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**Effect of Interest Rate on Savings Behaviour among Ghanaians: Evidence from Kumasi, Ghana.**

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## Abstract

The purpose of this paper is to explore how Ghanaians respond to changes in interest rate on savings. In order to effectively explain how changes in interest rate affect the savings behaviour among Ghanaians, the study administered 200 questionnaires and analysis of the data was done with descriptive statistics and chi-square test. The results show that, in general, changes in deposit interest rate loosely explain why people save. Again, decision to save with respect to changes in deposit interest rate depends on the knowledge the individual have on deposit interest rate and notices they receive from banks with respect to changes in deposit interest rate. The study further noted that, changes in income strongly explain the reasons why individual save. The chi-square result showed that, interacting knowledge on deposit interest rate with changes in interest rate may influence savings. Thus, increasing interest rate on deposit alone will not bring about increase in savings; however knowledge on the variable in question (deposit interest rate) is significant.

**Keywords:** savings rate, deposit interest rate, knowledge on deposit interest rate, chi-square

## INTRODUCTION

It is a well-known fact that domestic savings plays a significant role in financing investment, resulting in higher capital per worker and output per worker. Countries that are able to raise enough savings domestically are able to stand firm whenever there is unexpected shift in international capital flows.

In Ghana, savings rate has rarely gone past 16% as a percentage of Gross Domestic Product on the average while interest rate stood at an average rate of 16.43% since 1978. Comparatively, savings rate in Ghana is low relative to other African countries. It averaged 37.4% in Botswana, 21.6% in Nigeria, 24.4% in Cameroon but only 6.4% in Ghana between the periods of 1980 and 2001. A close study of available data also reveals that, between the periods of 1991 and 1995, deposit interest rate recorded an average growth of 22.63% while savings rate recorded an average of 7.73%. Again, deposit interest rate increased to as high as 30.89% between the periods 1996 and 2000 but the periods saw savings rate falling to an average rate of 7.34%. This low savings rate has posed many challenges to growth resulting from low capital formation hence low capital per worker. What reasons could possibly explain this low savings in spite of increasing deposit interest rate? What motivate Ghanaians to save? Is it interest rate as reported by many researchers or individual save on an impulse? If the economy recorded such high deposit interest rate between the periods 1991 and 1995; 1996 and 2000, why did the country experience relatively low growth in savings rate on the average?

Many researchers have employed different approaches to find solutions to these questions. Their results brought to light the relationship between real interest rate and savings rate. For instance, Nwachukwu and Odigie (2009) estimated Error-Correction model to find out the relationship between interest rate and savings. Their result showed that savings rate rises with real interest rate on bank deposits. Thus, a more favourable treatment of real interest rate has a positive implication on savings and capital accumulation as well as long-run growth. A cut in interest rates will reduce the rewards for savings which tend to discourage savings.

Larbi (2013), on the other hand, employed a cointegration approach to investigate the factors that determines long Run Private Domestic Saving behaviour in Ghana. The study concluded that real interest rate had a negative impact on savings. The interest rate variable was statistically significant at 1% level in all five models. The study revealed that income effect of interest rate change on savings is higher than the substitution effect. Thus higher real interest rate on savings raises future income of households which tend to decrease current consumption. The two studies (Nwachukwu and Odigie, 2009; Larbi, 2013) give clear indications that real interest rate have a significant impact on savings. In other words, higher savings is induced by increase in real interest rate. However, the studies give only a picture of the co-movement of real interest rate and savings but does not account for other potential factors that affect households' savings behaviour.

There are several reasons that make people save. According to the life cycle hypothesis, individual save part of their income in other to ensure smooth consumption through their lifetime. In contrast to this hypothesis, Ghanaian youth work hard to earn higher income but large amount of their income are not saved which tend to have a strong negative impact on the economy in terms of capital accumulation. The ever increasing family size coupled with high dependency rate could partly explain the reason why Ghanaians save less than the income they receive. In view of this, if policy makers assume savings behaviour of Ghanaians follow the life

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cycle hypothesis, then predictions based on this hypothesis may yield lower effect in influencing savings behaviour.

While Nwachukwu and Odigie (2009) and Larbi (2013) studies recommended interest rate to policy makers as a policy tool that would affect savings significantly, Olson and DeFrain (2000) argues that the most important reason why individual save part of their income is for precautionary reasons or to prepare for eventualities such as job loss, illness etc. On the contrary, Quartey and Blankson (2005) in trying to find the causes of low savings rate in Ghana came to a conclusion that household save when they have excess income but not necessarily due to changes in deposit interest rate.

Inference from the ongoing arguments, gives an indication that savings behaviour in every economy is influenced by two important components. The first component is affected by policy change – deposit interest rate. The second component is one in which the individual has some degree of control and can also alter the rate of substitution between their current and future consumptions. This may include family size, individuals' time preference for consumption etc. It follows that policy makers cannot rely solely on interest rate to influence savings behaviour among Ghanaians. This is important if the country wants to raise capital accumulation through savings to meet investors demand for fund which also has implication for reducing the saving-gap that has long dominated the economy. This implies that it is relevant for policy makers to evaluate all potential factors that strongly impact on individuals' decision to save.

