DETERMINANTS OF DEPOSIT MOBILIZATION: IN THE CASE OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

A THESIS SUBMITTED TO SCHOOL OF GRADUATE STUDIES OF ADDIS ABABAUNIVERSITY MBA DEPARTMENT IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTERS OF BUSINESS ADMINSTRATION IN FINANCE

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May, 2025

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Declaration

This is to certify that the thesis entitled “Determinants of deposit mobilization for selected private commercial banks in Ethiopia”, submitted in partial fulfillment of the requirements for the MBA of business administration in finance, Addis Ababa University, is a record of original work carried out by me and has never been submitted to this or any other institution to get any other degree or certificates and that all references materials contained therein have been duly acknowledged.

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This is to certify that this thesis prepared by Selamawit Mengiste Tadesse, entitled; "Determinants of deposit in Ethiopian private commercial banks" and submitted in partial fulfillment of the requirements for the degree of MBA of business Administration in finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

Deposit mobilization is the primary source for banking business to secure their existence. The objective of this study was to examine the determinants of deposit mobilization for selected private commercial banks in Ethiopia. For the purpose of this study, eight private commercial banks were selected based on some of them selected based on their year of establishment and others selected based on current performance. To achieve this objective, fifteen year data from 2009 to 2023 was collected and encoded in to stata accordingly. In order to conduct this study, the researcher used six independent variables namely branch expansion, bank liquidity, bank profitability growth, deposit interest rate, inflation rate and per capita income. While conducting this research, the researcher employed quantitative research approach and explanatory research design. The researcher used a purposive sampling technique. Fixed effect model the models account for time-invariant unobserved factors within individuals was used for data analysis. Branch expansion, bank liquidity, deposit interest rate and per capita income positively related on deposit mobilization at 5% significant level. Whereas inflation had a statically significant negative effect on deposit mobilization at 5% significant level. Bank profitability insignificant positively effect on deposit mobilization. Finally, the researcher recommended that private commercial banks included in the study should expand their branch around the rural areas of the country, specifically in small town areas of the country. Furthermore, the researcher also recommended these private commercial banks to maximize their bank liquidity position by managing current asset to current liability and should understand macroeconomic variable and effect on deposit mobilization as much as possible to attract additional customer and deposit.

Key words: Deposit Mobilization, Determinants, Private Commercial Banks, Ethiopia

Acknowledgements

First and foremost, the Almighty God shall be praised for he has been with me on all my way to date. This accomplishment was never started without the power and patience he has poured on me.

My sincere and deepest gratitude goes to my Advisor and Instructor, Dr. Sewale Abate, for his

Important and valuable advice throughout the study.

My grateful thanks also go to the employees of the National Bank of Ethiopia giving me the relevant financial data for the study.

My deepest gratitude goes to my family who are assisted me to accomplish this work. At last but

not the least, my great thanks go to all my friends and workmates those who provided me all the

necessary assistance when doing my thesis.

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Chapter One

1.1 Introduction

This chapter contains an introduction, background of the study, back ground of the organization, statement of the problem, objectives of the study, research questions, and significance of the study, limitation and scope of the study and organization of the study.

1.2 Background of the study

Commercial Banks play an important role in the economic development of the countries. For instance, they allocate resource and channel funds from savers to investors continuously they do so, if they get necessary deposits to cover their operational cost they incur. Mobilizing deposits domestically is crucial in many developing countries. Domestic funds provide a cheap and reliable source of funds for development, which is of great value in developing countries, especially when the economy has difficulty in raising capital in international markets. Yet, in many developing countries, there is a considerable amount of savings that are not intermediated through the formal sector. In particular, there exists a significant savings potential in the rural and/or semi-urban sector in many developing countries Levine, R. (2005).

Mishkin, F. S., & Eakins, S. G. (2018) 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. Mobilization of rural savings is one of the important objectives of the Commercial Banks. It helps to expand banking operations. The successful functioning of commercial banks depends on the extent of funds mobilized**.** Deposits are the life blood of banking companies. Deposits constitute a vital source of funds required for banking business. There are different types of deposits, with different maturity pattern carrying different rates of interests. Deposit mobilization is depending on the cost of deposits. Mobilization of deposits for a bank is as essential as oxygen for human being.

Gupta, S. L. (2008), also State that, Banks borrow and lend. Mobilization of deposit for a bank is as essential as oxygen for human being". Deposit mobilization is one of the main functions of banking business and so an important source of working fund for the bank. Deposit mobilization is the collection of cash or funds by a financial institution from the public through its current, savings, fixed, recurring accounts and other banks specialized schemes.

the role of banks in a financial market is that of a financial intermediary, which makes use of loan and deposit services to effectively channel the idle funds of the general public into valuable production and other investment projects helping people to reach their goals. It enables people to save for the future, invest in profitable business opportunities and to protect themselves against unpredictable shocks(Saunders, A., & Cornett, M. M. (2019).

Deposits mobilization is the crucial concern as local money which offers low-priced plus consistent means of resources for growth, which is of great value to those countries, especially

when the economy has difficulty in raising capital from international donors, financiers and markets. In the context of Ethiopia there is a limited number of bank branches to meet the demand of financial services to all its corners, especially in remote rural areas. Financial facilities are mainly intense in urban areas. The country's economic progress needs an enormous amount of investment and great saving that has been given high care to motivate and developed domestic saving mobilization culture. (Giragn 2015).

Financial Resource mobilization is a critical issue in the economy of the Ethiopia. Commercial Bank of Ethiopiamobilizes resource from customer local deposit, foreign currency and loan collection. Customer local deposit is amajor source to resource mobilization of Commercial Bank of Ethiopia. Therefore customer deposits have adramatic impact in resource mobilization of Commercial Banks. On the basis of resource mobilization purposeCommercial Bank ofEthiopia serve different types of deposit mobilization. These are demand deposit, savingdeposit, women deposit, youth deposit and fixed time deposit.Depending upon the nature of deposit, funds deposited with banks also earn interest. If the rate of interest ishigher, the customers are motivated to deposit more resource in the bank. Banks in turn accept money from thecustomers and lend it to the borrowers. Therefore, deposits are the most important resource of commercial banks.Thus the amount of resource a commercial bank should have at hand should be enough to make the bank involvein the market and to satisfy the financial needs of its customers.

In Ethiopia, the banking sector, led by the Commercial Bank of Ethiopia (CBE) and many private commercial banks, plays a pivotal role in the country's economic development in addition. Deposit mobilization is a crucial function of commercial banks as it provides the necessary funds for lending and investment activities. In Ethiopia, in addition to commercial banks private commercial banks play a significant role in mobilizing deposits from the public to support economic growth and development. However, the determinates influencing deposit mobilization in private commercial banks in Ethiopia are not well understood because even if it's important role in the economy most research conducted in commercial banks, private commercial bank faces challenges in maximizing deposit mobilization, which is influenced by various internal and external factors. Therefore this study aims to investigate the determinants of deposit mobilization in eight sampled private commercial banks in Ethiopia: Awash Bank, Bank of Abyssinia, Dashin bank, Hibret bank, Co-operative of oroima, Nib bank,Wegagen bank, and Lion Bank.

1.3 Back Ground of the Organization

The first private banks after socialism 1994–1995 Private banks were allowed to reopen when the financial sector was restructured by the Monetary and Banking Proclamation No. 83/1994 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. In 1994, 486 stockholders founded Awash International Bank, the first private bank of the post-socialist era.

It was joined by Dashen Bank, which was established on September 20, 1995.The Bank of Abyssinia also reopened as a private Share Company in 1996. Sustained Growth and Liberalization: Ethiopia's private banking sector has continued to expand since the mid-1990s,

with the establishment of a number of new private banks. Though the sector has expanded, it remains dominated by domestic private banks, with foreign banks only being allowed back into the sector under a new law in December 2024, after a nearly 50-year absence. The latest move is expected to further boost competition and modernize the banking sector.

Ethiopia's banking sector is experiencing rapid growth with established playersEthiopia's banking sector is experiencing rapid growth with established players like CBE, Awash, abissneya, Dashen, cooperative bank of oromia and hibret bank dominating the market. At the same time, newer banks like Hijra, ZamZam, and Siinqee cater to niche markets such as Islamic and cooperative banking

1.4 Statement of the problem

The primary source of a bank's lending and investing activities depends on deposit mobilization. It is an important function of a commercial bank. Private Banks in Ethiopia still struggle with getting and keeping customer deposits due to the underdeveloped state of the country's financial sector. While private banks are expanding and diversified access to financial services, the rate of deposit mobilization still fails to meet the growing economic credit needs. Private Banks in Ethiopia have shown strong deposit growth over the past decade. However, credit demand is growing faster, driven by expanding SMEs, infrastructure projects, industrialization goals, and inflation. According to the National Bank of Ethiopia (NBE), the credit-to-deposit ratio in many private banks hovers around 70–80%, indicating that most deposits are already being used for loans. This limits how much more credit banks can provide without increasing their deposit base or capital.

Internal and external factors that can influence deposit mobilization include interest rate, the network of branches, the profitability, and the liquidity of banks, per-capita income and the rate of inflation. There inconsistence of research result information as to how these factors affect deposit mobilization in private banking in Ethiopia. Andent (2016) and dereje (2017) concludes that the relation between bank liquidity and bank deposit mobilization is negatively related on the contrary misrak (2019) and robinas (2020) concludes that bank liquidityand deposit mobilization positively related, Andent (2016) result shows branch expansion and deposit mobilization on the private commercial banks of Ethiopia positively related on the opposing mekides (2020) result shows positive relation between private commercial bank deposit and branch expansion, misrak (2019) research result shows inflation and private commercial bank deposit positively related, antagonistically robinas (2020) result show positive relation between inflation and bank deposit.

The gap in the literature concerning deposit mobilization issues in Ethiopia private commercial banks indicates the strategy gap that banks face regarding how to enhance their deposit base. If private banks do not address these issues, they will find it difficult to achieve continued growth and, in turn, be able to sustain meaningful contributions to investment and economic development.

1.5 Research Questions

The study answers the following questions:

1. How dose per capita income affect deposit mobilization at the private Commercial Banks of Ethiopia?
2. How does inflation affect deposit mobilization at the private Commercial Banks of Ethiopia?
3. How does interest rate affect deposit mobilization at the private Commercial Banks of Ethiopia?
4. How does bank profitability affect deposit mobilization at the private Commercial Banks of Ethiopia?
5. How dose bank liquidity affect deposit mobilization at the private Commercial Banks of Ethiopia?
6. How dose bank branch expansions affect deposit mobilization at the private Commercial Banks of Ethiopia?

