

EFFECT OF EXCHANGE RATE VOLATILITY ON PERFORMANCE OF
COMMERCIAL BANKS IN EAST AFRICA COMMUNITY

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other university or any other award.


Signed 

Date 26/6/2023

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I confirm that the work reported in this thesis was carried out by the candidate under my supervision

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ABSTRACT

The performance of commercial banks indicates their capacity to generate profits sustainably. As a sector, commercial banking in Kenya has been experiencing fluctuating performance, which could be detrimental to their survival. The current study will seek to determine the effect of the risk associated with exchange rate volatility on the profitability of commercial banks in the East African Community. This investigation will specifically seek to establish the level of exchange rate volatility hence estimating the risk; and also analyse the effect of exchange rate volatility on commercial banks' performance. The study was grounded on the monetary theory with sticky prices to develop the volatility and foreign exchange exposure theory in determining how risk associated with exchange rate volatility affects the profitability of commercial banks in East Africa. It will employ explanatory research design. The study will cover the period 1990 to 2020 and utilized time series data sourced from Central Banks and World Bank. The study employed a panel estimation procedure, since the data was collected in panel series. The study concludes that volatility exists as a risk to the profitability of commercial banks in East African Community. Using the coefficient of variation, the study found that Uganda performed better than Tanzania. As a result, Tanzania and Kenya saw greater currency rate volatility than Uganda. Further the results showed that the volatility influenced commercial banks performance proxied by Return on Assets for the period between 2000 to 2020. The relationship was however found to be weak and negative.