One important factor that significantly affect savings rate is the level of education or the financial literacy rate in a particular country. Education tends to play a significant role in influencing savings behaviour of individuals. The level of education increases human productivity resulting in higher income hence higher savings per person (Zhang et al., 2003). A study by Kulikov et al. (2007) also found out that, education can have a significant positive impact on savings through financial literacy. The effects of financial reforms and degree of capital mobility have implication on savings behaviour. Available evidence has shown that, for a small open developing economy like Ghana, part of domestic savings is likely to move across borders in search for higher returns thereby reducing the amount of savings retention in the domestic country (See for instance; Kim, 1999; Mishra and Jain, 2012; Ketenci, 2014).

It should be noted that, the debate about the factors that significantly impact on savings rate tends to contradict themselves hence there exist knowledge gap. It should also be noted that understanding the factors that influence household decision to save is critical as long as policy implementation is concern. In this study, an attempt is made to find out how Ghanaians respond to changes in deposit interest rate.

Specifically, the study aim to;

- i. Analyze the frequency of savings by households
- ii. Give demographic analysis of individuals that have saving account
- iii. Analyze impact of individuals' knowledge on deposit interest rate and how it affects savings decision.
- iv. Find out other factors that influence decision to save

This study can inform stakeholders and policy makers to come out with appropriate public policies and aid in budgetary preparation as well as serve as a guide to the central bank in an attempt to raise savings. This is necessary if growth development is to be stimulated in Ghana through capital accumulation. The rest of the paper is presented as follows; section 2 discusses the methods employed in this study, the results are presented under section 3. Section 4 presents the conclusion and recommendation

## **METHODOLOGY**

The target group from which information was collected were from the communities around Kwame Nkrumah University of Science and Technology (KNUST). The study area was purposively chosen in order to effectively capture also, how students respond to changes in deposit interest rate. It should also be noted that, the community comprises of different class of people with varying ages and occupation.

In order to gather the necessary data successfully, the study employed a descriptive type of research. This method was employed because descriptive method of research is a fact-finding study that involves adequate and accurate interpretation of finding. This is important because it helps to unravel what actually influence household decision to save. The study used descriptive method considering the desire to acquire first hand data from the respondents so as to formulate rational and sound conclusion and recommendation for the study. A total of two hundred questionnaires were administered to individuals irrespective of their occupational and educational attainment. This decision was taken as a result of limitations due to time and cost constraints on the research.

The study used both primary and secondary source of data. The primary data was derived from the answers that respondents gave in the self-administered questionnaires. Primary data is data observed or collected directly from first-hand experience. This type of data was used because of the need to collect information for the specific purpose of the study. The questionnaire was designed to include both close and open ended questions to allow deep investigation of individual saving decision in Ghana. Non proportional quota sampling technique was used to allocate sample respondents and convenient sampling to select the sample. The secondary data was collated from World Development indicators published by World Bank.

Statistical Package for the Social Sciences (SPSS) and Microsoft Excel were used for the data processing, management and documentation of the questionnaires, graphical representation of the data. The statistical package enabled the researchers to come out with the final findings of the research. The analysis was guided by the objectives of the research. The data was edited for completeness and consistency after which data extraction was performed. Coding of the data was followed by data entry. A descriptive data involving frequencies, tables and bar graphs were used to indicate a clear visual analysis of the data.

### **The Chi - Square test of Independence**

The chi-square test of independence was used to determine whether or not some of the variables used were associated (dependent). The Chi-square test of Independence deals with test for independence of two qualitative variables each of which is classified into a number of mutually exclusive classes and the classes arranged in a two way table. The two way tables are often called contingency tables. The Chi-square test of

Independence is used when we have two nominal variables. The Chi-square test of Independence data may be in the R\*C form. Where, R is the row and C is the column. In the Chi-Square test of Independence, the test variable may be more than two.

The hypothesis is formulated as:

H<sub>0</sub>: The variables are independent

H<sub>1</sub>: The variables are dependent

If the calculated value of the Chi-Square test is greater than the critical value, we will reject the null hypothesis. If the calculated value is less, then we will accept the null hypothesis.

**Procedure in Chi-Square test of Independence:**

To perform the Chi-Square test of Independence, first we calculated the expected value of the two nominal variables. After calculating the expected value, we applied the following formula to calculate the value of the Chi-Square test of Independence:

$$\chi^2 = \sum_{i=1}^y \cdot \sum_{j=1}^x \frac{(O_{ij}-E_{ij})^2}{E_{ij}} \dots\dots\dots (1)$$

Where:  $\chi^2$  = Chi-Square test of Independence;  $O_{ij}$  = Observed value of two nominal variables for the Chi-Square test of Independence;  $E_{ij}$  = Expected value of two nominal variables for the Chi-Square test of Independence. Degree of freedom in Chi-Square test of Independence: In the Chi-Square test of Independence, the degree of freedom is calculated by using the following formula  $df = (r-1)(c-1)\dots\dots\dots(2)$

