ($p<0.05$) on deposit growth, implying that indicating that as the private banks spend increase their advertising expenditure by 1 percent the deposit growth respond positively; the more private banks invest on advertising the more will the deposit of the private banks. The other significant variable was number of branches; this variable had positive and significant effect on deposit growth; branch opening is an important strategy for deposit mobilization, it is highly significant than others. This indicates as the private bank increases their branch number by 1 percent the banks deposit grow by 0.66 percent; in line with this Gunasekara & Kumari, (2018) found out that branch expansion factor was ranked as the most determining factor for deposit mobilization; Alfred, (2010) also found out that number of bank branches had a significant contribution for high bank deposit rate. Erna & Ekki, (2004) also found out that there is a long run relationship between commercial bank branch and commercial banks deposits.

Profitability and exchange rate was also found to have a positive and significant ($p<0.05$) effect on deposit growth. As profitability of private banks increased by 1 percent their deposit rate increased by 0.16 percent. Tuyishime, Memba, & Mbera, (2015) also affirmed that, Deposits are an indispensable tool commercial banks use to enhance its profitability through advancing deposits mobilized to its customers in form of loans which make in return interest to commercial banks. Profitability accounts for the impact of better financial soundness on bank risk bearing capacity and on their ability to perform liquidity transformation (Rauch et al. 2008 and Shen et al. 2010). Finger and Hesse (2009) state that higher bank profits would tend to signal increased ban soundness, which could make it easier for these banks to attract deposits. (Rachmawati and syamsulhakim 2004) also find that there is a long run relationship between commercial banks deposits and the profitability of the banks. Rachmawati and syamsulhakim (2004) also find that there is a long run relationship between commercial banks deposits and the profitability of the banks.

Apparently, as the national exchange rate increased by 1 percent the private banks deposit rate increased by 0.63 percent. This finding is also reconciled with the findings of Bogale, (2017) which says the exchange rate positively determine the banks deposit. According to (Nugel 2012) as currencies depreciated in one country deposit will be reduced since investors tend to withdraw deposit and exchanged to keep it by appreciating currency (Hard currency) or invest in another form of investment rather than bank deposit. (Alemayeh 2015) also confirms that for developing country in general saving is negatively correlated with unstable exchange rate.

As shown in the discussion part above, deposit is the back bone of either private of state owned banks; if banks didn’t have deposit they might got much difficulties to compete in the market; and hence, since deposit is the significant contributor of banks it is important to find out what matters the deposit of banks which was the main target of this study; as described earlier the first and most highly significant factor was branch number, that is why it seems as we have seen in our country many of the banks always strive to open new branches, the logic behind is very far from difficulty, it is as banks open more branches and become more accessible to customers they will have more customer the more the customers the more will be the deposit rate of the banks; particularly many of the bank’s target to increase their profit is increasing their branches. Increasing number of branches might not enough sometimes to increase the deposit; however, due to the nature of tough competition banks advertise them aggressively; nowadays, in every mainstreaming medias behind every program and hosts banks are there; the banks invest huge amounts of money to sell their service. Banks increase their branch as well as invest aggressively on advertising is ultimately increase their profit through increasing their number of customers; and this is why profitability determine also the banks deposit; as the banks become more profitable it will have more deposit which helps the banks to invest in other sectors of investment.

Source	SS	df	MS
Model	34.0637768	5	6.81275536
Residual	3.41915459	45	.075981213
Total	37.4829314	50	.749658628

Number of obs	=	51
F(5, 45)	=	89.66
Prob > F	=	0.0000
R-squared	=	0.9088
Adj R-squared	=	0.8986
Root MSE	=	.27565

logDEPOSIT	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
logADVERTSING	.1928842	.1002764	1.92	0.041	-.0090828	.3948511
logBANKBRANCH	.6676457	.1577112	4.23	0.000	.349999	.9852923
logPROFITABILITY	.1672748	.0870505	1.92	0.031	-.0080538	.3426035
logEXCHANGERATE	.6370681	.2512595	2.54	0.015	.1310054	1.143131
logINFLA	.0508171	.0556535	0.91	0.366	-.0612748	.162909
_cons	15.53077	1.078688	14.40	0.000	13.35818	17.70336

Hypothesis Test

The first hypothesis was anticipated as advertising had positive and significant effect on banks deposit rate; accordingly, as the hypothesis test shows the alternative hypothesis is accepted which shows advertising had positive effect on deposit.

