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Mobilization of Deposit in Commercial Banks of Ethiopia: Conceptual Model Development through Systematic Literature Review

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Abstract

The purpose of this study is to provide a conceptual framework and determine the factors influencing deposit mobilization in Ethiopia's commercial banks using the literature that is currently accessible. The bank's yearly incremental deposit plan, which calls for the easy mobilization of a sizable sum of money from the communities, is no longer the optimum method for undertaking deposit mobilization. The literature relating to factors influencing deposit mobilization at Ethiopia's commercial banks is presented in this overview of the literature. As a result, there are three sections to the literature review. The introduction linked to overviews of deposit mobilization in Ethiopian commercial banks and factors affecting deposit mobilization are covered in the first portion of the literature review. The second portion looks at empirical concerns regarding the factors influencing deposit mobilization. The conceptual framework for deposit mobilization is shown in the third section, followed by the literature gap of the evaluated literature. Researchers framed the conceptual framework for the research's future course using the most recent available literature.

Key Words: deposit mobilization, lagged value of deposit, economic growth, interest rate

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Introduction

Commercial banks' biggest liabilities are commercial bank deposits. The current account, savings account, time deposit account, or other types of bank account at a banking institution enables the account user to deposit and withdraw money (Adula & Kant, 2022); (College of Business and Economics, Department of Management, Bule Hora University, Ethiopia, et al., 2022). However, mobilizing deposits is an extremely challenging undertaking (Adula et al., 2023). A significant portion of the entire intermediation cost of the banking system is the cost of mobilizing deposits. The general people are the main source of this deposit. However, other organizations including cooperatives, governments, NGOs, and businesses can also offer deposits. Therefore, deposits are crucial financial resources for banks, regardless of whether they are provided by people, companies, or the government (Berwal et al., 2022). Raising stock is more expensive than raising deposits. Debt and/or equity make up the capital structure of banks, like other commercial institutions. Raising equity costs banks more money than luring up customers (Boson et al., 2023).

If the lending channel is active, deposit growth should increase the supply of loans because banks now have another source of funding. Banks should boost their deposit base to meet the growing demand for loans from consumers, companies, and governments. The interest rate charged on deposits is typically far lower than the dividend paid to shareholders. Bank deposits are used to generate revenue. Deposits are the primary source of bank loans and consequently the primary driver of bank profitability and expansion (Dereso et al., 2023). Depositors are considered to be able to teach banks because banks use their deposits to generate revenue. Depositors punish banks by withholding deposits and demanding higher interest rates. The main goal of depository corporations' mail-and-deposit money institutions is to engage in financial intermediation to generate profit and boost shareholder value (Gobena & Kant, 2022). They primarily attract deposits and use the funds to fund profitable investment portfolios to fulfill their goals (Fikadu et al., 2023); (Gezu Garuma & Kant, 2023). The government's need for bank assets allowed banks to keep growing their deposit bases quickly and profitably. Domestic commercial banks, which are funded mostly by deposits, are responsible for the majority of the country's debt (Dr. S. Kant et al., 2022).

Methodology

This research method is a review method. Journal review method by comparing one journal with another journal in the sense of integrating the results of analysis of research journals based on the similarities and differences of each and then providing new conclusions (Gentles et al., 2016); (Rashid et al., 2019).

Results

Determinants Affecting Deposit Mobilization

The degree to which a credit agency, which is also a banking organization, can mobilize community savings in the form of deposits, is a key sign of its effectiveness and success. However, mobilizing deposits is not a simple operation. It is dependent on several factors that are both exogenous and endogenous to the financial system. Exogenous factors include the region's overall economic climate, the amount of business transactions, the public's trust in the banking system, their banking habits, and the region's capacity for saving. Banks may fail even when exogenous determinants are more favorable for deposit mobilization due to unfavorable endogenous determinants like location, building type, and window-dressing (furniture, checkbooks, vouchers, pay slips, etc.), which gives customers confidence in the physical fitness of a bank (S. Kant et al., 2023); (Dr. S. Kant et al., 2022). For clarification, exogenous is further separated into bank- and country-specific factors. The financial system is capable of influencing endogenous factors, but it is unable to influence exogenous determinants. The external particular determinants are factors outside the banking system, whereas the bank-specific determinants are factors unique to the banking sector.

