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Effect of Inflation on the Savings Mobilization Potential of Commercial Banks in Sierra Leone: A Case Study of the Rokel Commercial Bank

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Abstract
The economy in Sierra Leone is characterized by a perpetual inflationary trend. Inflation is a critical concern for a stable financial system in business entities. As a result of inflation and the poor financial performance of business entities in Sierra Leone, the non-performing loan (NPL) indicator exceeds the tolerable limit, which negatively impacts the profitability of banks. The destructive consequences of inflation are untold. For instance, the financial liberalization theory agrees that inflation results in macroeconomic disability. The aim of the study is to help optimize the local savings mobilization capacity of commercial banks in Sierra Leone, enabling them to efficiently survive in light of the challenges presented by the inflation trend. A secondary research design was employed in the study using both quantitative and qualitative systematic reviews. To complement the secondary data, a rapid assessment study was carried out with customers and officials of the Sierra Leone Rokel Commercial Bank and the Bank of Sierra Leone regarding issues of their likely behavior in light of changing financial intermediation variables such as the deposit rate of interest (DRI), lending rate of interest (LRI), Treasury Bill Rate (TBR), and foreign exchange rate (FER). Records on the savings pattern of customers were used to determine the Total Deposit Output Rate (TDOR). The coverage period is from the 2018 to 2023 financial year. The study revealed that inflation adversely affects the local funds mobilization efforts of commercial banks in Sierra Leone. The behavior of bank customers and the profit maximization behavior of commercial banks stand out as the two main causes. The evidence gathered indicates that during inflationary periods, commercial banks focus their investment funds on the foreign exchange market, limiting funds available for local investment through higher lending rates and selective credit control instruments.

Keywords: Banking industry, Foreign exchange rate, Inflation, Macro-economic disability, Savings mobilization, Sierra Leone Commercial Banks.

1. Introduction
The banking industry represents a major sector in the economy of Sierra Leone as reflected in the official records regarding the contribution of this sector to nation development. The banking system today comprises of more than thirteen commercial banks and four community banks which are strategically located within the country.

Alongside the operation of the commercial banking institutions, there exist fifty one non financial institutions which perform specialist function that complement the financial role of commercial banks, key examples include the National Cooperative Development bank, National Development Bank, First Discount House, Salpost Saving Bank and several micro-credit institutions.

To maintain status in a current dynamic competitive banking industry in Sierra Leone, commercial banks offer a wide range of modern financial services to customers at affordable prices, for instance, ATM, Internet automated facility and credit cards (mostly VISA Card) facilities, which are provided to ease access to funds by customers. Additionally, bank draft facilities are provided to customers in order to facilitate institutional transaction.

The Rokel Commercial Bank is a state owned financial institution (51% Government of Sierra Leone, 40% Public, & 9% Staff) that was established by the Sierra Leone Commercial Bank Act of 1973 to perform a range of financial services in pursuance of its vision and these include the following: To accept various types of deposits from customers, facilitate foreign transactions for customers through the operation of foreign currency accounts, invest in both local and foreign financial markets, safeguard valuable assets and documents for customers, advice customers on investment opportunities and to give out various types of loans to customers.

As of September 2013, Rokel Commercial Bank maintains a network of branches at the following locations: Freetown (Western Area), Makeni(North East Region), Bo, Bonthe and Moyamba (Southern Region), Kenema and Koidu (Eastern Region).

In 2023, RCB recorded own cash receipts of NLe602 million, with projections indicating steady growth: a modest increase to NLe628 million in 2024, followed by a more significant rise to NLe791 million in 2025. This gradual growth in cash receipts suggests that the bank is successfully expanding its customer base and enhancing its service offerings. These efforts are essential for the bank's long-term sustainability and its ability to compete in Sierra Leone's dynamic financial sector (Zainab Joaqué 2025).

Sierra Leone has experienced a sharp rise in inflation over the past three years, driven by a succession of external shocks and loose fiscal and monetary policies. Inflation increased from 18 percent in 2021 to 37 percent in 2022, before peaking at 56 percent end October 2023. It has since decreased to 36 percent as of May 2024, but remains elevated compared to peers. It also remains above the Bank of Sierra Leone's (BSL's) medium-term objective of single-digit inflation (IMF Nov2024).