1.6 Objectives of the Study

1.5.1General Objective

The main objectives of this study is to examine the determinants of deposit mobilization in case of some selected commercial banks in Ethiopia

1.5.2 Specific Objectives

1. To examine the effect of per capita income on deposit mobilization of private commercial banks.
2. To examine the effect of inflation on deposit mobilization of private commercial banks.
3. To examine the effect of deposit interest rate on deposit mobilization of private Commercial banks.
4. To examine the effect of bank profitability on deposit mobilization of private commercial banks.
5. To examine the effect of bank liquidity on deposit mobilization of private commercial banks.
6. To examine the effect of branch expansion on deposit mobilization of private commercial banks.

1.7 **Hypotheses of the Study**

The following hypotheses were developed for the study

1. H1: per capita income has a positive and significant effect on private commercial banks deposit.
2. H2: Inflation has a negative and significant effect on private commercial banks deposit.
3. H3: Deposit interest rate has a positive and significant effect on private commercial banks deposit.
4. H4: Bank Liquidity Ratio has a positive and significant effect on private commercial banks deposit.
5. H5: Branch Expansion has a positive and significant effect on private commercial bank deposit.
6. H6: Bank profitability has a positive and significant effect on private commercial banks Deposit growth in Ethiopia

1.8 Significant of the study

This study a make significant contribution to the existing body of knowledge on the factors Influencing deposit mobilization in the context of private commercial banks in Ethiopia. analysis both internal and external factors that impact deposit mobilization private commercial banks, thereby assisting banks in designing and implementing effective strategies to enhance Their deposit collection Efforts. Moreover, this research enhance the researcher's experience And expertise, enabling them to undertake further studies in related fields. It also contribute to the existing literature by providing empirical evidence on the relationship between the Identified factors and banks deposit mobilization.

Additionally, the findings of this study had great importance to various stakeholders, including bank managers, board members, employees, and policy makers, by offering valuable Insights to inform decision-making and strategy formulation. Finally, this study serves as a foundation for future researcher interested in conducting more in-depth investigations into related topics, paving the way for further exploration and understanding of deposit mobilization dynamics.

1.9 Limitation of the Study

The scope of the study examines the determinants of private commercial banks deposit Mobilization. The study investigated Eight (8) selected private commercial banks based on Banking performance (five are medium bank and three of them are small banks as per national bankOf Ethiopia in 2424)and historical time formation Awash Bank S.C, Abyssinia Bank S.C,Dashen Bank S.C, Cooperative Bank of Oromia, Hibert Bank S.C, wegagaen BankS.C,

LionBank S.C, oromia international Bank S.C which are licensed and supervised by the National Bank of Ethiopia (NBE) and operating in Ethiopia. Furthermore, the study examines the determinants of Private commercial banks deposit mobilization by taking evidence from private commercial Banks in Ethiopia for the period of ten years running from 2009 to 2023. This period was chosen to include first generation private banks in a sample and to get the most recent fifteen year data. The dependent variable of this research incorporated deposit mobilization. The explanatory variables are per capita income, inflation, Deposit interest rate, liquidity ratio, bank profitability, and branch expansion. As a limitation, in this study the sample banks were selected purposively to include first generation bank based on the availability of data and performance of the banks to get more insight. This may introduce bias inherent with non-probability sampling method. And the conclusion of the study limited due to the exclusion of other variables that may affect the deposit mobilization of private banks, such customer satisfaction and quality of managerial staffs.

1.10 Organization of the paper

The study has five chapters. Chapter one presents the introduction of the study. This chapter presents detailed discussion on the background of the study, the problem statement, the research question, the objective of the study, definition of terms, significance of the study, the scope and limitation of the study.

Chapter Two presents Literature Review where the theoretical background and empirical reviewof the study is presented. This chapter reviewed most important theoretical concepts written by various scholars and empirical literature reviewed in the field of determinates of deposit mobilization.

Chapter Three discusses about the methodology adopted to conduct the research. In the chapter the design, methodology and model specification is discuss in detail, the population and sampling, research instrument is used, data collection techniques and data analysis procedures is stated.

Chapter Four presents Data Analysis and Interpretation and discussion of results. It answers all the research questions. Chapter Five delivers the researchers recommendations, conclusions and summary of the research based on the findings.

Chapter Two

Review of Literature

This chapter has three parts; the first part is theoretical reviews, the second part is empirical studies reviews and finally the third part is conceptual framework. In the theoretical review part the literatures that are related to commercial banks and bank deposits are discussed. In the empirical studies part past studies which were conducted on the area of determinate affecting commercial banks deposits growth are discussed. Finally, based on the literatures conceptual framework was developed.

2.1. Theoretical Review

Bank deposits are the core component of a nation's financial system and a prime source of funding for commercial banks, hence a prime determinant of credit generation. There has been extensive theoretical and empirical literature on causes of behavior of deposits, whose reasons have ranged from classical economics to behavioral finance and institution building.

2.1.1 Interest Rate Theory

According to the classical economic theory, namely Keynesian Liquidity Preference Theory, interest rate drives individuals' preference in investing their wealth between liquid cash and interest-yielding instruments such as bank deposits. The idea, which was originally conceived by John Maynard Keynes, suggests that individuals hold money for transaction, precautionary, and speculative motives. When a deposit attracts a high interest rate, the opportunity cost of keeping money idle is higher, and it becomes more desirable for consumers to invest their money in deposit accounts because they will earn some return. Therefore, an increase in the nominal interest rate will most likely lead to an increase in savings and deposit mobilization. Mankiw, N. G. (2021).

This is corroborated by Mankiw (1985), from whom the consumer reaction to monetary policy and interest rate changes is derived in a model, and on the basis of which rational economic agents are expected to save at higher deposit rates. Theoretically, this should be a direct positive correlation—greater interest rates will encourage more saving in the form of bank deposits, and lower interest rates will discourage formal saving and encourage more cash holding or consumption.

But while this hypothetical link holds in theory, in empirical reality the responsiveness of bank deposits to interest rate variation—commonly referred to as deposit interest rate elasticity—is significantly different across different economic environments. In a majority of developing countries, the hypothetical positive correlation between interest rates and deposit is normally weak or even absent. This inelasticity could be the result of various prevalent structural and institutional factors limiting the effectiveness of interest rate changes as an instrument of policy in encouraging deposit mobilizationWorld Bank. (2014).

For instance, when formal access to banking is limited, especially for rural or disadvantaged communities, individuals might not respond to higher interest rates simply because they lack the physical or organizational ability to open and maintain a bank account. Secondly, low financial literacy and widespread distrust of financial institutions can destroy the incentive effect of interest rate shocks. In such settings, saving behavior may be more driven by social norms, culture, and informal savings mechanisms than by the rate of return on deposits.

2.1.2 Income and Wealth-Based Theories

The 1957 Permanent Income Hypothesis proposed by Milton Friedman and the 1954 Life Cycle Hypothesis of Franco Modigliani and Richard Bromberg offer fundamental knowledge of the way individuals go about planning long-run consumption and saving behavior. Both hypothesize that consumers do not base their spending and saving on current income. Instead, they draw on their anticipated lifetime income—a broader measure encompassing current assets and future income expectations. According to these models, individuals desire to smooth consumption over lifetime, saving during periods of high income and didn't save during periods of low income, such as retirement.

These models have significant implications for understanding bank deposit behavior and overall financial behavior. If individuals consider future income to be stable and secure, then they would not be likely to save large amounts of precautionary savings, and hence bank deposits can be lower in the short term. When there are fluctuations in the economy or individuals expect their future income to go down, they would be well placed to build up their savings as a buffer against future shocks, thus deposits would be higher. Subsequently, then, both PIH and LCH suggest that economic security, stability of employment, interest rates, and future financial expectations play a significant role in determining people's saving behavior and consequently the generation of deposits within the banking system. This lends emphasis to the importance of being concerned with forward-looking behavior and psychological factors when analyzing trends in savings and financial intermediation Friedman, M. (1957).

2.1.3Financial Development and Banking Accessibility

Financial intermediation theory asserts that the supply, accessibility, and cost-effectiveness of financial services are the most important factors that determine the willingness and capacity of individuals to place money in the financial system. Financial intermediaries such as commercial banks act as a bridge between lenders and borrowers by working efficiently to direct funds to the most productive uses of capital while restricting information and transaction costs. Here, the

sophistication and depth of a country's banking system—e.g., density of bank branches, digital delivery of banking services, and account opening procedures—have considerable effects on deposit behavior.

Where the financial system is more developed, then there is greater confidence in the financial system, and more people utilize formal financial markets. Such financial inclusion does not only expose people and businesses to safe channels of savings but also induces them to save their money at banks due to the convenience, security, and value-added services offered.The presence of efficient payment systems, clear processes, and timely customer services also makes keeping money in formal banks more appealing.

Moreover, Transaction Cost Theory is concerned with the reality that when banking services have low access costs—either in proximity, electronic access, or efficient processes—customers tend to utilize banking products like savings and deposit accounts. Similarly, Asymmetric Information Theory directs us to the significance of openness and information availability in mobilizing deposits. If the depositors are confident about the stability of the banking institution and have clear, lucid information on the conditions of the deposits, interest rates, and protections such as deposit insurance, then the money is likely to be deposited.

One significant theoretical contribution here is by Diamond and Dybvig (1983), who constructed a model showing how banks provide liquidity to the depositors while engaging in long-term lending. Their research emphasizes the importance of depositor confidence in maintaining finance stable. In low probability and high confidence situations of a bank run, depositors are happy to have more of their funds in the bank system. This suggests that improving financial intermediation quality, reducing transaction costs, and enhancing institutional trust all translate into more effective mobilization of deposits and a strong banking system.

The insights from Diamond and Dybvig (1983) are highly relevant to private commercial banks in Ethiopia. They emphasize the critical role of confidence, institutional quality, and efficient intermediation in building a resilient and deposit-rich banking sector. Ethiopian banks and regulators should work to align policy andpractice with these principles to ensure sustainable deposit mobilization and financial stability.

2.1.4Institutional Factors and Financial Regulations

Deposit behavior is significantly affected by legal protection, deposit insurance arrangements, and prudential regulatory frameworks, which play a crucial role in determining the perceived safety and attractiveness of the banking system. Institutional arrangements are developed to create a sound financial system, reduce systemic risk, and foster public confidence in banks. As individuals and firms grow assured that deposits are secure—although a bank may fail—they will be more likely to put money in banks rather than hoarding or investing through less formal or less-regulated financial systems.

The single most significant institutional factor influencing behavior of deposits is deposit insurance. By guaranteeing that all (or some) of a depositor's funds will be refunded in the event of a bank insolvency, deposit insurance schemes reduce perceptions of bank risk. Such a guarantee is reassuring, particularly during times of financial crisis or economic hardship, and works to induce greater savings into the formal banking sector. But theoretically, particularly within the model of moral hazard, there is a single potential downside: when depositors are excessively insured, banks may have reduced incentive to be prudent with risk. This can lead banks to engage in riskier lending or investment strategies, knowing deposits are insured and depositor scrutiny will be diminished.