Bank-specific Determinants

Determinants that are peculiar to banks are those that the banking system can regulate. The number of bank branches, the ratio of liquid assets to deposits, and profitability as determined by net interest margin and legged value on bank deposits are the bank-specific determinants in this study.

A. Number of Bank Branches

Deposits at commercial banks and branch expansion at commercial banks are related. Deposit levels affect bank branch expansion in addition to having an impact on bank branches themselves (Kenesa Kebede et al., 2023). There is a long-term correlation between commercial bank deposits and branch locations. It is frequently argued that branching helps to diversify bank holdings and so stabilizes the financial system (Doerr & Schaz, 2021). Restrictions on branching have been linked to the instability of banking systems, found from theoretical literature on banking regulation that branch banking leads to more stable banking systems by enabling banks to better diversify their assets and widen their deposit base (Negeri et al., 2023). Numerous branches encouraged many people to use bank deposits by dispersing the banking habit over a larger geographic area. Additionally, a broad network of branches that enabled transactions across numerous geographic locations reduced the necessity for keeping more currency.

B. Liquidity Asset on Deposit Ration

Marketability, Stability, and Conservatism are three components or aspects of liquidity (Panigrahi et al., 2022). Liquid assets ought to have more marketability or portability. This indicates that they are anticipated to be quickly and easily turned into cash and are redeemed before maturity. The Asian Financial Crisis of 2008 is the period covered in the study (Shiferaw & Kant, 2023). Cash and cash equivalents to total assets (Li) and advances net of provisions to total assets (L2) are two metrics used to determine a bank's liquidity. Two models are estimated using these liquidity measures. The outcomes of model 1 (Li) show that while inflation hurts bank liquidity, bank-specific fundamentals (NPL and TOA) and the interest rate governing monetary policy have a favorable impact. The financial crisis has a negative and considerable impact on bank liquidity as measured by Li. The model 2 (L2) results show that bank size and monetary policy interest rate considerably and positively influence bank liquidity.

C. Net Interest Margin

The ratio of interest income on loans to total loans minus interest expense on deposits to total deposits is the net interest margin proxy for measuring the cost of financial intermediation (Mia, 2023). It calculates the difference between the bank's implicit earnings from interest-bearing activities and its implicit expenditures associated with luring interest-bearing investors (Gemechu Tufa & Kant, 2023). Commercial bank deposits and bank profitability have a long-term link. Higher bank earnings would typically indicate stronger banks, which may make it simpler for these institutions to draw in deposits(Rahman et al., 2023). Once the other variables are taken into account, it is discovered that the impact of bank profitability and bank size is negligible (Al-Harbi, 2019). Therefore, compared to other variables, the impact of profitability and bank size on commercial bank deposits is less.

External Determinants

Macroeconomic determinants are the determinants that the financial system is unable to influence. These are country-specific factors that determine how likely depositors are to put money in the banking system. They include factors that are economic, social, and political:

a. Deposit Interest Rate

Deposits held by commercial banks are interest rate sensitive, therefore they will alter when the interest rate fluctuates. Every financial system's primary goal is to mobilize financial resources from the surplus sector and lend to the deficit outlets to facilitate commercial transactions and economic development through the country's monetary and fiscal policy. A change in the real interest rate will likely have a net beneficial effect on saving in the typical developing economy. This is because there is typically not a strong market for stocks, bonds, cash balances, and quasi-monetary assets in developing economies. Additionally, this article demonstrates how interest rates affect how well the banking system performs in achieving the objectives that are expected of it. The interest rate is one of the most important factors to consider when selecting whether to deposit money in a banking system. Interest was also noted as a determining factor for commercial banks' deposits by. The availability of competitive interest rates on bank deposits may be seen as having had a positive impact (Wakjira & Kant, 2022). Low deposit rates are also deterring people from mobilizing their savings. Unless a coordinated policy is undertaken to enhance the rate of saving generally and the rate of saving in the form of deposits in particular, the banking system is unlikely to be in a position to meet the demand for bank credit.

b. Economic Growth (GDP)