Inflation and exchange rates are found to be key variables that are highly significant in influencing business profitability when measuring the relevance of Financial Soundness Indicators (FSIs) like Return on Equity (ROE) and Return on Asset (ROA). Zainab.joaqué 2025 investigated the factors driving inflation in Sierra Leone using the autoregressive distributed lag (ARDL) model. They showed that the exchange rate, output, fiscal balance, currency in circulation, and lending rate are the primary long-run drivers of inflation. In the short run, all variables except real Gross Domestic Product (RGDP) and the exchange rate had a major impact on inflation dynamics. Additional pressures to raise public sector wages, a weakening of the exchange rate, and higher than expected increases in food and fuel prices constitute the main risks to the inflation outlook. (2011 African Economic Outlook)

The IMF (2022) conducted a panel fixed effects regression to assess the long-term determinants of inflation in Sierra Leone and found that the country's long-term average inflation is mostly driven by monetary and exchange rate dynamics. In the short run, exchange rate depreciation and a terms of trade deterioration are associated with higher inflation, although their impacts are felt with a lag. The impact of changes in the monetary base in the ARDL model were ambiguous, while a monetary policy shock takes several quarters to feed through into inflation.

1.1. Problem Analysis

The economy in Sierra Leone is characterized by perpetual inflationary trend. Inflation is critical concerns for stable financial system in business entities.

As a result of inflation and poor financial performance of business entities, non-performing loan (NPL) indicator exceeds the tolerable limit which negatively impact profitability of banks. This also brought about high risks to the banking sector in areas pertaining to customers' loss of confidence, capital flights, closure of unprofitable banks and high unemployment (Jabbie and Jackson, 2020).

The destructive consequences of inflation are untold. For instance the financial liberalization theory agrees that inflation result to macro-economic disability. The theory of financial intermediation has proved that inflation limits the savings mobilization and loan extension capabilities of Commercial banks. In support of this statement, the studies of Hakan et al (2011) revealed that inflation resulted in higher lending interest rates. Higher lending interest rate limit commercial banks ability to mobilize savings. This is so because as lending rate increases, prime customers of commercial banks are discouraged from bringing more of their savings to the banks since they will be required to pay higher rates in terms of loan.

A number of studies hold the view that inflation stimulates local currency depreciation and higher exchange rate. Under such circumstances, the literature has confirmed that both investors and the banking institutions react negatively towards saving. For instance, Nadia (2024) revealed that when exchange rate increases, investors prefer to use their funds to buy foreign currency instead of making local bank deposits. Such tendencies result to capital fight.

Although scholars recognize the relationship between inflation and the savings mobilization potential of commercial banks, the literature is yet to provide evidence on this association.

1.2. Aim and Objectives of the Study

The aim of the study is to contribute in optimizing local savings mobilization capacity of commercial banks, in Sierra Leone that will enable them to efficiently survive in the light of the challenges presented by inflation trend.

To achieve this aim, the following objectives are pertinent to the study: (a) To identify possible areas of policy reforms appropriate for the survival of the Rokel commercial Bank. (b) To analyze the likely impact of inflation on the key determinants of the savings mobilization capacity of the Rokel Commercial Bank (c) To evaluate the likely effect of inflation on the total saving port folio of the Rokel commercial Bank. (d) To investigate the key determinants of the savings mobilization potentials of the Rokel commercial Bank

2. Literature Review

The financial sector channels funds into savings and from savings into investment. It is quite clear that both can have major implications for economic development. Historically, policies have aimed at influencing the allocation of resources (economic regulation) as well as at protecting lenders and savers against risky behaviour (prudential regulation). Hooley et al. (2021) in their analyses of the causes and effects of fiscal dominance over monetary policy in SSA, including Sierra Leone, found that lending by central banks to the government has on average a positive impact on inflation and leads to depreciation of the exchange rate.

Akaninyene et al (2018) studied Inflation and Deposit Mobilization in Deposit Money Banks in Nigeria using Multiple regression Ordinary Least Square (OLS) statistical tool to establish the like fit to the observed data and the degree of relationship that exist between variables. Findings reveals among others that there exist a significant and negative relationship amongst demand, savings and time deposit with inflation in Nigeria, and that interest rate impacted significantly and positively on saving and time deposit.