Apart from deposit insurance, the overall quality of governance and institutional trust also significantly affect depositor behavior. Firms and individuals are more inclined to place deposits in banks that are subject to open regulation, sound supervisory practice, and effective legal enforcement. Effective governance frameworks ensure that banks exercise prudent risk management, comply with capital adequacy requirements, and operate under professional and ethical standards. Conversely, in weak-institution nations or countries that have seen political instability, financial malfeasance, and corruption, depositors may prefer to keep their funds in cash, foreign exchange, or non-bank financial institutions as a hedging measure against perceived risks.

Empirical support for these assertions is drawn from a study by Demirgüç-Kunt and Detragiache (2002), which reports that the design and operation of deposit insurance systems can be supportive of or corrosive to financial stability as determined by the institutional setting under which they operate. Their findings were that in nations with well-functioning legal and regulatory institutions, deposit insurance is stabilizing and facilitates expansion of deposits. However, in poorly

supervised and regulated conditions, it may result in financial instability and increase the likelihood of bank crises.

2.1.5 Macroeconomic Stability and Expectations

Depositor sensitivity is very responsive to macroeconomic environments, including inflation, exchange rate stability, interest rates, and overall economic performance. These influence not only the real value of deposits but also confidence that individuals and businesses have in the stability of the financial system. When macroeconomic times are favorable—when inflation is low and stable, economic growth is good, and currency is stable—depositors keep funds in banks as they perceive them to be safe and perhaps profitable stores of value. With such scenarios, banking institutions have the privilege of experiencing increased mobilization of deposits, which in turn enables credit creation as well as economic development.

But in periods of macroeconomic uncertainty, such as recession, high inflation, or political uncertainty, the risk aversion of depositors increases. One important behavioral response is an increase in precautionary savings—a motivation rooted in uncertainty regarding future incomes or employment. This has a tendency to make individuals save more as an insurance against possible shocks, thereby increasing the level of deposits within the banking system, especially in those economies whose banking system is reliable and perceived to be stable.

Conversely, when inflation is excessive or when the macroeconomic environment deteriorates—due to reasons such as devaluation of currency, sovereign debt crisis, or erosion of reputation of the central bank—the funds in account balances depreciate in real terms. In these cases, households and enterprises can disinter mediate, withdrawing funds from banks and investing them into physical assets (e.g., real estate, gold, or hard goods), foreign currencies, or even shadow financial structures. Not only does this undermine the deposit base of the banking system, but it can also restrict credit supply and increase financial instability.

Also, macroeconomic expectations are of critical significance to deposit behavior. As behavioral economics and macroeconomic theory, Mankiw (2000), would have it, individuals make financial choices on the basis not only of current conditions but also of what is expected to occur in the future. For instance, with future higher inflation expected, depositors will pre-maturely switch into assets with better inflation-hedging characteristics, or demand higher interest on deposits, altering the maturity structure and composition of bank liabilities.

The link between depositor confidence and macroeconomic stability is thus of utmost significance. Prudent monetary and fiscal policies should be ensured by policymakers, and there should be financial transparency and credible communication to engender good expectations and retain deposits in the formal banking sector

2.2. The concept of Banking

Banking is one of the eldest careers in human history, it also succeeded with civilizations. Meanwhile humans happening, using money bank facilities were in use throughout history. Up-to date banking as we know it nowadays was recognized in Italy and Greece in the15th century. Today, banks are one of the supreme vital organizations for a modern bargain to work in any country. Different ancient foundations states that the first basics of the banking facility in the world were put by goldsmiths and silver smiths. They have a safe box to put & they were the most trusted. They used to accept gold, silver and various jewelries to put with them. Therefore an individual or a wholesaler places his wealth under their supervision, for their facility they charge a small extent of money and stretch the client a receipt to assurance their approval. Then they started using, money paying device what we now call this document as 'check'. However as time goes by , the gold smiths and silversmiths observed that their customers wouldn't take their jewelry soon, and those clients, whenever they face the deficiency of money, they started loaning to this people and started to grow revenue from their facility. They stimulated putting and providing and rather than creation the clients to fee a custody for depositing, they started to fees them interest and announced the public to work with money. It is assumed that, ancient Assyrians, Babylonians, Athenians, Romans and Abyssinians also used the banking service Reserve Bank of India. (2018)

Banks play a precise significant role in the economic growth of every state. They have control over a great part of the supply of money flow. Banks are the central stimulus of the economic improvement of a nation. The financial segments involvement to progress lies in the vital role it acting in mobilizing savings and allotting these resources competently to the most creative uses and investments in the actual sector Levine, R. (2005).

2.3. Deposit Mobilization

Mishkin, F. S., & Eakins, S. G. (2018), defined 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.

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. Therefore, banks should be more attractive and strategic to absorb those deposits.

A Bank deposit is the amount of money in cash or cheque form or sent via a wire transfer that is placed into a bank account. "Formal providers are beginning to make important progress in reaching lower-income markets with savings services" (Ledgerwood et al. 2013). When savings services are offered by institutional providers, they are generally referred to as deposits. “Savings is a more general term used when discussing a broad set of activities related to holding assets stored by others; deposits are the portion of savings held in financial institutions” (CGAP, 2005). The target bank account can be any kind of account that accepts deposits. “Bank Deposit is money placed into a banking institution for safekeeping. Bank deposits are moneys in an account at a banking institution, such as savings accounts, checking 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” (Ledgerwood, et al. 2013).

According to the Keynesian theory of demand for money, there are three main motives why people hold money: transactions, precautionary and investment motives. In order to crate for these motives, commercial banks offer three categories of deposit facilities that are demand, savings and time deposits. Commercial Bank deposits are major liabilities for commercial banks. (Kelvin, 2001) said that deposits of commercial banks account for about 75% of commercial bank liabilities. Due to the fact that commercial banks are using this liability to lend it and gain return on it their deposits are using them do their business. Commercial banks are dependent on depositor’s money as a source of funds. Therefore, banks will be better if they are mobilizing more deposits. Hence, the completion for deposits is really a completion for profits. Commercial banks compete for deposits in order to become profitable and thus to be able to supply more funds to the public. However, such financial growth is profitable only if the commercial bank does not incur additional expenses to obtain and retain cash (Davinaga, 2010).

Here’s a detailed list of Ethiopian private commercial banks, their establishment years, and current deposit amounts, summarized in text form:

2.4. Major Types of Deposit Products

A deposit account is a current account, savings account, or other type of bank account, at a banking institution 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. “They must be carefully designed through a balance of product features, security, convenience, and price to allow them to be used in different combinations for different purposes by all types of savers-poor and non-poor, individuals and institutions” (Robinson 2006). According to (Islam & Ghosh, 2014) the Major types of deposits are: -

Current Account: - Such deposits are payable on demand and are, therefore, called demand deposits. These can be withdrawn by the depositors any number of times depending upon the balance in the account. The bank does not pay any Interest on these deposits but provides cheque facilities. These accounts are generally maintained by businessmen and Industrialists who receive and make business payments of large amounts through cheques.

Savings Accounts: - These are depositing whose main objective is to save. Savings account is most suitable for individual households. They combine the features of both current account and fixed deposits. Accounts maintained by retail banks that pay interest but cannot be used directly as money (for example, by writing a cheque). Although not as convenient to use as checking accounts, these accounts let customers keep liquid assets while still earning a monetary return. Interest paid on savings account deposits is lesser than that of fixed deposit.

Fixed Deposits: - Have a fixed period of maturity and are referred to as time deposits. These are deposits for a fixed term, i.e., period of time ranging from a few days to a few years. A money deposit at a banking institution that cannot be withdrawn for a preset fixed 'term' or period of time. They can be withdrawn only after the maturity of the specified fixed period. They carry higher rate of interest.

2.5. The Importance of Deposits

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.

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.

According to (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.

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.

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

In general, the banking scheme can be practical only if it can activate deposits at the essential rate. And this can be done only by making a bank deposit more attractive (Bhatt, 1970).The ability of a bank’s administration in addition to workers to entice savings accounts as of business as well as peoples is an significant amount of the bank’s recognition as a result of the community (Mahendra, 2005). Banks’ administration main worry is the inconsistency of savings by means of numerous causes. (George, 1972) mentioned the reasons why the variability of banks’ deposit is important as follows depositary ability is frequently included as an important determinant of portfolio strategy

2.6. Determinates that affect deposit mobilization

Based on the empirical and theoretical reviews the following are factors affecting deposit mobilization of private commercial banks in Ethiopia. According to (Ongore and Kusa, 2013), the performance of commercial banks can be affected by internal and external factors these factors can be classified into bank specific (internal) and Non-bank specific variables. The interior influences are individual bank features which disturb the bank's performance. These influences are mainly predisposed by the inner decisions of management and board. The Non-bank specific factors are sector wide or country wide factors which are beyond the control of the company.

2.6.1 Bank deposit and per capita income

Several studies have found a positive and significant relationship between per capita income and bank deposit growth. Similar to this study, conducted a study in Ethiopia and found that real GDP per capita has a positive and significant impact on deposit mobilization in commercial banks. Likewise, studies in Bangladesh (Islam et al., 2019) and Nigeria (Azolibe, 2019) also showed a positive but occasionally insignificant effect of GDP or per capita income on deposits. In addition, a study of Central and Eastern European countries (Petkovski et al., 2023) indicated that increased bank profitability, commonly associated with deposit mobilization and lending gains, also placed upward pressure on banks costs and on deposit and lending rates.

It is a potential driver of economic expansion and by this way can be converted into increase in the per capita income. Demand-Following Hypothesis: Some evidence has supported the "demand-following" hypothesis, which claims that the financial sector expands, including through higher bank deposits, as a result of economic growth. A one-way causality from economic growth to bank deposits based on the above reasoning was confirmed by the study in Algeria (Sellami et al., 2020).

Financial Outreach: Research suggests that greater financial outreach, measured by factors like bank branch density, can lower transaction costs associated with banking, leading to increased bank deposits and indirectly boosting economic growth, potentially raising per capita income (White Rose Research Online, 2025). Long-Run vs. Short-Run Effects: Some studies differentiate between the long-run and short-run impacts. For example, a study in Ethiopia (Yitbarek&Hibret, 2021) found that population and economic growth exhibit a positive relationship with deposit growth but are significant only in the long run. Other Macroeconomic Factors: It's important to note that other macroeconomic factors can influence both bank deposits and per capita income. Inflation, interest rates, exchange rates, and money supply are some of the variables that have been found to affect deposit mobilization (Science Publishing Group, 2024; journal. These factors can also have independent impacts on economic growth and per capita income.