Economic growth is an increase in an economy's ability to generate goods and services when contrasted between two points in time. It is typically quantified using GDP (Gross Domestic Product), which has evolved into the de facto global indicator of "standards of living" (Yadete et al., 2023). According to a life-cycle study, GDP growth will boost total savings since younger age groups will earn and save more over their lifetimes than older age groups (Fisseha Dejene Yadete & Kant, 2023). Therefore, it is anticipated that nations with greater GDP growth rates will have higher savings than nations with lower growth rates. The magnitude of this effect, however, is anticipated to diminish as GDP. Gross Domestic Product (GDP) was defined as the market value of all finished products and services produced within a geographical entity during a certain period. Gross Domestic Product (GDP) is computed by adding up the value generated at each stage of production and subtracting the price of manufactured inputs and materials that were purchased from an industry's suppliers.

c. Inflation rate

One of the factors influencing commercial banks' deposits, as well as time deposits since they are a sort of deposit, is inflation. The amount of actual value and purchasing power lost by each unit of currency each year depends on the pace of inflation. The same amount of money this year is 5% less valuable than it was last year if the annual inflation rate is 5%. According to conventional wisdom, banks are largely protected from the consequences of inflation because their assets and liabilities are expressed in monetary terms and typically increase along with the expansion of the money supply. The cost and accessibility of credit are managed by monetary policy. When inflation rises, the central bank raises borrowing costs and limits the ability of commercial banks to extend credit, making borrowing more expensive than before and decreasing demand for money. The opposite is also true noted, that high inflation rates lower the real value of deposits. It was noted that the banking system is affected by inflation in terms of deposit absorption and facility grants. Additionally, pointed out that while technically speaking deposits were not decreased by inflation, their value was.

Empirical Literature Review

1. Empirical Evidence Related to Africa

The link between the used variables was measured in this study using the co-integration and Error Correction Methodology (ECM). Conducted an empirical study on commercial banks in Ghana, a developing nation, to investigate the impact of interest rate liberalization on bank deposits in Ghana. The Ghana Statistical Service (GSS) and Bank of Ghana (BOG) websites, respectively, provided the secondary data that were used in the study, which included information on deposits, interest rates, and inflation based on the consumer price index (year-over-year). Research articles from the World Bank, the International Monetary Fund (IMF), and other scholarly peer-reviewed journals were also taken into consideration. With long-term deposits as the primary dependent variable and real savings rate, real Treasury bill rate, exchange rate movement, and gross domestic product as independent variables while controlling for inflation, a deposit function model was specified (Kartono et al., 2021). The stated model, which encompassed seasonally adjusted quarterly data taken from the Bank of Ghana and the Ghana Statistical Service, was estimated using the Ordinary Least Squares (OLS) method. Data processing was done using Econometric View 7, which was exported from a spreadsheet that contained the data. The study's findings showed that the GDP and interest rate liberalization together accounted for approximately.

The factors influencing savings mobilization and its function in fostering economic growth in Ghana were the subject of this study [38]. The study's findings demonstrated that the mobilization of financial savings (deposit) in Ghana is highly influenced by the currency rate, inflation rate, and money supply (M2). However, the deposit interest rate has shown to be a meager predictor of bank deposit mobilization. This is a result of the public's lack of faith in the banking system. In his article, the researcher experimentally looked at the macroeconomic factors that influence bank deposits there. In the framework of bank deposit mobilization and its drivers, it attempts to analyze the effects of various macroeconomic factors on bank performance [43]. The ECM result revealed a satisfactory speed of adjustment, and the Vector Error Correction and Johansen cointegration tests indicated a long-term link among the variables (Fisseha Dejene Yadete et al., 2023). The empirical findings demonstrated a positive relationship between the GDP per capita (PCY), Financial Deepening (FSD), Interest Rate Spread (IRS), and Inflation Rate (INFR), and a negative relationship between the Real Interest Rate (RIR) and Inflation Rate (INFR). The lagged values of total private savings, private sector credit, public sector credit, interest rate spread, exchange rates, and economic growth are all positively correlated.