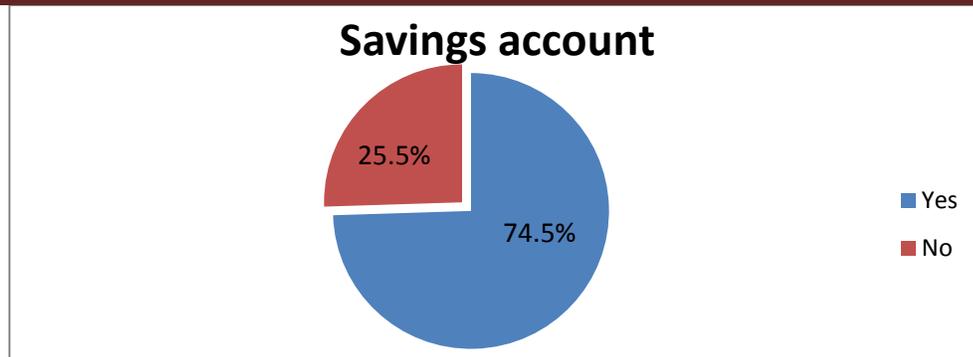
Where: df = Degree of freedom for the Chi-Square test of Independence; r = number of rows in the Chi-Square test of Independence ; c = number of columns in the Chi-Square test of Independence. The critical region for the test at  $\alpha$  level of significant is therefore:  $\chi^2 \geq \chi^2[(r-1)(c-1)]$

*Decision Rule:* If the calculated value of the Chi-Square test was greater than the table value, the null hypothesis was rejected. If the calculated value was less, then the null hypothesis was not rejected. Therefore the two variables would be statistically independent.

**RESULTS AND DISCUSSIONS**

**Individuals That Have Savings Account**

Respondents were requested to indicate on the questionnaire if they had a savings account. Out of the 200 respondents, Figure 1 shows the proportion of the respondents that had savings account.



Source: Field Study, 2015

Fig 1: A pie chart showing the proportion of respondents that had savings account.

From Figure 1, it is seen that, out of the 200 respondents, 74.5% of them had savings account while only 25.5% had no savings account. With respect to the 25.5% that had no savings account, most of them gave reasons that accounted for not opening a savings account. Majority of them concluded that their income was not enough to motivate them to save some at the bank.

The gender of the respondent was probed for in order to know whether more males or females have savings account.

Table 1: Table showing respondents with savings account with respect to gender

		SAVINGS ACCOUNT				Total	
		Yes		No		Value	Per cent
GENDER		Value	Per cent	Value	Per cent		
		Male	86	75.4%	28	24.6%	114
	Female	63	73.3%	23	26.7%	86	100%
	Total	149		51		200	

Source: Field Study, 2015

From Table 4.1, out of the 200 respondents, 114 were males while 86 were females. 86 males, representing 75.4% had savings account while the remaining 28 males, representing 24.6% had no savings account. On the other hand, 63 females, representing 73.3% had savings account while the remaining 23 females, representing 26.7% had no savings account. It can be concluded from the survey that, more males have savings account than females. Loosely speaking, this can be attributed to the fact that, most of the women prefer keeping their money to themselves than saving at the bank.

A further question was asked pertaining to the age of the respondents in order to have a general idea of the age group that mostly have savings account. Table 2 shows the age distribution of the respondents with respect to savings account.

**Table 2: Table showing respondents with savings account with respect to age**

		SAVINGS ACCOUNT				Total	
		Yes		No		Value	Per cent
		Value	Per cent	Value	Per cent		
AGE	Up to 20	29	87.9%	4	12.1%	33	100%
	21 to 25	43	79.6%	11	20.4%	54	100%
	26 to 30	79	84.9%	14	15.1%	93	100%
	36 and above	17	85%	3	15%	20	100%
	<b>Total</b>	<b>168</b>		<b>32</b>		<b>200</b>	

Source: Field Study, 2015

Table 2 shows that, out of the 200 respondents, 33 were up to age 20, 54 falls within the age group 21 to 25 years, 93 were from 26 to 30 years while the remaining 20 were 36 years and above. 87.9% of the respondents whose age group fell below 20 years had savings account while 12.1% of them had no savings account. 79.6% of those that were from 21 to 25 years had savings account while 20.4% of them had no savings account. 79 respondents representing 84.9% within the age group 26 to 30 had savings account. With respect to the respondents that were 36 years and above, 17(85%) had savings account while 3(22%) had no savings account. Comparatively, it can be concluded from the survey that people from age 26 to 30 were more likely to have savings account. The reason is that people belonging to this age bracket are those who are actively working and hence prefer to keep their savings at the bank.

Another area of interest to the study was to know the highest educational level attained by the respondents. This is important since it will bring to light the class of the elite that have savings account. Table 4.3 shows a summary of the findings from the survey with respect to highest educational level and savings account.

**Table 3: Table showing respondents with savings account with respect to highest educational level**

		SAVINGS ACCOUNT				Total	
		Yes		No		Value	Per cent
		Value	Per cent	Value	Per cent		
HIGHEST EDUCATIONAL LEVEL	<i>Undergraduate</i>	98	93.3%	7	6.7%	105	100%
	<i>Postgraduate</i>	58	100%	0	0%	58	100%
	<i>Other</i>	33	89.2%	4	10.8%	37	100%
	<b>Total</b>	<b>189</b>		<b>11</b>		<b>200</b>	

Source: Field Study, 2015

Table 3 shows that 105 respondents out of 200 had attained certificate in undergraduate studies, 58 had attained a certificate in postgraduate studies while 37 had attained other forms of education like middle/ junior high education and vocational training. 98% of those with a certificate in undergraduate education had savings account while the remaining 6.7% had no savings account. All the respondents with a certificate in postgraduate studies had savings account. 89.2% of the respondents with other forms of education like middle/junior high school and vocational training had savings account while 10.8% of them had no savings

account. The implication of this analysis is that, the propensity for an individual to open a savings account is higher whenever an individual acquire higher level of education.