2.6.2 Bank deposit and inflation

Noneconomic theories like the Fisher Effect and the Quantity Theory of Money can be used to explain the connection between bank deposits and inflation. The Quantity Theory of Money states that inflation reduces money's purchasing power, which lowers the real value of deposits. According to the Fisher Effect, savers' decisions to maintain deposits are influenced by nominal interest rates that fluctuate to reflect anticipated inflation. People may stop saving in banks and

look for alternative investments like real assets or foreign currencies when inflation is strong since the real return on deposits may go negative.

In the context of emerging economies, a study conducted by Khan et al. (2021) discovered that bank deposits are significantly impacted negatively by inflation. According to the study, excessive inflation lowers the real value of deposits, which in turn causes deposit mobilization to drop. In a similar vein, Adeleke and Aluko (2022) studied the Nigerian banking industry and came to the conclusion that inflation has a negative impact on deposit growth because depositors move their money to assets like gold and real estate that hedge against inflation.

Mishra et al. (2023) examined the connection between India's bank deposits and inflation, emphasizing the moderating effect of interest rates. They discovered that the detrimental effects of inflation on deposits are lessened when banks offer interest rates that are higher than inflation. Even high nominal interest rates, meanwhile, might not be able to draw deposits during strong inflationary times if actual yields are low. However, if actual yields are low under strong inflation, even high nominal interest rates might not be able to draw deposits. In contrast, Girma and Tsegaye (2022) conducted a study in Ethiopia and found a weak relationship between inflation and bank deposits. They attributed this to the limited availability of alternative investment options in the country, which forces savers to keep their funds in banks despite inflationary pressures.

2.6.3 Bank deposit and interest rate

The theories of consumer behavior and financial intermediation are frequently used to explain the connection between interest rates and bank deposits. Financial intermediation theory states that banks serve as middlemen between saving and borrowers, and that interest rates are a key factor in luring deposits. Because banks provide higher returns than other investments, higher interest rates encourage people and businesses to deposit their assets there. Lower interest rates, on the other hand, can deter deposits as savers look elsewhere for higher-yielding options.
Furthermore, according to consumer behavior theory, depositors are logical decision-makers who react to interest rate changes in accordance with their risk tolerance and financial objectives. This suggests that one important component affecting deposit mobilization is interest rates.

According to a study by Abebe and Bogale (2022), interest rates and deposit mobilization have a positive and statistically significant relate in the context of Ethiopian commercial banks. Higher interest rates on time and savings accounts drew more clients, which raised the amount of deposits, according to the report. Similar findings were reached by Khan et al. (2021), who studied Pakistani banks and found that interest rates were a major factor in deposit growth, especially in a banking environment where competition was fierce. Interest rates and deposits may not necessarily have a linear connection, according to certain studies. In one instance, when Alam and Uddin (2023)

looked at deposit behavior in Bangladesh, they discovered that although higher interest rates initially drew deposits, inflation and other investment options eventually reduced the impact. This implies that the effect of interest rates on deposits may be mitigated by additional variables, such as inflation and economic stability.

Some central banks in developed nations have used negative interest rate policies (NIRP) to boost economic expansion. When Bech and Malkhozov (2023) looked into how NIRP affected bank deposits in the Eurozone, they discovered that negative rates caused deposit growth to slow down as depositors looked for other assets to protect their wealth. This demonstrates how sensitive deposit behavior is to shifts in interest rates, even in settings with unconventional monetary policy.

2.6.4 Bank deposit and bank profitability

Deposit growth can be influenced by bank profitability, even though deposits are frequently thought of as a source of profitability. More depositors are drawn to profitable banks because they are seen as more reliable and solid. Higher profitability ratios (such as ROA and ROE) were associated with faster deposit growth because they boosted consumer confidence, according to a recent study on Southeast Asian banks conducted by Nguyen et al. (2023). This reciprocal relationship emphasizes how deposits and profitability are interdependent.

Macroeconomic and regulatory issues frequently impact the relationship between deposits and profitability in developing economies. Profitability has a favorable effect on deposit mobilization because prosperous banks may provide competitive interest rates and superior customer services, according to a study conducted on Ethiopian commercial banks by Tsegaye and Mebratu (2021). On the other hand, the study also discovered that because of economies of scale and reduced funding costs, banks with a larger deposit base typically achieve higher profitability.

Although the majority of research indicates that deposits and profitability are positively correlated, several studies raise possible concerns. For example, an analysis of Middle Eastern banks conducted by Al-Harbi (2022) revealed that an over-reliance on deposits can result in liquidity mismatches, which over time can have a detrimental effect on profitability. This emphasizes how crucial it is to keep a balanced deposit structure in order to guarantee.Bank long-term profitability deposits and profitability are shown to be strongly correlated in the literature, with the majority of research showing a positive association. However, this relationship's nature can change based on a number of variables, including the state of the economy, legal frameworks, and the uptake of new technologies.

2.6.5 Bank deposit and bank liquidity

A bank's operational effectiveness and financial stability are greatly influenced by its deposits and liquidity. For banks, deposits are their main source of funding, which allows them to make loans and make money. Conversely, liquidity indicates a bank's capacity to fulfill its immediate commitments and preserve its financial stability.

The availability of liquid assets that can be quickly turned into cash to satisfy immediate commitments is referred to as bank liquidity. It is an essential indicator of a bank's capacity for risk management and overall financial health. Studies looking at liquidity's effects on deposit mobilization, loan performance, and overall bank stability frequently use it as an independent variable. The connection between deposit growth and liquidity has been the subject of recent studies. For instance, Alam and Uddin (2023) discovered that because consumers view commercial banks as safer and more dependable, better liquidity levels have a beneficial impact on deposit mobilization in these institutions. On the other hand, Berger and Bouwman (2022) contended that high liquidity can lower profitability since it might be a sign of underutilized assets.

Liquidity and bank deposits have a complex reciprocal relationship. Higher deposit levels, on the one hand, can improve a bank's liquidity by offering a reliable source of capital. On the other hand, sufficient liquidity is required to draw in and keep depositors since it guarantees that banks can fulfill withdrawal requests and uphold client confidence. This association has been empirically supported by recent investigations. In Ethiopian private banks, Mengistu and Tadesse (2023) discovered a positive relationship between deposit growth and liquidity, highlighting the significance of preserving adequate liquidity to promote client confidence. The importance of regulatory frameworks in guaranteeing that banks retain sufficient liquidity levels to facilitate deposit mobilization was also emphasized by Demirgüç-Kunt and Huizinga (2022).

2.6.6Bank deposit and bank branch expansion

The growth of physical bank branches, which improves accessibility to financial services, is referred to as bank branch expansion. Branch growth is frequently viewed as a tactic to increase deposit mobilization, enhance client convenience, and access unexplored regions. Research has repeatedly demon started that branch expansion and deposit growth are positively correlated, especially in areas with low banking penetration (Burges and Pande 2005)

This link has been further investigated in recent studies. For instance, branch growth in India significantly increased deposit mobilization, especially in rural areas, according to Khera et al. (2021). Similar to this, Allen et al. (2022) pointed out that branch expansion in Africa boosted deposit growth and financial inclusion, while the effects differed based on the degree of regulatory assistance and infrastructural development.

The relationship between bank branch expansion and deposit mobilization has been widely studied. Branch expansion enhances accessibility, builds customer trust, and fosters long-term relationships, all of which contribute to higher deposit mobilization. A study by Beck et al. (2018) found that banks with extensive branch networks in developing countries experienced higher deposit growth rates compared to those with limited networks. However, the effectiveness of branch expansion depends on several factors, including the location of branches, the quality of services offered, and the economic conditions of the region. For instance, Cull et al. (2018) noted that while branch expansion in urban areas led to increased deposits, the impact was less pronounced in rural areas due to lower income levels and financial literacy.

2.8. Empirical Literature

Various numbers of studies have examined the determinants of deposit mobilization in many countries around the world. Most of the studies considered banks specific internal factor and external factors and examine either a particular country or a number of countries and a number of explanatory variables have been proposed three categories, according to the nature and purpose of each study.

Azmi &Haron (2006) this study investigates the structural determinants of deposits level of commercial banks in Malaysia, using co integration techniques. The results suggest that determinants such as rates of profit of Islamic bank, rates of interest on deposits, Base Lending Rate, Kuala Lumpur Composite Index, Consumer Price Index, Money Supply and Gross Domestic Product have significant impact on deposits. We also find that in most cases, customers of conventional system behave in conformity with the savings behavior theories.

One of an early attempts was made by Abu (2005) to investigate determinates of domestic saving in Ethiopia. The study used data collected from NBE, MOFED, UNCTAD, world Bank and IMF Statistical publication for the period 1960/61-2002/03.His result indicated that the domestic saving rate in Ethiopia has been too low to sustain robust capital accumulation and economic growth .The main factors behind the declining rate of saving were unsustainable expansion of public sector consumption expenditure and lack of sustained economic growth.

Ayalew (2013) attempted to empirically investigate the significance of selected macroeconomic variable in determining domestic saving in Ethiopia, using time series data from 1970/71 2010/11. Applying an autoregressive distributed lag (ARDL) bounds testing approach he found out that the growth rate of income was positively and significantly influencing domestic saving in the long run , Whereas deposit interest rate, was found to be statistically insignificant determinates of domestic saving. He argued that domestic saving rate increases with income growth, which is consistent with life cycle hypothesis and the result of previous studies in Ethiopia. The insignificance of deposit interest rate and degree of financial depth variables might show that financial development did not contribute to the increase in savings. This is because of the low financial sector development in the country, where banking sectors expansion and competition

Yitbarek and Hibret(2015) investigated short and long run impacts of endogenous and exogenous factors on deposit growth of Commercial Bank of Ethiopia for the period 1974/75 - 2013/14. The paper also established the causal relationships that exist between the antecedents and the consequent. In the empirical VECM model, the control variables: Economic Growth, Interest Rate, Population Growth and Branch Expansion were used to establish the causal relationship and measure their impact on the outcome variable. The estimated results suggest Interest Rate has positive but insignificant impact on deposit growth both in the long-run and short-run while Branch Expansion significantly increases bank deposit contemporaneously both in the short run and long-run. Moreover, Population and Economic Growth have a positive relationship with deposit growth but significant only in the long-run were very low discouraging saving mobilization.

Orji(2012) investigated determinants of bank savings in Nigeria as well as examined the impact of bank savings and bank credits on Nigeria's economic growth from 1970- 2006, the study adopted ARDL-ECM models and It revealed positive influence of values of GDP per capita (PCY) and negative influence of Real Interest Rate (RIR) on the size of private domestic savings.