2. Knowledge Gap Identification

Evidence from earlier research on a range of internal and external factors that influence deposit mobilization in commercial banks. The importance of each determinant, however, varies by continent, nation, and historical era. According to studies in Indonesia (Shi et al., 2021), the amount of commercial bank deposits is not significantly influenced by GDP. Studies in Ethiopia found a correlation between GDP and the volume of commercial bank deposits. This makes the study more pertinent, and it aims to fill these pertinent gaps in the literature by looking at the key influencing factors or bottlenecks that boost deposit mobilization in Ethiopian commercial banks. The factors influencing deposit mobilization are thought to depend on the number of bank branches, deposit interest rate, liquid asset to deposit ratio, lagged value of bank deposits, net interest margin, inflation rate, and economic development (Dame Tafa & Tessema Worku, 2022). The factors influencing deposit mobilization are divided into two categories for the sake of the current study: bank-specific factors and outside factors. Based on the aforementioned problem, this study will be essential in bridging the information gap by identifying factors influencing deposit mobilization at Ethiopia's commercial banks (Banke & Yitayaw, 2022).

Conceptual Framework of the Research

The purpose of this study is to pinpoint the factors that influence deposit mobilization in Ethiopian commercial banks. The conceptual framework of these factors serves as a road map for this study and explains how they affect deposit mobilization at Ethiopia's commercial bank. While assuming that other factors won't change throughout the research, seven variables were chosen. The following diagram illustrates how this conceptual framework depicts the link between the dependent variable and the contributing independent factors.

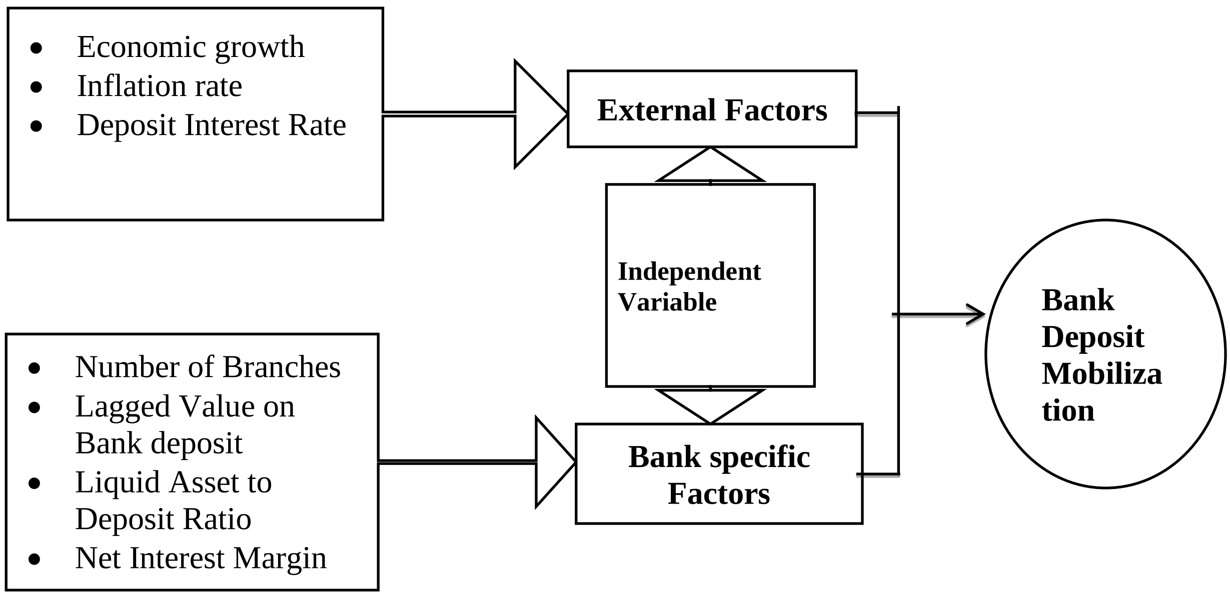

Figure 1. Conceptual Framework, (Source: Developed by the researchers 2023)

Conclusion

Thus, the aim of this study to identify the determinants affecting deposit mobilization in commercial banks of Ethiopia through available literature was fulfilled. And authors found the conceptual framework was fulfilled and gave directions to future researchers.

Conflict of Interest

No conflict of interest

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