Also, a key point in knowing the individuals that had savings account was to find out the occupation of the respondents. Table 4.4 illustrates respondents' occupation as against opening of savings account.

**Table 4: Table showing respondents with savings account with respect to occupation**

		SAVINGS ACCOUNT				Total	
		Yes		No		Value	Per cent
		Value	Per cent	Value	Per cent		
OCCUPATION	Student	127	94.8%	7	5.2%	134	100%
	student and working	37	92.5%	3	7.5%	40	100%
	working	25	96.2%	1	3.8%	26	100%
	<b>Total</b>	<b>189</b>		<b>11</b>		<b>200</b>	

Source: Field Study, 2015

The results in table 4 shows that 134 out of the 200 respondents were students while 40 were students and working. The remaining 26 respondents were workers. 94% of the respondents that were students had savings account while the remaining 5.2% had no savings account. The 92.5% out of those that were students and working had saving account whilst 7.5% do not have savings account. However, with respect to those that were working, 96.2% had savings account while the remaining 3.8% had no savings account. It can be concluded from the survey that people with the highest probability of opening savings account are students and those that are students and working. When asked to explain their desire to hold saving account, most of the workers concluded that, employers insist they open savings account to facilitate effective cash transfer. Others also attributed it to the fact that, holding savings account that flows constantly is a necessity for them to acquire loan when the need arises. For students and student/working respondents, the conclusion they gave all point to the fact that saving at a bank is the safest place to keep money.

Further, it was relevant to find out if ownership of a savings account meant the individual had a saving habit. It was required of the respondents to select whether they saved or not. Table 4.5 gives a report of the findings.

**Table 5: Table showing respondents who save with respect to those with savings account**

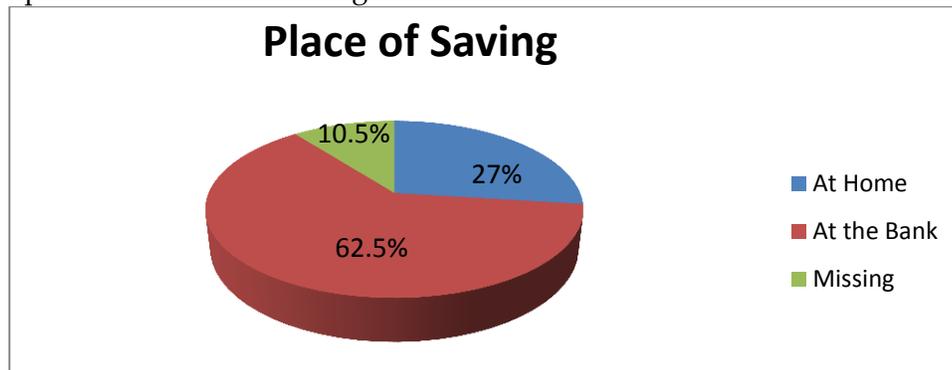
		SAVINGS ACCOUNT				Total	
		Yes		No		Value	Per cent
		Value	Per cent	Value	Per cent		
SAVINGS	Yes	153	94.4%	9	5.6%	162	100%
	No	36	94.7%	2	5.3%	38	100%
	<b>Total</b>	<b>189</b>		<b>11</b>		<b>200</b>	

Source: Field Study, 2015

As presented on table 4.5, Out of the 200 respondents, 162 saved part of their income while 38 did not save part of their income. 94.4% of those that saved had savings account while the remaining 5.6% that saved did not

have savings account. On the other hand, 94.7% of those that did not save had a savings account while 5.3% of those that saved had no savings account. It can be stipulated from the survey that, a higher percentage of those that saved had savings account. Interviewing the respondents on the reason why they had savings account and yet did not save revealed that, their income is so small that the cost of saving at the bank is higher than keeping to themselves.

The pie chart also answers an important question as to why some individual save yet had no savings account and also to ascertain the place of saving mostly preferred by respondents. Figure 4.2 illustrates a reflection on places respondents preferred to do their saving.