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

Fadare (2011) through linear least square model and time series data from 1980 to 2009 examine the determinants of Banking Sector liquidity in Nigeria and assesses the extent to which the recent financial crises affected liquidity in deposit money banks in the country. The findings indicate that only liquidity ratio, monetary policy rate and lagged loan-to-deposit ratio are significant for predicting Banking Sector liquidity; and that a decrease in monetary policy rates, liquidity ratios, volatility of output in relation to trend output, and the demand for cash, leads to an increase in current loan-to-deposit ratios; while a decrease in currency in circulation in proportion to Banking Sector deposits; and lagged loan-to-deposit ratios leads to a decline in current loan-to-deposit ratios. The result suggests that during periods of economic or financial crisis, deposit money banks are significantly illiquid relative to benchmarks, and getting liquidity monetary policies right during these periods is crucial in ensuring the survival of the Banking Sector.

Baharumshah et al.(2003) investigated the saving behavior in fast growing Asian economies (Singapore, south Korea, Malaysia, Thailand and Philippines) and found positive impact of income and negative impact of capital inflows on savings in short run in all Asian countries except Thailand but mixed results were found in long run.

Teriba (1993) also investigated the hypothesis that interest rate and income levels are strong determinants of bank deposits in West Africa. Although Teriba recognized the fact that other variables tend to change in the same direction as the level of income and volume of transactions

to reinforce their positive effects on the volume of deposits, the community environment which a bank serves is the most important factor because it is the level of the income of the community

Humyra (2014) study Saving Behavior of Bangladesh. He considered time series data to shed light on the saving behavior of Bangladesh in long run horizon and short run dynamic adjustment by employing co integration test and vector error correction model. Findings of the study suggest that, there is a great deal of diversity between urban and rural sector. Deposit rate is not the only factor that stimulates depositors to save, although it has received noticeable attention. Rather, high volatility regarding income and banking facilities influence savers to increase interest-bearing deposit.

Rachmawati and Syamsulhakim (2004) examined factors Affecting Mudaraba Deposits in Indonesia by using quarterly time series in the period of 1993 – 2003, the study shows Islamic bank's branch offices and profit sharing rate are significantly affects the volume of mudaraba deposits in Indonesia in the long run, while GDP and interest rate are not.

Bersales and Grace (2006) investigated Patterns and Determinants of Household Saving in the Philippines, The study identified the determinants of household saving rate using an econometric model. The study used instrumental variable estimation techniques using a pseudo-panel data constructed from FIES years from 1988 to 2003. It estimated two specifications of the econometric model, using the Generalized Least Squares Estimation and Instrumental Variable Estimation. Both procedures produced the same significant determinants for the two specifications. The study is found that level of income significant determinants of household saving rate .Unexpectedly, factors such as number of banks had insignificant effects.

Raut and Virmani (1989) examined the determinate of consumption and saving decisions and tested Hall's random-walk hypothesis of consumption on aggregate data from twenty three developing countries. The Hall hypothesis states that individuals select a level of consumption in each period based on expected lifetime income, rather than on current income. Since income in any term can be seen to move stochastically while consumption is smoothed over time, the ratio of consumption to current income will appear to vary randomly. Their result reveals that while the real interest rate has a positive effect on consumption, the nominal interest has a positive effect on consumption.

According to (Tareq, 2015), the article used data from Nationalized Commercial Banks of Bangladesh in doing the research through mixed methodologies of the investigation. The paper analyzed the behavior of savings mobilization with the banking sector over the years with a special emphasis on the savings mobilization behavior of the Nationalized Commercial Banks (NCBs). Time-series data were used to analyze the patterns and trends in bank deposits over the years. A Log-Linear model is formed to measure the impact of the factors affecting Savings mobilization Behavior (1991-2005). The first step of this log-linear analysis was to identify the factors that affect the bank deposits over the years and then through regression the actual impact of the individual variables were found.

(Adem, 2015) adopted mixed research approach the rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method. Regarding to the qualitative data; questionnaire is used to gather information from the employees of commercial bank of Ethiopia particularly for those employees who actively participated in deposit mobilization tasks in CBE city branches. Regarding to the secondary data; time series data covering 1998 -2014 was analyzed. First, the time series data were assessed using descriptive statistics for the variables as well as the test for heteroskedasticity, autocorrelation and normality testing to know if the assumptions of CLRM violated or not. Second, estimated model was a single regression equation with deposit as the dependent variable and explanatory variables as deposit interest rate, overall inflation rate, number of branch opening, gross domestic product, individual foreign remittance and dummy variable.

(Kibebe, 2016) the research tried to investigate the factors that affect deposit mobilization, the related expenses of deposit mobilization in commercial private banks. The study used both primary and secondary approach in order to collect the data. Questionnaire was adopted in order to collect the primary data. And also, data were extracted from annual reports of Central Statistical Authority (CSA)as well as NBE from each and every one of private commercial banks in Ethiopia, time series data from 2000-2014 was collected for the secondary data were for the purpose of collecting secondary data. Sampling method of the primary data was purposive sampling technique. The analysis was made by using Classical linear regression method. The study showed that, Age dependency ratio, Investment and money supply, have positive significant effect on deposit mobilization activity. The additional variables that have insignificant effect on the total deposit variable are per capital income.

The reviewed studies offer valuable insights into the determinants of deposit mobilization and saving behavior across various countries, including Ethiopia. While some, like Azmi & Haron (2006) in Malaysia and Rachmawati & Syamsulhakim (2004) in Indonesia, utilized robust econometric methods and highlighted factors such as interest rates, profit-sharing, and branch expansion, their applicability to Ethiopia is limited due to differing financial systems. Ethiopian-focused studies, including Abu (2005), Ayalew (2013), Yitbarek & Hibret (2015), Adem (2015), and Kibebe (2016), provide important context but face issues such as outdated data, limited coverage of private banks, and weak incorporation of behavioral or institutional factors. Many relied on basic regression models and failed to account for autocorrelation, structural breaks, or financial sector innovations. Studies in Nigeria and Bangladesh, like Orji (2012) and Tareq (2015), underscored the relevance of GDP, monetary policy, and branch networks, but often neglected the role of trust, technology, and informal finance. Moreover, while several works established income growth as a significant driver of savings, others like Kibebe (2016) found it insignificant—indicating possible model limitations or data constraints. Overall, few studies explored the impact of digital finance, financial literacy, or urban-rural differences—areas particularly critical in Ethiopia's underdeveloped yet rapidly evolving banking environment.

2.8. Conceptual framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Kombo & Tromp, 2009). Based on the literature review, the study proposes a conceptual framework that examines the determining deposit mobilization in case of selected commercial banks in Ethiopia

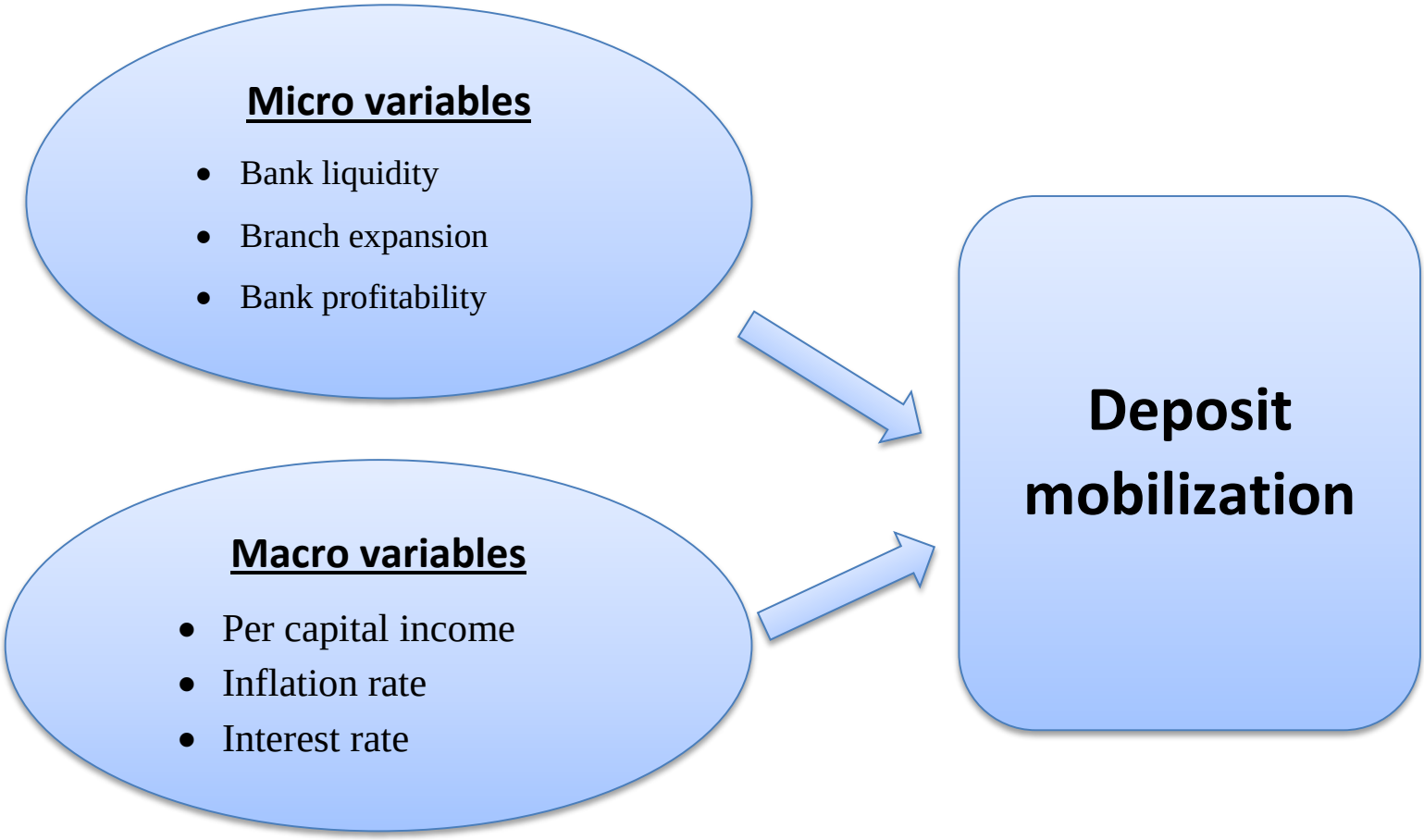

Figure 1.1 Conceptual frameworks

Chapter Three

Methodology of Study

This part presents the facts of the research design and methodology. This comprises the study design, sample size and sampling technique, data source and collection method, the technique of data collection and the end the method data analysis were presented.