According to Choi, Smith and Boyd (1996), higher inflation can be linked to decrease in earnings that accrue to savers and investors in financial markets. Bruno and Easterly (1998) supports this assertion when they demonstrated that a many economies have suffered prolonged inflations of between 20 and 30 percent without severe negative results. Nonetheless, assuming the level of inflation goes beyond biting point which they estimated estimate to be about 40 percent, there is bound to be compelling and serious reduction in the general level of real activity. This agrees with the conclusion of Bullard and Keating(1995).

The IMF (2022) conducted a panel fixed effects regression to assess the long-term determinants of inflation in Sierra Leone and found that the country's long-term average inflation is mostly driven by monetary and exchange rate dynamics. In the short run, exchange rate depreciation and a terms of trade deterioration are associated with higher inflation, although their impacts are felt with a lag. The impact of changes in the monetary base in the ARDL model were ambiguous, while a monetary policy shock takes several quarters to feed through into inflation. Tarawalie and Kamara (2022) used an OLS technique to explore the link between inflation and economic growth and establish the threshold level of inflation in Sierra Leone. The findings indicated that a 10.3 percent inflation rate is the most favorable for growth.

Jackson et al (2020) used an unrestricted VAR to examine the relative benefits of the potential adoption of inflation targeting in Sierra Leone. The results indicated a weak relation between inflation and money supply in the short run. The authors argue that an IT framework is thus not a viable option for both the short and medium term.

Danladi (2020) used the cointegration and vector error correction techniques to investigate how changes in global commodities prices affected consumer pricing in Sierra Leone. The findings showed that the dynamics of the prices of rice, oil, and cocoa are key short- and long-term drivers of domestic consumer prices. Danlami et al. (2018) used time series data and ARDL model to examine the influence of interest rates on inflation in Sierra Leone. They found that interest rates had an inflationary effect on consumer prices over the long and short terms.

Korsu (2014) used an ARDL model to analyze the inflation effect of fiscal deficits and found that inflation is positively associated with money supply growth and exchange rate depreciation, while real GDP growth has a negative association with inflation.

Bangura et al. (2021) and Mansaray (2012) examined the pass-through effects of exchange rate fluctuations on consumer prices in Sierra Leone using a structural vector autoregression model (SVAR). The study revealed a large pass-through to consumer prices, indicating that exchange depreciation represents a substantial potential source of inflation in Sierra Leone.

Kalonji et al (2008) investigated the factors influencing inflation in Sierra Leone using a structural vector autoregression and found that depreciation of the nominal exchange rate, rising oil prices, and a rise in the money supply all contribute to domestic inflation.

Kovanen (2006) estimated cross-section and time-series regression to investigate pricing behaviors in Sierra Leone and discovered that product diversification and inflation uncertainty are key factors influencing price changes.

The need for more empirical studies to explain the behavior of financial institutions, notably commercial banks, is the premise that this study is embarked upon to investigate the determinants of the supply side intermediation performance in a bid to bring out how they behave in response to their effects.

3. Research Methodology

3.1. Research Design

Secondary research design was employed in the study using both quantitative and qualitative systematic reviews, which focused on numerical data for the quantitative and data from observation, interviews, or verbal interactions.

3.2. Data Collection Method

The desk survey method of data collection was employed using secondary data sourced from the official document of the Sierra Leone Rokel Commercial Bank, which included data on total savings mobilization, deposit from various classes of bank account, foreign currency, and domiciliary deposit.

To complement the secondary data, a rapid assessment study was carried out with customers and officials of the Sierra Leone Rokel Commercial Bank and the bank of Sierra Leone regarding issues of their likely behavior in the light of changing financial intermediation variables such as the deposit rate of interest (DRI), Lending rate of interest (LRI), Treasury bill rate (TBR), and foreign exchange rate (FER).

Records on the savings pattern of customers were used to determine the TDOR under banking policy in respect of LRI, DRI, TBR, FER, etc. The coverage period is from 2018 to 2023 financial year.