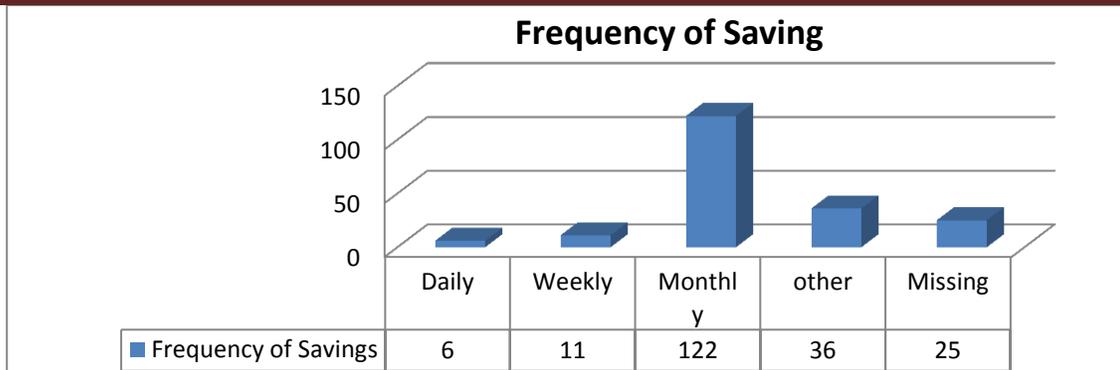
Source: Field Study, 2015

Figure 2: A pie chart showing the place respondents preferred to save

The result presented in figure 2 shows that out of the 200 respondents, 27% preferred to save at home, 62.5% preferred saving at a bank while the remaining 10.5% that did not respond had no place of saving because they did not save part of their income. From the above, it shows that respondents preferred saving at the bank. With respect to the 10.5% that did not save and hence didn't consider where they preferred to save, most of them gave reasons that accounted for their not saving. Reasons given were that they don't have enough income to enable them to save part of their income. Again, with respect to the 27% that preferred saving at home, reasons given were; firstly, it cost them to save at the bank since their income are very low relative to their expenses. Secondly, the quickest way to get hold of their income to undertake transaction is to keep it at home since they are usually delayed by the banks when the need arises.

#### FREQUENCY OF SAVING BY INDIVIDUAL

The study also took into account the frequency with which individuals save. Figure 4.3 presents the findings on how often individuals save out of their income.



Source: Field Study, 2015

Figure 3: A bar chart showing the frequency of saving by respondents

From figure 3, it is clearly illustrated that, out of the 200 respondents, 6 of them saved daily, 11 saved on weekly basis, 122 saved on monthly basis and 36 of them did not have a structured and consistent time frame of saving. The remaining 25 respondents did not answer this question because they constituted the individuals that didn't save anything out of their income. From the chart, it can be concluded that individuals mostly save on monthly basis. This confirms the analysis that concluded that, aside students, it is mostly students that work that have savings account and save. Since most workers are paid on a monthly basis they prefer to have a monthly saving behaviour. Also, the 20 respondents (that falls under other) explained that they don't have a specific pattern. They save anytime they have enough money on them.

#### INDIVIDUALS KNOWLEDGE ON CHANGES IN DEPOSIT INTEREST RATE

Presented on table 4.6 is whether the respondents had knowledge on what deposit interest rate is.

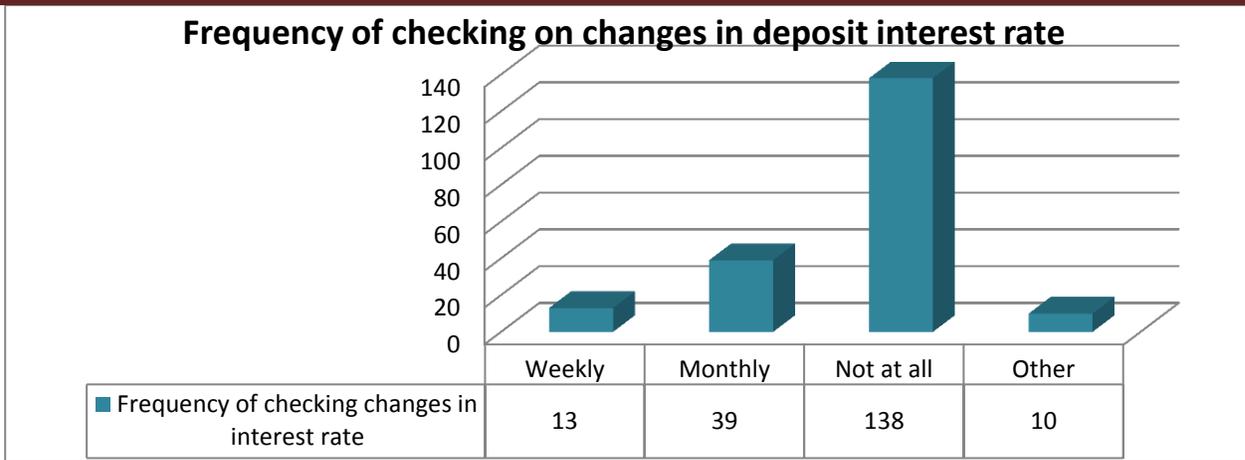
Table 6: Table showing respondents knowledge on deposit interest rate

KNOWLEDGE ON DEPOSIT INTEREST RATE		
	Frequency	Per cent
yes	46	23
no	154	77
Total	200	100

Source: Field Study, 2015

It is very interesting to point out that 154 representing 77% of the respondents had no knowledge on what deposit interest rate is while only 46 (23%) knew what deposit interest rate is. This is important for an economy such as Ghana that is striving to increase saving by altering interest rate. The implication of this results means that lower individuals knowledge on deposit interest rate would render monetary policy (using interest rate to influence savings behaviour) ineffective since the individuals responsiveness to changes in deposit interest rate is poor.

Further on, it was required that the respondents indicate whether they check at their various banks to know the trend of deposit interest rate. Figure 4.4 shows a summary of individuals' responses.