3.1 Research Design and approach

The primary objective of this research is to analysis the variables that affect deposit mobilization in Ethiopian private commercial banks. A causal research design, which aims to establish cause and affect between the dependent variable (deposit mobilization) and Multiple Independent variables (bank liquidity, branch expansion, bank profitability, interest rate, inflation and per capita income) is used in this study to accomplish this purpose. A Quantitative technique and an explanatory research type were used since they allow for the explanation of phenomena by gathering numerical data. Hypothesis testing, statistical comparisons across groups and the measurement of events, behaviors, and trends are all made easier by this method. To find and evaluate the causal links between the determining factors and deposit mobilization, the explanatory research design was especially selected.

3.2. Population and sample

In Ethiopia, there are a total of thirty two (32) banks, comprising thirty one (31) commercial banks and one development bank. Among these, two are government-owned, while the remaining twenty nine (29) are privately owned commercial banks. Since the primary objective of this study is to analysis the determinants of deposits in private commercial banks in Ethiopia, the twenty nine (29) privately owned commercial banks can be considered the population of the study.

In line with the balanced panel data approach, this study aimed to achieve its objectives and ensure generalization from the sample to the population by maximizing the combination of years and the number of banks. This was accomplished through a purposive sampling technique, which allowed for the highest number of observations. Out of the thirty one private commercial banks registered and operating in Ethiopia five (5) banks are middle level bank and remaining twenty six (26) are small level banks as per national bank report , eight(8) were selected. These sampled include all five middle level banks accounts total 65% of total asset from industry, 69% of total deposit from industry and 58% of the total capital in addition to that the research include three small level banks from all private commercial banks in Ethiopia. Additionally, they represent over 28% of the total population of private commercial banks deposit. The researcher believes that this sample size is sufficient to draw reliable conclusions about the population.

The banks were selected using purposive sampling, ensuring a maximum combination of years and the number of banks to achieve the highest number of observations. As a result, the data frame for the study is structured as a 15*8 matrix, encompassing 120 observations.

Table 3.1 sampled private banks

No	Name of banks	Year of establishment	% of bank deposit
1	Awash banks	1994	16.41
2	Bank of Abyssinia	1996	14.36
3	Dashen Bank	1995	10.33
4	United Bank	1998	5.80
5	Cooperative Bank of Oromia	2005	10.55
6	Nib international bank	1999	5.33
7	Wegagen banks	1997	3.84
8	Lion banks	1996	2.45

3.3 Model specification

Based on dependent variable (Deposit Mobilization) and independent variables (Bank Liquidity, Branch Profitability, Branch Expansion, Per Capita Income, Inflation, and Interest Rate), the fixed effects model for panel data would generally be as follows:

$DMit = \beta1(BL)ti + \beta2(BP)ti + \beta3(BE)\,ti + \beta4(IR)\,ti + \alpha i + \epsilon it$

Where:

DMti = Deposit Mobilization it where, DMti represents the deposit mobilization for bank i at time t.

BL = Bank Liquidity: it - it corresponds to the bank liquidity for the bank i at time t.

BP = Branch Profitability it is the branch profitability for bank i in period t.

BE =Branch Expansion it is equivalent to the branch expansion of bank i at time t.

IR = Interest Rate itis the interest rate applicable to bank i at time t.

Where $\beta1,\beta2,\beta3,\beta4$, are the coefficients of the independent variables, showing the change in deposit mobilization respectively for a unit change of each independent variable, holding all the other factors constant.

αi is the unobserved time-invariant fixed effect of bank i capturing any constant differences across banks that may affect deposit mobilization and are not directly specified in the model.

Table 3.2variable measurement and expected result

	Variable	Measurement	Expected result
Dependent variable	Deposit mobilization	Percentage growth of deposit mobilization	
Independent variable	Bank liquidity	Average bank liquidity of The Year	+
	Branch profitability	percentage growth change of banks annual profit	+
	Branch expansion	Percentage growth Of Branch at the End of Year	+
	Per capita income	Percentage growth Of per capita income at the End of Year	+
	Inflation	General Annual Inflation Rate in a country	_
	Interest rate	average deposit Interest Rate of The Year	+

3.4 Ethical Considerations

It could not be ethical to access some confidential documents of the organization. Therefore, the organizations code of ethics was taken in to account without significantly compromising findings of the study.

A policy of secrecy for the employees and managers will adhered as various confidential data was accessed by the researcher. As the researcher indicate in the questioner at the top of the heading respondents were informed to not include their name, address, branch working-in in order to make sure they don't have any doubts on their identities being exposed so it can help in getting the required and honest information.

Chapter Four

Data Analysis and Discussion

This chapter presents the descriptive statistics, correlation analysis, and regression analysis of the study variables. There are three primary sections to it. Descriptive statistics, comprising measurements like mean, maximum, minimum, and standard deviation, are presented in the first part and summarize the main features of the research variables. The degree of link between the studied variables is examined in the second segment, which focuses on correlation analysis. Regression analysis is presented in the third section, along with the regression model's output and an interpretation of the findings.

4.1Descriptive Statistics of Variables

This section presents the dependent and independent variables used in the study for the sample private commercial banks. The dependent variable used in the study was bank deposit mobilization. The independent variables were Interest rate, per capita income, inflation, liquidity ratio, bank profitability and bank branch expansion. The mean values are used to reveal the average for all variables used in this study and standard deviation has been used to analyze the variations in explanatory variables.

Table4.1: Descriptive Statistics of the study variables

Variable		Mean	Std. Dev.	Min	Max	Observation	
Deposit	Overall	.2723	.1599065	-.03	.88	N	120
	Between		.0900443	.1926667	.4526667	n	8
	Within		.1357055	-.0888833	.8011167	T	15
	Overall		.1894725	.07	.78	N	120

Bank liquidity	Between		.0324471	.2946667	.3773333	n	8
	Within		.187005	.0930833	.7490833	T	15
Branch Expansion	Overall	.2315	.1364536	.01	.66	N	120
	Between		.0372614	.1793333	.2966667	n	8
	Within		.1318882	-.0065	.6261667	T	15
Bank Profitability	Overall	.50125	1.58723	-5	11.52	N	120
	Between		.395657	.1933333	1.342	n	8
	Within		1.543105	-5.205417	11.31458	T	15
Per capita income	Overall	.2386667	.0979704	.11	.41	N	120
	Between		.0979704	.2386667	.2386667	n	8
	Within		0	.11	.41	T	15
Interest rate	Overall	0.06	.0114005	.04	0.07	N	120
	Between		.0114005	.0566667	.0566667	N	8
	Within		0	.04	.07	T	15
Inflation	Overall	.1686667	.1054397	.03	.38	N	120
	Between		.1054397	.1686667	.1686667	n	8
	Within		0	.03	.38	T	15

As in table 4.1 the level of average deposit is approximately 27.23%, and with standard deviation 0.16.the standard deviation for average deposits across banks is 0.09, and bank means go from 0.19 to 0.45.this indicates some measure of difference in average deposit levels among banks. The within-bank

standard deviation is 0.14, and deposits for each bank range from -0.09 to 0.80 compared with their own average. This suggests a significant variation in deposits over time among specific banks.

This would indicate a highly competitive market with banks attracting similar levels of deposits, or regulatory influence is at play. The higher standard deviation over banks over time indicates that the deposits of one bank will vary more between periods than when you compare a single bank to other banks in a particular period. The low standard deviation across banks is a significant finding. It strongly suggests that, on average, the deposit levels are very similar from one bank to another within. This would indicate a highly competitive market with banks attracting similar levels of deposits, or regulatory influence is at play. The higher standard deviation over banks over time indicates that the deposits of one bank will vary more between periods than when you compare a single bank to other banks in a particular periodthis points towards the importance of temporal factors influencing deposit levels. In summary analysis highlights that time-specific factors seem to have a greater impact on deposit levels than differences between banks.

The within-bank standard deviation is 0.19, with liquidity within each bank varying from 0.09 to 0.75 relative to their own average. This indicates substantial changes in liquidity over time within individual banks. This strongly suggests the influence of strict and consistently applied regulatory requirements on liquidity.

Overall mean branch expansion is 0.23, with a standard deviation of 0.14. The standard deviation of average branch expansion between banks is 0.04, with bank means ranging from 0.18 to 0.30. This suggests moderate variation in average branch expansion across banks. The within-bank standard deviation is 0.13, with branch expansion within each bank varying from -0.01 to 0.63 relative to their own average. This indicates some changes in branch expansion over time within individual banks. However, there is more change in the branch number measure for each individual entity over the observed period.

Bank Profitability is Overall mean is 0.50, but the standard deviation is very high at 1.59, indicating a wide spread of profitability values. The range (-5 to 11.52) confirms this. The standard deviation of average profitability between banks is 0.40, with bank means ranging from 0.19 to 1.34. This shows significant differences in average profitability levels across banks. The within-bank standard deviation is 1.54, with profitability within each bank varying greatly (-5.21 to 11.31)

relative to their own average. This suggests high volatility in profitability over time within individual banks.

Overall mean per capita income is 0.24, with a standard deviation of 0.10.The between standard deviation is 0, and the min and max of between means are the same (0.239). This implies that the average per capita income is the same across all banks in your sample. This is unusual and might warrant checking your data. The within standard deviation is also 0.10, with within variations ranging from 0.11 to 0.41 relative to the common mean. This indicates that while the average is the same, there is still variation over time within each bank's per capita income.

Overall mean interest rate is 0.06, with a small standard deviation of 0.01. The range (0.04 to 0.07) is also narrow. Similar to per capita income, the between standard deviation is 0, and the min and max of between means are the same (0.057). This suggests the average interest rate is the same across all banks. This also seems unusual and might require a data check. The within standard deviation is 0.01, with within variations ranging from 0.04 to 0.07 relative to the common mean. This indicates limited fluctuation in interest rates over time within individual banks.

Overall mean inflation is 0.17, with a standard deviation of 0.11. The range (0.03 to 0.38) shows some variability. Again, the between standard deviation is 0, and the min and max of between means are the same (0.17). This implies the average inflation rate is the same across all banks. This is also unusual and needs investigation. The within standard deviation is 0.11, with within variations ranging from 0.03 to 0.38 relative to the common mean. This indicates that inflation varies over time within each bank, even though the average is the same across banks.

4.2 Correlation analysis

Correlation analysis measures the strength and direction of the linear relationship between two variables. It helps determine whether and how strongly pairs of variables are related. Below in the correlation matrix shows correlation between dependent variable deposit growth with independent variable branch expansion, bank profitability, bank liquidity, precipitate income, interest rate and inflation.