3.3. Model Specification

In order to evaluate the key determinants of the local savings mobilization of the Sierra Leone Rokel Commercial Bank (SLRCB), the Deposit – output Model was adopted as specified below.

$$TDOR = (Infl, DRI, TBR, LRI, FER, SIT) \quad (1)$$

Where

TDOR = *Total deposit output rate of RCBSL in the local market*, *Infl* = inflation, *DRI* = Deposit Rate of interest, *TBR* = Treasury bills Rate, *LRI* = Lending Rate of Interest, *FER* = Foreign exchange Rate,

STI = Socio – Political trend index

From equation (1) a conventional econometric state will lead to

$$TDOR = \beta_0 + \beta_1 InfI + \beta_2 DRI + \beta_3 TRB + \beta_4 LRI + \beta_5 FERI + \beta_6 STI + e \quad (2)$$

Where
B_0 = intercept, B_1 to β_6 are the coefficient of the explanatory variables and e = is the stochastic variable
In estimating the β coefficients, the log-linear squares were first attempted but preliminary results confirm that the TDOR and its regression are more linear than log linear. This important finding is consistent with the research of Alasia (2003) and Ezirin (2003).
The following expectations were hypothesized for the relationship between TDOR and its regressors.

a. A positive β_2 coefficient was hypothesized between TDOR and DRI. This is so because one can expect to act rational and profit oriented customers to deposit more of their funds with the bank as the DRI increases thereby increasing the TDOR.
b. A negative β_1 coefficient was hypothesized as the TDOR is expected to fall as a result of increase in inflation.
c. The β_3 coefficient was positively hypothesized because as one can expect more of bank deposit from profit oriented customers as the TBBR increase vice versa
d. A negative β_4 coefficient was speculated because as LRI increase rational investors are expected to be discouraged to make deposit as a result of higher investment cost.
e. B_5 coefficient was hypothesized negative, because the buying power of local investors declines during the period of higher foreign exchange rate as a result of lower TDOR vice versa.
f. B_6 coefficient was hypothesized positive, meaning TDOR increases as there is a stable socio- political trend and vice versa.

3.4. Procedure

To analyse the impact of inflation on the key determinants coefficient of saving mobilization of Rokel Commercial Bank and its spilling effect on TDOR, the following procedures were adopted:

a) A two linear least square estimated model was conducted between inflation and all the key determinants of TDOR
b) Product moment correlation coefficient was probed between inflation and all the key determinants of total saving mobilization.
c) A negative β coefficient was hypothesized between the key determinants TDQR and that of inflation which means that the variables are expected to take a decreasing trend as inflation increases and vice versa.

3.5. Data Analysis

Data was analyzed using the statistical package for social scientists version 16.0 (SPSS 16.0) and MS Excel.

4. Discussion of Results

The discussion was done in two fold (a) the impact of inflation on the key determinants of local savings mobilization capacity and (b) the key determinants of the local savings capability of the Rokel Commercial Bank (RCB SL LTD).

Table 1. The relationship between total deposit output rate (TDOR) and Deposit Rate of Interest (DRI) and Inflation

Regression Result on the Key Determinants of The Local Saving Mobilization of Rokel Commercial Bank			
	Unstandardized Coefficients		**Standardized Coefficients**
Model	**B**	**Std. Error**	**Beta**
(Constant)	1999.78	1.161725	
Total deposit output (TDOR)	0.0206	2.83E-03	1.077
Time Savings Domiciliary Accounts	-0.0584	3.21E-03	-0.327
Demand Deposit Ratio (DDR)	0.0135	4.42E-03	0.375
Deposit rate of Interest DRI)	0.0979	6.57E-03	0.467
Treasury Bearer Bills (TBR)	-0.0431	0	-0.442
Inflation Rate	-0.0584	0	-0.124
Foreign Exchange Rate	0.0217	0	0.413
Loans issued in Local Market	-0.0317	0	-1.440
Average deposit mobilized	0.0163	0	2.128

From Table 4.1, The regression standardized coefficient Beta result between deposit rate of interest (DRI) and inflation shows that a unit change in inflation would increase the deposit rate of interest by 46.7 % (Beta coefficient of 0.467 with a t value of 1.49. Hence, high inflation rate eroded the marginal propensity to save.

