


Effects Of The Exchange Rate Volatility On The Financial Performance Of Commercial Banks In Kenya



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Abstract

The question of whether there exists a relationship between the volatility of exchange rates and the performance of commercial banks in Kenya was the subject of this research. The general objective of this research was to establish the effects of change in exchange rates on the financial performance of financial institutions. Banks Foreign exchange risk management is complex and banks will go to great lengths to shield themselves from any loss that may result from the changes in exchange rates. Many of the standard tools used to hedge currency risk, such as futures, swaps and options contracts, are either not available in emerging markets or, where available, are traded in illiquid and inefficient markets, making the range of products available extremely limited. This has a great impact on the performance of financial institutions. The research adopted a descriptive research concentration on 43 banks that were operating in Kenya. The study used secondary data collected from the banks' consolidated financial statements as well as Central Bank of Kenya offices. The study also used Statistical Package for Social Sciences Version 21.0 to aid in data analysis. The research findings indicated that there was a weak positive relationship between exchange rate volatility and the performance of commercial banks. The findings also indicated that there was a high volatility of the KES against the USD over the study period which negatively affected the performance of banks. This also had an effect on the stock market performance. The findings also established that the KES had a declining trend against the USD over the study period. The study recommended that since there are several economic implications of these results for both business policy and public policy the relevant authorities such as CBK should come up with adequately measures to safeguard the value of the domestic currency hence ensuring that the exchange rate volatility is kept at the minimum levels.

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