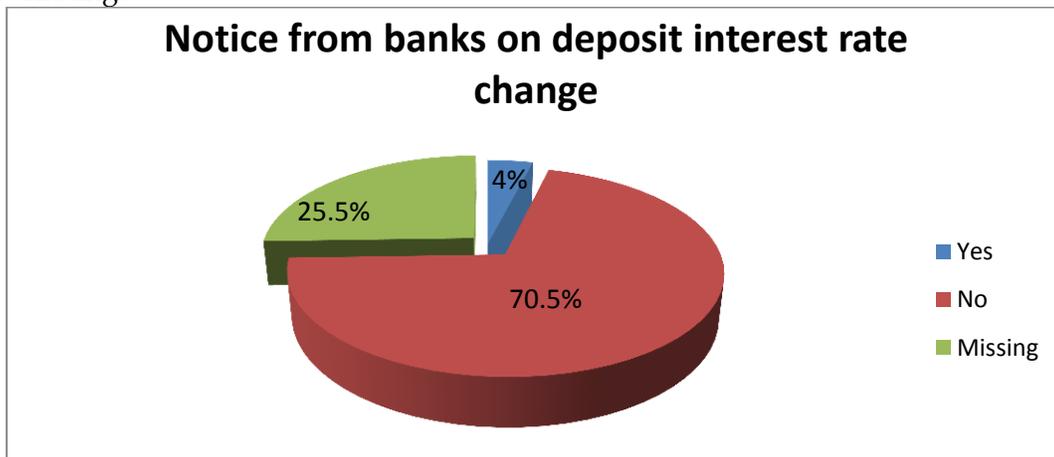


(Source: Field Study, 2015)

**Figure 4:** A bar chart showing the frequency of checking on changes in deposit interest rate by respondents

Figure 4 indicates that out of the 200 respondents; only 13 did a weekly check on the trend of deposit interest rate and most of these respondents are those who have postgraduate education. 39 of the respondents did a monthly check on the trend in deposit interest rate while as high as 138 of the respondents never checked on changes in deposit interest rate. This result is not shocking since most individuals do not even have knowledge on what deposit interest rate is. It further explains that, using interest rate on deposit to affect saving in Ghana may not be effective.

Aside looking at whether individuals took time out to check on changes in deposit interest rate, it was probed further to know if on the part of the banks, they take the initiative to send out notices to their customers. Figure 5 illustrates the findings



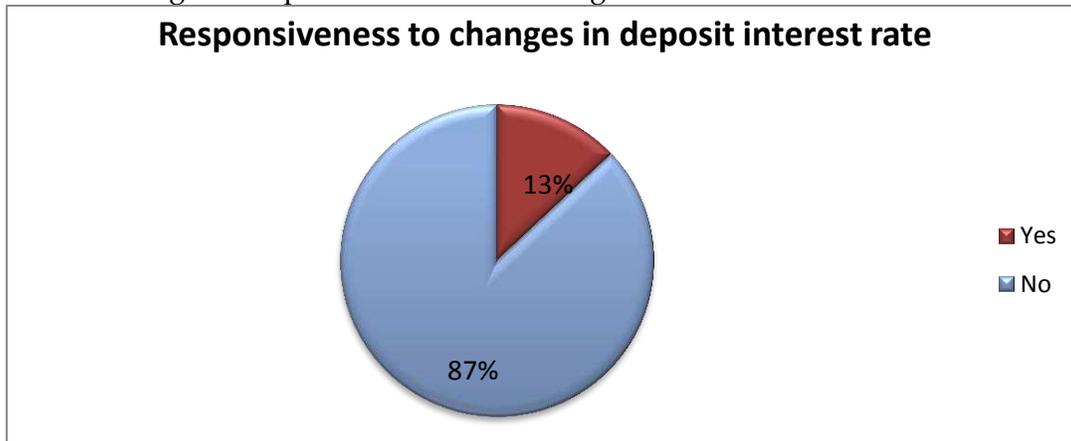
Source: Field Study, 2015

**Figure 5:** A pie chart showing if respondents get notices on changes in deposit interest rate from banks

The results in figure 5, indicates that 70.5% of the respondents never received any notices from their banks with respect to the trend in deposit interest rate while only 4% had notices from their banks whenever there

were changes in deposit interest rate. Again, this situation further gives explanation to why individuals respond less to savings when deposit interest rate change. The majority that had savings account who do not have knowledge on changes in interest rate is due to failure of banks to educate their customers concerning the need to check regular changes in deposit interest rate in other to respond appropriately when the need arises.

The major reason for undertaking this study was to know individuals' decision with respect to saving whenever there were changes in deposit interest rate and figure 4.6 illustrates that.



Source: Field Study, 2015

Figure 6: A pie chart showing respondents' decision to save with changes in deposit interest rate

From figure 6, it is illustrated that 87% of the 200 respondents are not influenced to save with respect to changes in interest rate while the decision to save of only 13% of the respondents are influenced when there are changes in the trend of the deposit interest rate. This can be explained by the fact that; firstly, individuals do not have enough knowledge on deposit interest rate (as shown in table 6) and how it affects their savings. Secondly, they don't get any responds from the banks whenever there is changes in interest rate. The implication of this is that, any monetary policy that aims at achieving higher saving through increase in deposit interest rate may be less effective. This contradicts the work of Larbi (2013) who recommended policy makers to increase interest rate if their aim is to increase savings because changes in interest rate affect relatively small individuals' decision to save.