Table 4.2: Correlation matrix of deposit growth with independent variable

Correlate	Deposit	Bank liquidity	Branch expansion	Bank profitability	Per capita income	Interest rate	Inflation
Deposit	1.000						
Bank liquidity	0.1595	1.0000					
Branch expansion	0.2361	0.1102	1.0000				
Bank profitability	0.2237	0.1916	0.342	1.0000			
Per capita income	0.1228	0.0864	0.2852	0.1195	1.0000		
Interest rate	-0.0179	0.7548	0.2917	0.1243	0.4534	1.000	
Inflation	-0.0938	0.2165	0.2545	0.0517	0.7821	0.5891	1.0000

Deposit positively correlated with bank liquidity, branch, expansion, bank profitability, per capita income and GDP on the other said deposit negatively related inflation and interest. Just because two variables move together doesn't mean that one causes the other. Correlation is a handy statistical device for making us aware of the interrelation of variables.

When two variables are positively correlated, they move in the same direction. As one variable increases, so does the other variable. As one variable decreases, so does the other variable. The correlation coefficient will be between +1 and 0. On the other hand Two negative correlation (also called inverse correlation) variables shift in the opposite direction .If one variable rises, the other variable tends to fall. If one variable falls, the other variable tends to rise.

4.3 Model selection

When dealing with panel data (data that are observed over a period of time on more than one unit, firm, or country), we often have the choice of using Ordinary Least Squares (OLS), Fixed Effects (FE), and Random Effects (RE) models. Panel data OLS treats all observations as if they belong to one, pooled data set and does not account for individual and time dimension. This can lead to biased and inconsistent estimates if there are unobserved factors that are correlated with the predictors. FE focuses on within-individual variation. It examines how changes in

predictor variables over time affect the outcome variable within each individual. It's useful when you suspect that unobserved factors that are constant over time are correlated with your predictors. It can be less efficient than RE if the unobserved heterogeneity is not correlated with the predictors.RE is more efficient than FE if the assumption of no correlation between unobserved heterogeneity and predictors holds. It allows for the estimation of time-invariant variables. The validity of the model is highly dependent on the unobserved effects being uncorrelated with the independent variables. Choosing Between FE and RE the Hausman test is commonly used to decide between FE and RE. If the test rejects the null hypothesis, FE is preferred. If the test fails to reject the null hypothesis, RE is preferred. Also, theoretical considerations of the data should be taken into account when choosing between the models.

Fixed effects these are the coefficient estimates from your fixed effects regression. Fixed effects controls for all time-invariant differences between the individuals. Random effects these are the coefficient estimates from your random effects regression. Random effects treat the unobserved individual effects as random variables that are uncorrelated with the repressors. (b-B) (Difference). The difference between the fixed effects and random effects coefficient estimates for each variable. Large differences suggest potential correlation between the individual effects and the repressors. Sqrt (diag (V_b-V_B)) (S.E.): the standard errors of the differences in the coefficients. These standard errors are used to calculate the test statistic. chi2 (7) = 398.93. This is the Hausman test statistic, which has a chi-squared distribution with 7 degrees of freedom Prob> chi2 = 0.0000: This is the p-value for the chi-squared test statistic. A very low p-value (most typically less than 0.05) implies rejection of the null hypothesis. The

Very high chi-squared vale of 398.93 and vary low p-value of 0.0000 also strong cause us to reject the null hypothesis. This would imply that there is a systematic difference between the fixed effects and random effects coefficients. Therefore, based on this result, we would conclude that the unobserved individual effects are likely correlated with the repressors, and the fixed effects model would be the more appropriate choice as the random effects estimator would be inconsistent.

4.4 Heteroskedasticity test

The Modified Wald test used for group wise heteroskedasticity is a statistical test used to check for heteroskedasticity in the context of a fixed-effects regression model. It is specifically designed to detect whether the variance of the error terms differs across different groups. If the Modified Wald test didn’t reject the null hypothesis, it suggests that there is no heteroskedasticity in the residuals, and thus, the assumption of homoscedasticity in the model didn’t violated.as indicated below The result of the test does not permit the researcher to reject the null hypothesis at 0.05, significance level or (Prop> chi2=0.0917.Therefore, heteroskedasticity problem doesn’t exist on a given research data.

Hypotheses:

Null hypothesis (H_0): There is no heteroskedasticity

Alternative hypothesis (H_1): There is heteroskedasticity

H0: sigma (i) ^2 = sigma^2 for all i

chi2 (8) = 13.75

Prop > chi2 = 0088

4.5 Autocorrelation Test

An autocorrelation test a manual lagged residual test checks used whether there is a systematic pattern in the residuals over time. lag_ resid is the lagged residual from fixed effects model. A statistically significant coefficient on lag_resid would indicate serial correlation (autocorrelation) in the residuals. Since p = 0.581, the effect of lagged residuals is not statistically significant. As a result, autocorrelation problem doesn't exist in given research data.

Table4.5: Auto correlation test for sample private commercial banks deposit mobilization

Variable	Coefficient	p-value
lag_resid	-0.217	0.581

4.6 Test of multicollinearity

The degree of multiollinearity in a regression model is measured by the Variance Inflation Factor (VIF). It quantifies the extent to which co linearity with other variables raises the variance of an estimated regression coefficient.

As we can shows below table 4.3 all VIF values are below 5, indicating that multicollinearity is not a major concern in this model. The highest VIF (3.01 for per capita income) is well within acceptable limits. The average VIF is close to 2(and far below 5), the overall model does not suffer from harmful multicollinearity.

Table4.6: test of multicollinearity

VIF	VIF	Tolerance
Per capita income	3.01	0.332464
Bank profitability	2.43	0.411598
Interest rate	2.41	0.415526
Bank liquidity	1.71	0.583690
Inflation	1.66	0.601833
Branch expansion	1.60	0.624016
Mean VIF	2.14	

4.7 Regression analysis result of sampled private banks

The F-statistic of 10.50 suggests that the combined effect of bank liquidity, branch expansion, bank profitability, per capita income, interest rate, and inflation significantly explains the variations observed in bank deposits across 120 observations. The associated p-value (Prob> F = 0.0006) tells you the probability of observing an F-statistic as high as 10.50 (or even higher) if, in reality, there was no relationship between the independent variables and bank deposits. A very low p-value (typically below 0.05) indicates that this observed result is highly unlikely if there were no real effect, leading us to reject the null hypothesis that all the coefficients of the independent variables are simultaneously zero. Therefore, the F-statistic and its corresponding p-value provide strong evidence that the model as a whole has significant explanatory power for selected private commercials bank deposits.

R-squared of 0.4109, it means 41.09% of the total variability in selected private commercials bank deposits observed in data can be explained by the combined influence of bank liquidity, branch expansion, bank profitability, per capita income, interest rate, and inflation. Conversely, approximately 59.91% (100% - 41.09%) of the variation in bank deposits is not explained by the model**.** This unexplained portion could be due to other factors not included in model, random error, or the inherent complexity of the real-world relationships.

Adj R-squared = 0.4021**:** The adjusted R-squared accounts for the number of predictors in models. It's often a better measure of the model's fit, especially when comparing models with different numbers of independent variables. Here, about 40.21% of the variation in selected private commercials bank deposits is explained by the model, adjusted for the number of predictors.

The adjusted R-squared provides a more conservative and often more reliable measure of a model's goodness of fit, especially when comparing models with different complexities. It helps to avoid over fitting your model by penalizing the inclusion of variables that don't significantly contribute to explaining the variance in the dependent variable, relative to the number of predictors already present.

Table 4.7 Regression result at α=0.05 significant level

R-sq:			Number of obs	120
			Number of groups	8
Within	0.4021	Obs per group	Min	15
			Avg	15.0
			Max	15
Between	0.7967		Wald chi2(6)	23.51
Overall	0.4109		Prob> chi2	0.0006
corr(u_i, X) = 0 (assumed)				

Deposit	Coef	Std. err	T	P>|t|	[95% Conf. Interval]
Bank liquidity	0.3929971	0.118786	3.31	0.001	-1601808 6288134

Branch expansion	0.2838322	0.1010424	2.81	0.065	-0857928 4818716
Bank profitability	0.0136349	.0084642	1.61	0.087	-0729546 0302243
Per capita income	0.0649293	.219153	0.30	0.027	.1646026 4944612
Interest rate	8.092371	2.36879	3.42	0.001	3449611 12.73513
Inflation	-0.4478432	0.797812	-2.04	.042	-8786065 0.170791
_cons	3286057	0.1587	2.04	0.038	-63297752 .01737361

4.8 Analysis regression result and hypothesis testing

4.8.1. Deposit mobilization and liquidity

Bank liquidity measures total asset divided by total deposit. It was hypothesis that deposit mobilization and bank liquidity positively related and they had statically significant relation. The regression result shows that Bank liquidity 39.29 the coefficient is positive, and the P>|t| = 0.001. This p-value is statistically significant (typically below 0.05). Therefore, there is a positive and statistically significant relationship between bank liquidity and selected private commercials bank deposits. When bank liquidity increases by one unit, bank deposits are estimated to increase by approximately 39.26 units, holding other factors constant give me more The positive coefficient suggests that, all else being equal, as a bank becomes more liquid (holds a higher proportion of

assets that can be easily converted to cash), the level of deposits it holds tends to increase. The p-value of 0.001 being below the common significance level of 0.05 indicates that the observed positive relationship between bank liquidity and deposits is likely due to that more liquid banks tend to attract more deposits.

The result of analysis support Robanse (2020) and Dereje (2017) result which is describe private bank deposit mobilization and bank liquidity (total asset to deposit ratio) have positive and significant relation. While an increase in bank deposits tends to decrease the liquidity asset to deposit ratio because when a bank becomes more liquid (can meet short-term obligations more easily), it tends to attract more deposits.

4.8.2 Deposit mobilization and branch expansion

Branch expansion is expanding branch to new location this was hypothesis positive and significant relation with deposit mobilization. The regression result shows the positive coefficient (28.38) suggests that, all else being equal, as a bank increases its branch network (a one-unit increase in your measure of branch expansion), the level of deposits in selected private commercials banks it holds tends to increase by approximately 28.38 units. This is a more intuitive relationship, and several factors could contribute to it. The p-value of 0.005, being equal the common significance level of 0.05, indicates that the observed positive relationship between branch expansion and deposits is statistically significant.

This indicates that expanding branch networks helps attract more depositors, likely due to better accessibility and reach. However there is situation branch expansion didn't result increasing bank deposit such us Market Saturation In well-banked areas, new branches mainly steal deposits from existing ones, not attracting new customers, Increased Costs: The rising operational expenses of more branches can eventually outweigh the new deposits generated. Technological Shift: Digital banking (online, mobile) reduces the need for physical branches, decreasing foot traffic and making large networks less justified, shifting branches towards advisory roles. The significant positive relation between bank deposit and branch expansion supported by Andent (2016).

