

ABSTRACT

The major problem facing forex bureaus is a performance drop trend which has fallen to just 77 in 2017 from 80 in 2015 according to the report on financial sectors. Forex bureaus recorded an 80% drop in their total earnings by the end of the 2012 financial year as a result of the changes in regulations raising their operating expenses as well as the minimum capital requirement. By the end of the same year, their profits had plummeted to mere Ksh. 27 million from the Ksh. 136 million recorded the previous year. The purpose of the study was to assess the relationship between currency spread determinants and financial performance of foreign exchange bureaus in Kenya. The specific objectives were to; determine the relationship of market volatility on the financial performance of foreign exchange bureaus, establish the relationship of interest rates on the financial performance of foreign exchange bureaus, determine the relationship of Gross Domestic Product on the financial performance of foreign exchange bureaus and to establish the relationship of inflation on the financial performance of foreign exchange bureaus. A correlational research design was employed, with all the foreign exchange bureaus listed. The study was hinged on Purchasing Power and Balance of Payment Theories. The target population for the study was 76 licensed foreign exchange bureaus in the country and used a census of all the 76 forex exchange bureaus as the sample. The study made use of annual secondary data. A multiple regression analysis was used to analyse the relationship between the variables and ANOVA was used to establish the significance and fitness of the model. The findings showed that a change in one standard deviation in market volatility resulted in a change 0.091 standard deviation in profitability of EB; a change in one standard deviation in interest rates resulted in a change 0.097 standard deviation in profitability of EB; a change in one standard deviation in GDP growth rate resulted in a change -0.004 standard deviation in profitability of EB and a change in one standard deviation in inflation rate resulted in a change 0.091 standard deviation in profitability of EB. The study conclusions were borrowers or lenders needed to assess bureaus tolerance for variability in earnings before choosing a method for mitigating currency risk and adopt a strategy for managing currency risk consistent with the bureaus overall risk policy also forex bureaus should explore avenues to enhance capacities within them for managing foreign exchange risk; management should opt for cost effective strategies for more significant positive relationship between foreign exchange risk management and financial performance. The study suggested that for extension of the study by replicating this research to similar developing nations with comparative country-to-country studies.