Normally it is expected that strong foreign currency should increase the saving mobilization activity of Rokel Commercial Bank Sierra Leone limited. The result obtained from the regression parameter affirms this expectation. From table 1, a Beta (β) coefficient of 0.0217 was obtained.

A striking feature of the the data presented in Table 1 is that inflation rate and total deposit output rate are negatively related as economic theory predicts. The results show that if inflation rate increases by 1 percent, total deposit output rate will reduce/ fall / decline by 0.06 percent. This finding clearly illustrates the fact that inflationary pressures within an economy always tend to erode the real value of money. Hence, people will be less likely to increase their savings and hence a depletion in the bank's ability to mobilize its savings portfolio.

Another important finding is that total deposit output rate and Deposit rate of interest are positively related as expected. Specifically, the results show that if the deposit rate of interest increases by 1 percent, Total deposit output rate will increase by 0.09 percent.

For scientific reasons, a variable or parameter will be deemed statistically insignificant if the standard error associated with the variable is equal to or less than the estimated coefficient. In our case, it could be observed that the regression results in Table 1 fall short for detailed analysis.

Granted that the data depicts the major determinants of savings mobilization at the Rokel Commercial Bank in Sierra Leone, four explanatory variables were analyzed as shown in Table 2. Of these, the Demand Deposit Ratio (DDR) and Total Deposit Output Rate (TDOR) were found to be statistically significant at both the 5% and 10% significant level. These means that policy makers should consider the Demand Deposit Ratio and Total Deposit Output in the design and implementation of policies that bolster savings at the Rokel Commercial Bank.

On the other hand, the Deposit Rate of Interest (DRI) and the Total Savings account were found to be statistically insignificant and hence not useful for policy purposes.

Table 2. Relationship between Foreign Exchange Rate and Inflation.

Regression esults on the impact of inflation on the key determinants of local savings mobilization of Rokel Commercial Bank								
	Standardized Coefficients	**t**	**Sig.**	**95% Confidence Interval for B**		**Correlations**		
Model	**Beta**			**Lower Bound**	**Upper Bound**	**Zero-order**	**Partial**	**Part**
Deposit rate of Interest DRI)	0.467	1.49	0.376	-7.4E-07	9.33E-07	0.809	0.830	0.056
Demand Deposit Ratio (DDR)	0.375	3.04	0.202	-4.3E-08	6.97E-08	-0.430	0.950	0.115
Time Savings Domiciliary Accounts	-0.327	-1.82	0.320	-4.7E-06	3.49E-06	0.814	-0.876	-0.069
Total deposit output	1.077	7.28	0.087	-1.5E-08	5.66E-08	0.973	0.991	0.275
Treasury Bearer Bills (TBR) 365 days	-0.442	.	.	-4.3E-08	-4.3E-08	0.522	-1	-0.059
Inflation Rate	-0.124	.	.	-0.0584	-0.0584	0.781	-1	-0.050
Foreign Exchange Rate	0.413	.	.	2.17E-08	2.17E-08	0.974	1	0.036
loans issued in Local Market	-1.440	.	.	-3.2E-08	-3.2E-08	0.796	-1	-0.092
Average deposit mobilized	2.128	.	.	1.63E-07	1.63E-07	0.973	1	0.158

By the interpretation, one can therefore suggest that lower foreign exchange rate is associated with higher intermediation activities of the Rokel commercial Bank in the local market. This implies that when the bank reduces foreign exchange rate, its customers react positively by refusing to go in for more withdrawals. According to respondents, at lower foreign exchange rate, customers deposit funds with the bank due to the reasonable interest rate.

Furthermore, discussion with bank officials indicate that the Rokel Commercial Bank prefers to trade in the foreign exchange market during the period of high interest rate and therefore small portion of funds are allocated for foreign exchange which will be enough to meet the demands of customers.

A standardized beta coefficient of 0.413 was obtained in respect of inflation foreign exchange rate interest. From this background, it is logical for someone to suggest that inflation tendencies increase the local saving mobilization of Rokel Commercial Bank through lower foreign exchange rate. Consequently, it was discovered that during the period of lower interest rate, the proportion of funds assigned to foreign market are lower than those allocated for foreign exchange.