4.8.3 Deposit mobilization and bank profitability

The other variable was Bank profitability it shows stability and credit worthiness of the bank. It was hypothesis that bank deposit and bank profitability has positive significant relation. The regression result shows 1.36: The coefficient for bank profitability is positive and the $P>|t| = 0.087$ is statistically insignificant. This suggests that there is statistically insignificant relationship between bank profitability and selected private commercials banks deposits in this model. The insignificant coefficient for bank profitability suggests that, in this specific linear model and with the data, they didn't have statistical evidence of a direct impact of bank profitability on the level

of bank deposits when other factors are held constant. This insignificant result consistence with study result of Dereje (2017). Profits may not be immediately visible to depositors, or other factors (like trust, safety) might matter more for deposits.

4.8.4 Deposit mobilization and Per capita income

Per capita income is a measure of the amount of money earned per person in a nation or geographic region. It was hypothesized positive and significant relation with deposit mobilization. The regression result support hypothesis result. Coefficient is positive (6.49), and the P>|t| = 0.027 this p-value is statistically significant. This indicates a positive and statistically significant relationship between per capita income and selected private commercials banks deposits. For every one unit increase in per capita income, bank deposits are estimated to increase by approximately 6.49 units, holding other factors constant. Because the p-value is so low, we can conclude that the observed positive relationship is statistically significant. More income leads to more savings, greater financial inclusion, increased confidence in the economy, and a more developed financial sector, all of which contribute to higher bank deposits. The significant relation consistence with study of Getahun(2020). This could be due to limited variation in income within the same bank's area or because richer people don't necessarily save more in banks.

4.8.5 Deposit mobilization and interest

The other variable is deposit interest rate it is paid by financial institutions to deposit account holders.it was hypothesized that positive and significant relationships. The regression result shows Coefficient is positive (8.09) and the P>|t| 0.001 this p-value is highly statistically significant. Therefore, there is statistically significant relationship between the interest rate and selected private commercials banks deposits in this model. Because the p-value is above the typical significance thresholds, we can confidently say that the observed positive coefficient reflects a genuine relationship in the broader population. Therefore, there is highly statistically significant relationship between the interest rate and bank deposits in this model is a direct consequence of high p-value.

The positive relation consistence with finding of Mekdes(2020) and Robanse (2020) shows positive significant relation between private bank deposit and deposit interest rate. Regulations on interest rates or the overall financial system could limit the ability of banks to use interest rates as a primary tool for attracting deposits. This makes intuitive sense: when banks offer better returns, people are more likely to deposit money.

4.9.6 Deposit mobilization and Inflation

Inflation leads to a general increase in prices and nominal incomes it was hypothesis negative and significant result on deposit mobilization. The regression result shows coefficient of negative (44.78), and the P>|t| = 0.042this p-value is statistically significant (well above 0.05). Therefore, in this model, there is statistically significant negative relationship between inflation and selected private commercials banks deposits. Because the p-value is low, we have sufficient statistical evidence to not reject the null hypothesis. As the nominal value of transactions and earnings rises, individuals and businesses withdraw larger nominal amounts from their bank accounts, due to real purchasing power decreases. The negatively finding consistence with Derebew (2023) Andenet (2020) showsprivate bank deposit and inflation. This suggests that during inflationary periods, people may prefer to hold money in assets rather than in deposit accounts that lose real value

Chapter Five

Summaries of major finding Conclusion and recommendations

The research work is summarized in this chapter. It discusses the key discoveries summaries, conclusions, and recommendations made. The chapter also examines the findings of the study, talks about the conclusions reached, and offers suggestions for further research on the topic as well as advice for policymaker.

5.1 Summaries

The study examined the determinate influencing deposit mobilization (the main source of fund in banking industry) in selected private commercials banks deposits, focusing on variables such as bank liquidity, branch expansion, bank profitability, per capita income, interest rates, and inflation. The researcher selected 8 privates' commercial banks that were segregated as medium (5) and small (3) banks by national bank of Ethiopia in 2024 with data covering 15 fifteen years from 2009 to 2023 from sampled private commercial banks. The research result of descriptive statistics, correlations analysis and regression analysis summarize including conclusion and recommendations of the study.

The result of descriptive analysis shows analysis of the overall, between-bank, and within-bank variations selected private commercials banks deposits reveals several important features of the dataset. Deposit levels show relatively low variation between banks on average, suggesting a potentially competitive or regulated environment leading to similar average deposit attraction across institutions. However, individual banks experience considerable fluctuations in their deposit levels over time, indicating a strong influence of temporal factors on deposit mobilization.

Bank liquidity exhibits even less variation in average levels across banks, hinting at potentially strict and consistently enforced regulatory requirements that lead to similar average liquidity holdings. Despite this, substantial changes in liquidity occur within individual banks over the observed period, highlighting the dynamic nature of liquidity management.

Branch expansion shows moderate differences in average levels between selected private commercials banks reflecting varying growth strategies or market penetration. Importantly, the number of branches for individual banks tends to change more over time than the differences

observed between banks at a single point, suggesting active expansion or consolidation activities within institutions.

Bank profitability displays the most significant heterogeneity between selected private commercials banks. There are substantial differences in average profitability levels between banks, indicating varying business models, efficiency, or risk profiles. Furthermore, profitability within individual banks is highly volatile over time, pointing to the influence of dynamic factors and potential shocks affecting financial performance.

Variables such as per capita income, interest rate, and inflation exhibit no between-bank variation they are identical across banks at each time point. This likely reflects their macroeconomic nature, as these figures are typically set at the national or regional level.

The correlation analysis result selected private commercial banks shows that bank liquidity, branch expansion, bank profitability, per capita income; interest rate positively correlated with private bank deposit mobilization on the other hand inflation negatively related with commercial bank deposit mobilization.

The analysis reveals several statistically significant factors influencing between selected private commercials banks deposit mobilization. Bank liquidity, branch expansion, per capita income and interest rates all exhibit a positive and significant relationship with between selected private commercials banks deposits, aligning with previous research. Higher liquidity and increased branch networks appear to enhance deposit mobilization in selected private commercials banks, while higher interest paid on deposits also promotes more deposit mobilization.

Conversely, inflation is negatively correlated with bank deposits in a statistically significant way, which suggests that higher inflation devalues there holdings ofdeposits and can have fewe r deposits as individuals substitute other holdings. Bank profitability shows demonstrate statistically insignificant relationships with bank deposits in this model. While the coefficients were positive, the is statistical significance suggests that, after controlling for other factors and accounting for the panel structure, there is strong evidence of a direct linear impact of these variables on deposit levels in this specific context. This significance for profitability is consistent with some prior studies. The significant positive relationship with per capita income might be due to limited variability across banks or other uncaptured factors.

This panel data analysis underscores the importance of bank-specific strategies like managing liquidity and expanding branch networks, as well as the crucial role of macroeconomic factors, particularly interest rates and inflation, in influencing bank deposit mobilization. The findings provide valuable insights for bank management and policymakers in understanding the drivers of deposit growth within the private banking sector.

5.2 Conclusion

The determinants of deposit mobilization were analyzed in 8 Ethiopian private commercial banks in 2009-2023. The findings verify that bank liquidity, branch expansion, per capita income, bank profitability and interest rates indeed significantly and positively influence on selected private commercials deposit mobilization as earlier studies revealed conversely, inflation significant and negatively impact on selected private commercials deposits, verifying its real-value-erosive impact. In general, the study emphasizes the central position of bank-level policy (branch expansion growth, bank profitability and liquidity regulation) and macroeconomic drivers (interest rates, per capita income and inflation) in driving deposit growth among Ethiopian sampled private commercials banks.

5.3 Recommendations

Based on the findings of this study on the determinants of deposit mobilization in private commercial banks in Ethiopia, the following recommendations are proposed for bank managers, policy makers, and researchers:

Given the strong and statistically significant positive relationship between bank liquidity and deposit mobilization, private banks should ensure prudent liquidity management. Maintaining sufficient liquid assets not only boosts depositor confidence but also enhances the bank's ability to meet short-term obligations. Regulators should continue enforcing liquidity requirements while allowing flexibility for strategic liquidity planning. The significant positive effect of branch expansion on deposit mobilization underscores the importance of improving physical access to banking services. Banks are encouraged to expand their branch networks, particularly in under banked or rural areas, to attract more depositors. Such expansion should align with demographic trends and income distribution to maximize reach and cost-efficiency.

The study found interest rates to be a key driver of deposit growth. Private Banks should consider offering attractive and competitive deposit rates to incentivize savings. Policymakers must balance this with broader monetary policy objectives to ensure that interest rate incentives are sustainable and do not compromise financial stability.

The negative and statistically significant impact of inflation on deposit mobilization suggests that rising prices erode the real value of savings. Policymakers should implement macroeconomic policies aimed at controlling inflation to preserve the value of deposits. In addition, banks may consider offering inflation-linked deposit instruments to protect savers' purchasing power.

Bank profitability and per capita income showed positive but statistically significant effects, banks should not disregard these variables entirely. Profitability should still be pursued through operational efficiency and service quality, which indirectly influence depositor trust. Banks should also develop financial products tailored to diverse income segments to enhance financial inclusion and potentially increase savings behavior over time.

To improve deposit mobilization further, both banks and regulators should invest in public awareness and financial literacy programs. Educating the public about the benefits and safety of bank deposits, especially during periods of economic uncertainty or inflation, can build trust and encourage long-term saving habits.

5.4 Theoretical contribution of the study

The study contributes theoretically to the body of knowledge of deposit mobilization under the framework of developing economies, particularly in the case of Ethiopia. By employing panel data of eight private banks for 15 years (2009–2023), the study offers the following key insights:

- Contextual Extension of Theory: It extends theories of deposit mobilization, e.g., financial intermediation, to Ethiopia, confirming that variables like liquidity, branch expansion, and interest rates are relevant in low-income economies.
- Integration of Micro and Macro Factors: With the inclusion of bank-specific and macroeconomic variables, the study confirms a more integrated approach to deposit mobilization analysis.
- Impact of Inflation on Depositor Behavior: The powerful negative effect of inflation confirms real balance theory and demonstrates the necessity of inflation containment to maintain deposits.
- Reconsidering the Role of Profitability: The absence of significant effect from profitability defies traditional models, which might be less overpowering in deposit selection when other determinants are included.
- Validation of Branch Expansion Strategy: A strong relationship between branch development and deposit progress is found, in favor of network theory, indicating the role of physical access in deposit mobilization.
- Methodological Advance: Panel data usage enhances empirical banking research in Ethiopia through a refined insight into within- and between-bank trends over time.

5.4 limitation Future Research direction

Researchers are encouraged to explore non-linear relationships or mediating variables such as digital banking, financial inclusion policies, and consumer behavior trends. Additionally, use more banks and variables, improving the granularity and quality of financial data across banks can help deepen analysis and support more robust policymaking.

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