**Chi-Square (Pearson Chi-square) Test Result**

H<sub>0</sub>: savings and deposit interest rate are statistically independent

H<sub>1</sub>: The two variables are statistically dependent

**Table 7 chi-square result for savings and deposit interest rate**

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.254 <sup>a</sup>	1	.614
Likelihood Ratio	.266	1	.606
N of Valid Cases	200		

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 4.94.

b. Computed only for a 2x2 table

Note: The chi – square critical value from the chi – square table is 3.84146

Chi- square (Pearson Chi-square) test was performed to find out how individuals would respond to savings when deposit interest rate change (see result at appendix). The result shows that, the calculated chi-square value is 0.254 while the critical value is 3.84146. Since the calculated chi-square value is well below the critical value, the study failed to reject the null hypothesis (at 5%) that changes in deposit interest rate and savings rate are independent hence lead to the same conclusion as presented above that majority of Ghanaians are unresponsive to changes in deposit interest rate.

H<sub>0</sub>: deposit interest rate and knowledge on deposit interest rate are statistically independent

H<sub>1</sub>: The two variables are statistically dependent

**Table 8 chi-square result for deposit interest rate and knowledge on deposit Interest rate**

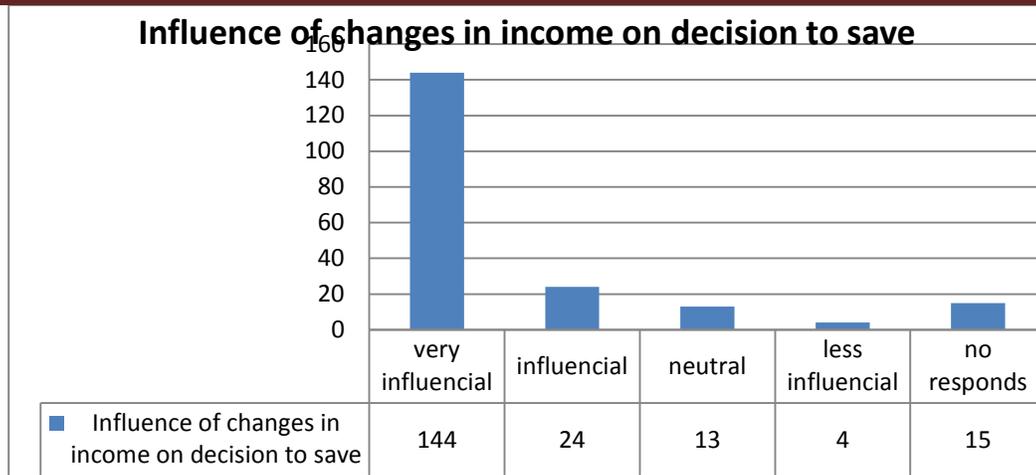
Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.302 <sup>a</sup>	1	.000
Likelihood Ratio	10.635	1	.001
N of Valid Cases	200		
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 5.98.			
b. Computed only for a 2x2 table			

Note: The chi – square critical value from the chi – square table is 3.84146

To establish whether knowledge in deposit interest rate makes Ghanaians respond to changes in deposit interest rate, the study interacted changes in deposit interest rate with knowledge on deposit interest rate (Results pasted at appendix). Given the chi – square critical value of 3.84146, the calculated value (Pearson Chi – square) of 12.302 is greater than the critical value of 3.84146. The study rejects the null hypothesis at a 0.05 significance level. Hence, individuals’ knowledge on deposit interest rate and the decision to save with respect to changes in deposit interest rate are dependent. Therefore, when individuals are educated on what deposit interest rate is, such knowledge influence their decision to save whenever there is a change in deposit interest rate. This explains why interest rate policy is mostly effective in advanced countries where the individual’s knowledge on interest rate is high.

### Other Factors That Affect Individuals Saving Decision

Since we save part of income, it was relevant to find out if changes in income could influence people’s decision to save. Figure 7 is a presentation of the findings

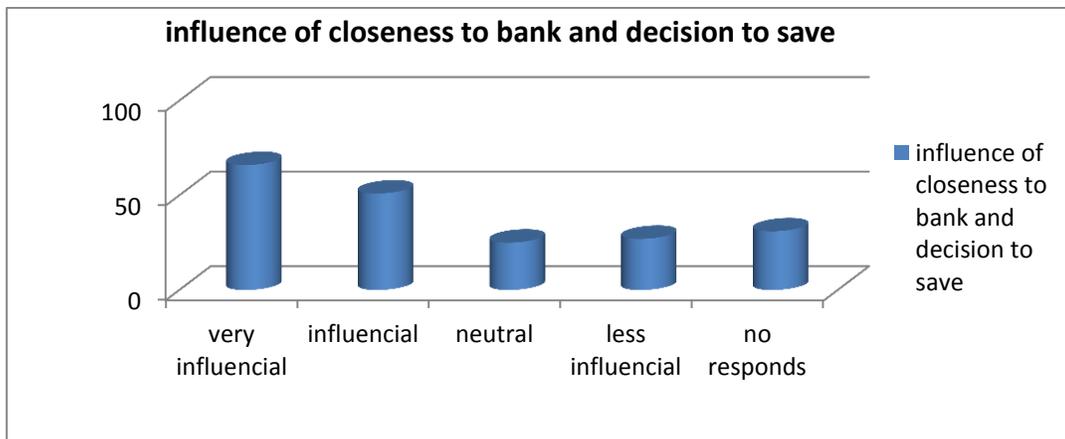


Source: Field Study, 2015

Figure 7: A bar chart showing respondent’s decision to save with changes in income

With reference to figure 7 it is seen that 144 out of the 200 respondents said a change in income is very influential on their decision to save. 24 of the respondents said it is influential, 13 were neutral on their decision to save with changes in income while 4 of the respondents said changes in income had less influence on their decision to save. More than half of the total number of respondents said changes in income has a high influence on their decision to save. This means that most people save part of their income when they have enough income but not necessarily due to changes in interest rate.