Based on the regression analysis of the above model, advertising has a positive and significant effect on growth ($p<0.05$). Hence, the null hypothesis was rejected and the alternative hypothesis was accepted. This implies that advertising had contributed positively to banks deposit.

Based on the regression analysis of the above model, the number of bank branch also has a positive and significant effect or correlation on growth ($P<0.01$). Hence the null hypothesis was rejected and alternative hypothesis was accepted.

There is also a significant relationship found between profitability and deposit growth ($p<0.05$). Hence, the null hypothesis is rejected and the alternative hypothesis was accepted. This indicates that profitability has a positive influence on growth. In the regression analysis of the above model, exchange rate has positive and significant effect on deposit growth ($p<0.05$). Hence, hypothesis 4 was accepted. This implies that increasing the exchange rate would contribute to increase deposit rate.

Furthermore, there is also an insignificant relationship between inflation and deposit growth rate ($P >0.05$). Hence, the null hypothesis is accepted and the alternative hypothesis was rejected.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary Of Major Findings

Based on the analysis of the result the following are the major findings

- Totally four private banks were considered, Awash, Dashen, United, and Wegagen; annually the private banks had average 8.95 billion Birr yearly deposit; The four banks contribute to the overall all economy 35.77 billion birr deposit by the end of 2017
- Private Banks on average invest about 7.5 Million birr for advertising annually, and they sped 30.10 million Birr for advertising annually.
- Between the 2005 and 2017 private commercial banks give yearly 5.64 billion Birr loan for their customers and these banks totally deliver 22.57 billion birr to the national economy.
- Private Banks increases their branch on average by 20 percent annually and on average the private banks generating a four percent profit from their each investment.
- The trend analysis also shows the deposit of private banks shows an increasing rate starting from the year 2005.
- The findings of the study also shows that advertising of private banks had a positive and significant relationship with deposit growth, implying that; the more private banks invest on advertising the more will the deposit of the private banks.
- Number of branches has also positive and significant association with deposit growth of private banks; branch opening is an important strategy for deposit mobilization, it is highly significant than others.
- Profitability of the banks also had a positive and significant relationship with deposit growth.
- The national official exchange rate had also positive and significant effect on private banks deposit growth

5.2. Conclusion

This research conducted to find out the determinants deposit growth in Ethiopia, particularly in private commercial banks; the research specifically intends to identify important factors that influence private bank deposit and examine to what extent the factors determine bank deposit. Methodologically, the research employs quantitative research approach and design with a 13 year time series data. The research employs a regression model of ordinary least square model to estimate deposit growth of private banks. Totally, seven variables were identified; however, two of the variables were removed due to multicollinearity problems. The findings of the study revealed that private banks on average had annual deposit of 8.95 billion Birr deposit and contribute a yearly total deposit of 35.77 billion birr. Furthermore, private banks spend 30.10 million Birr for advertising and they perform their activities with 999 branches with yearly 20 percent annual increments of branches. The private banks also had 4.5 profits for every birr investment. The findings of the study further revealed that branch expansion, profitability, advertising and exchange rate had a significant effect on private banks deposit growth.

5.3.Recommendation

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

- It is well known that mobilizing deposit is a core activity of all commercial banks. By the same analogy the private 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. Among the factors advertisement had contribute positively to deposit; therefore, banks should invest on creative working and promote them aggressively.
- The findings of the study also shows aggressive branch opening has positive effect on deposit with respect to widening customer base and increased financial inclusion through creating accessibilities to the unbanked rural and urban areas. Therefore the private banks should expand their branches in order to increase their deposits and the bank should give priority for branch opening than other determinants.

- Managing deposits is not possible without knowing and controlling the factors affecting it. Thus the private commercial banks should have identified the sources of deposit by considering more determining factors of bank deposit

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