Table 3. Relationship between Total Deposit Output, Foreign Exchange Rate and Inflation.

Table4.7 Coefficientsa					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Collinearity Statistics**
		Std. Error	Beta		Tolerance
Foreign Exchange Rate	3.74E-08	5.45E-08	0.712	0.685	0.019
Total deposit output	7.48E-09	1.9E-08	0.391	0.394	0.021
Inflation Rate	-0.06923	0.126575	-0.147	-0.547	0.280

The pattern of statistic in Table 3 shows a Beta standardize coefficient of -0.147. This result confirms the a-prior expectation which stated that higher exchange rate tends to give significant reduction to the local saving mobilization of the Rokel commercial Bank.

The regression result presented in Table 3 shows that exchange rate increase by 71% for any unit increase in inflation.

Viable discussion from bank officials revealed that foreign investment is attracted during higher exchange rate period. Hence foreign investors take advantage of the higher foreign exchange rate while the local investors are disadvantaged due to the diminishing real value of the Leone during inflationary period.

According to the international monetary Fund's (IMF) – Structural adjustment programme (SAP) package, third world nation would attract foreign investments and hence rapid economic growth through local currency depreciation/ higher exchange rate.

The study concludes that increase in the foreign exchange rates through direct foreign investment in the money market limits the local saving mobilization opportunities of Rokel Commercial bank in Sierra Leone.

5. Conclusions

From the results of this findings, the following conclusions could be made:

1. Inflation adversely affects the local funds mobilization efforts of the Rokel Commercial Bank Sierra Leone Limited. The two main reasons are the bank customers' behavior and the profit maximization behaviour of

commercial banks. The evidence gathered indicates that during inflationary period commercial banks focus their investment funds to the foreign exchange market, they limit funds available for local investment through higher lending rate and selective credit control instruments.

2. A negative values (-0.462894) was discovered between deposit rate of interest and local savings mobilization of the Rokel Commercial Bank. This finding was conformed to the a-prior expectation that speculated that as deposit rate of interest increase, Commercial Banks will mobilize local funds and vice versa. However, high inflation rate undermines the ability and motivation of customers to positively respond to higher interest rate.
3. It was also noticed that exchange rate and inflation move in the same direction and our regression result indicates that inflation is a determinant of exchange rate
4. Although inflation negatively (Beta value -0.089) affect the local saving mobilization of commercial Banks it may also increase local saving mobilization by influencing the movement of treasury bills rate in a positive direction that can motivate local investors provided that they are given preferential treatment.
5. The Rokel commercial Bank Sierra Leone limited exhibits conservative funds mobilization behaviour during non- inflationary periods. Two reasons for this behaviour could be attributed to (a) the low returns from foreign exchange market during non- inflationary periods and they therefore have to resort to the local market as the last means of mobilizing funds through higher deposit rate of interest. (b) the bank's focus on the foreign exchange market which yields higher returns during inflationary period.
6. A standardized Beta coefficient of 0.712 was estimated for the foreign Exchange rate variables meaning, exchange rate is a strong explanatory variable for the key determinant of total savings mobilization of the Rokel Commercial bank Sierra Leone Limited.
7. Based on this study, inflation enhances the foreign saving mobilization capacity of the Rokel Commercial Bank Sierra Leone Limited.

6. Recommendations

1. One way of attracting and rating high value customers is for the Rokel Commercial Bank Sierra Leone Limited (RCBSL) to provide a variety of improved and affordable modern banking facilities to customers. Through a scientific market segmentation survey, the bank will be able to identify the various banking needs and wants of its high-value customers both international and local market. Modern banking facilities that attract prospective investor includes the following
2. To provide a policy that could expand the savings mobilization base/scope of the bank which encourages customers to stay with the bank. This could be achieved through the provision of wide range of deposit facilities. This policy should provide convenience for both local and foreign customers.
3. The bank should intensify its marketing strategies, especially in the area of banking technology (e-Banking, ATM, Accounts management etc) and marketing research with a view of identifying appropriate banking needs and various classes of market segment being served.
4. RCBSL provides training facilities for its staff on market related to modern banking system.
5. The top management of RCBSL should priorities research and development unit of the bank during the preparation of their annual budget.

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