Presented on figure 4.8 is the findings related to the influence that closeness to bank had on individuals decision to save



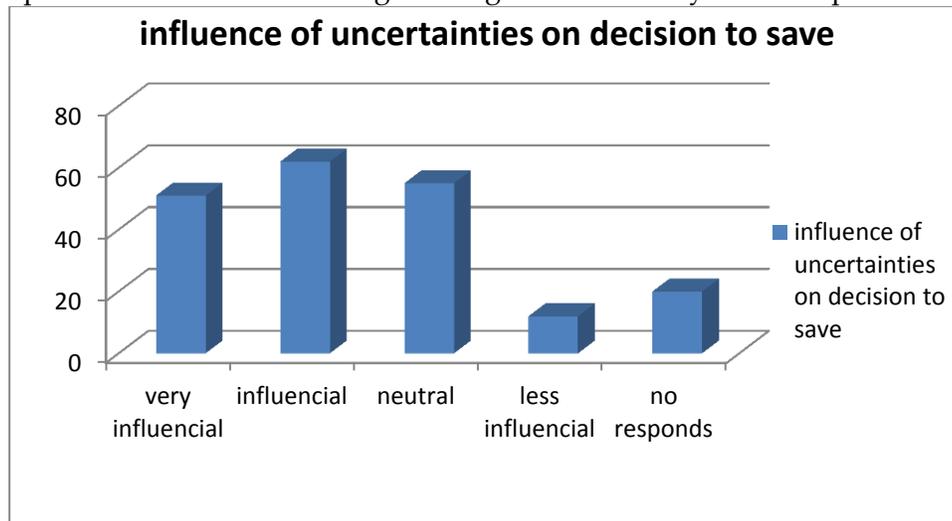
Source: Field Study, 2015

Figure 8: A bar chart showing respondent’s decision to save with closeness to bank

Figure 8 clearly shows that, 66 representing 33% said closeness to bank is very influential on their decision to save. 51(25%) of the respondents said it is influential, 25(12.5%) were neutral on their decision to save even when close to the bank. 27(13.5%) of the respondents said closeness to bank had less influence on their decision to save. However, 31(15.5%) of the respondents did not respond to this question since to them, closeness to the

bank had no influence on their decision to save. Majority of the respondents said they were neutral on their decision to save and closeness to bank had less influence on their decision to save.

Due to the existence of unforeseen contingencies, it was probed further to know if such uncertainties had any influence on the respondents decision to save. Figure 4.9 gives a summary of the responses received.



Source: Field Study, 2015

Figure 9: A bar chart showing respondent’s decision to save with uncertainties

As figure 9 shows, the survey revealed that, out of the 200 respondents, 51 said uncertainties was very influential on their decision to save. 62 of the respondents said it was influential, 55 were neutral on their decision to save irrespective of the existence of unforeseen contingencies. 12 of the respondents said uncertainties had less influence on their decision to save. However, 20 of the respondents did not respond to this question since to them, uncertainties had no influence on their decision to save. Majority of the respondents said they were neutral on their decision to save irrespective of uncertainties.

### CONCLUSIONS AND RECOMMENDATIONS

The study sought to find out how individuals responds to savings when interest on deposit changes. The study sampled 200 individuals to find out their responds. From all the analysis above, it can be concluded that respondents for the survey consisted primarily of those that had savings account. However, more males than females had savings account with most of them belonging to the 26 to 30 years age bracket. Again, most of those that have savings account have attained undergraduate education and are either students or student and working. Majority of the respondents that saved part of their income have savings account and preferred saving at the bank. Also, individuals mostly save on monthly basis. Since most workers are paid on monthly basis they prefer to have a monthly saving pattern. The study also revealed that individuals save anytime they have enough money on them. Again, from the analysis, decision to save with respect to changes in deposit interest rate depends on the knowledge the individual may have on deposit interest rate and notices they get from banks with respect to changes in deposit interest rate. Changes in Deposit interest rate loosely explain why people save. The chi-square result showed that, interacting knowledge on deposit interest rate with changes in interest rate may influence savings. Thus, increasing interest rate on deposit alone will not bring

about increase in savings rather; knowledge on the variable in question (deposit interest rate) is a significant factor.

Lastly, with respect to the area of study and the respondents used for the study, decision to save was largely influenced by other variables too. Among these variables, changes in income came first, followed by uncertainties, then closeness to bank.

With reference to the above findings and conclusion, the policy recommendation that should be given attention to is that, monetary authorities cannot assume and implement interest rate policies only to alter the rate at which people save whether to increase capital accumulation or to reduce money in circulation during inflationary periods. This is because Ghanaians are less responsive to changes in interest rate since they have control over their decisions to save. However, educating people about the benefit they will get from high interest rate would help to increase their knowledge on the variable (interest rate). This would make them react whenever there is a change in interest rate. This can be effective when commercial banks educate their customers about the cost and benefit of saving at the bank when interest rate is high. Lastly, bank should be encouraged to signal their customers concerning every change in interest rate to keep them abreast of any development.

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