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FACTORS AFFECTING FOREX TRANSACTION PERFORMANCE OF ETHIOPIAN PRIVATE BANKS

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ABSTRACT

Despite the registered growth achieved by private banks, Ethiopian banking performance is lagging behind in many dimensions. One of the major roles that private banks needed to be involved is the foreign operation particularly on the foreign exchange performance. So that studying their performance on foreign exchange market remain an important area. The paper has a general objective of measuring impacts of the capital, bank size, branch number and distribution and experience of the private banks on the foreign exchange performance, so as to identify which factor most affect. Simple linear regression method was used to analyse the secondary time series data obtained from the data base of NBE. The study tried to incorporate five independent variables; capital, bank size, branch distribution in Addis Ababa and in the region, and experience with the dependent variable foreign exchange transaction of the banks. The researcher founds that only capital is positively related and statistically significant variable in determining the Forex transaction performance of Ethiopian commercial banks. Inlay the researcher recommends, be a private or public banks in Ethiopia, in order to increase their foreign exchange transaction performance, they should increase their capital amount by attracting more investment towards their banks.

Key Words: Foreign Exchange Transaction, private banks, branch network, capital, experience, capital

Introduction

Banking in Ethiopia is a public-private enterprise and is dominated the public owned commercial banks namely Commercial Bank of Ethiopia and Development Bank of Ethiopia.

The banking sector in Ethiopia was opened for private investors since the 90s. Some 16 private banks have since established and have been a significant engine for the growing economy.

Commercial Bank of Ethiopia is the leading banking company in Ethiopia. CBE is in the lead in terms of assets, deposits, capital, customer base and branch network and has currently 1169 branches, spanning the entire breadth and width of the country. In addition to commercial bank of Ethiopia Development bank of Ethiopia is one of the leading banks, which both are government owned banks.

Statement of the problem

Private Banks are very vital components of the banking industry in bringing about the change expected in the national economy. One of the major role that private banks needed to be involved is the foreign operation particularly on the foreign exchange performance. So that studying their performance on foreign exchange market remain an important area. That is why it is becoming the focus area to be studied and many researches had been conducted in the developed and developing countries. Research studies conducted on the Forex market in developing countries like China, Ghana and Nigeria showed that the foreign exchange market performance of banks is very weak and not according to the standard set by international bodies. In addition these studies were conducted from the point view of the national bank intervention, which is the researchers' independent variable. But considering the National or central bank intervention only is not sufficient to study the overall performance of the private banks, rather looking in to impact of other important variable like that of the bank size, branch size and distribution and experience of the bank, which are not incorporated by those researcher. In addition previous studies done in Ethiopia on foreign exchange performance never concerned on the relationship of the ***Forex performance (Dependent Variable)*** and the ***independent variables bank size, branch size and distribution and experience of the bank. There for the aim of this research study is to identify the factors that affect performance of the private banks on foreign exchange using these independent variables which were not considered by other researchers before.***

For this reason the research paper has the following research questions, to be answered from the test of the variance.

1. Is there a difference in foreign exchange performance (The total amount of Hard currency in a report period)

2. Is there a significant relationship between banks' foreign exchange performance in Ethiopia and the total capital they do have?
3. Which of the factor is most significant in having impact on foreign exchange performance of the private banks of Ethiopia.

Objective of the study

The general objective of this paper is to measure impacts of the capital, bank size, branch number and distribution and experience of the private banks on the foreign exchange performance, so as to identify which factor most affect.

Specific objectives

This term paper has three specific objectives; each of the objectives are designed so as

- ✓ To compare the foreign exchange performance of those private banks with that of public commercial banks of the country.
- ✓ To Identify wither there is the relationship between the dependent variable (Forex performance) and the independent variables (Capital of the banks, bank size, branch number and distribution and experience).
- ✓ To measure impacts of the bank size (in the form of total asset) on the achievement of the bank in producing the foreign currency.

Significance of the Study

Studying an issue of foreign exchange performance and related problems has a tremendous importance for the country like Ethiopia, which is found in a Hard currency crisis. Primarily it is very important to compare the difference exists between the foreign exchange transaction of the public banks and private commercial banks in the country. It will be very significant to identify and prioritize the factors which are more related in performing or generating the hard currency. Comparing two categories of banks and identifying factors affecting the performance of less performers can be considered as an important finding for the foreign exchange bureaux of each banks. More over finding of this research paper can help potential researchers of the foreign exchange market of Ethiopia as a literature. More over the hard currency or the foreign currency issue is very sensitive in Ethiopia, therefore any finding or output of the research studies like this is very vital by any measurement.

Literature review

Foreign Exchange Transactions

Foreign Exchange Transactions Foreign exchange dealing is a business in which foreign currency is the commodity. It was seen earlier that foreign currency is not a legal tender. The US dollar cannot be used for settlement of debts in India; nevertheless, it has value. The value of US dollar is like the value of any other commodity. Therefore, the foreign currency can be considered as the commodity in foreign exchange dealings.

Purchase and Sale transactions any trading has two aspects (i) Purchase (ii) sale. A trader has to purchase goods from his suppliers which he sells to his customers. Likewise the bank (which is authorized to deal in foreign exchange) purchases as well as sells its commodity the foreign currency. Two points need be constantly kept in mind while talking of a foreign exchange transaction: 1. The transaction is always talked of from the banks point of view 2. The item referred to is the foreign currency. Therefore when we say a purchase we implied that (i) the bank has purchased (ii) it has purchased foreign currency Similarly, when we sale a sale, we imply that (i) the bank has sold (ii) it has sold foreign currency. In a purchase transaction the bank acquired foreign currency and parts with home currency. In a sale transaction the bank parts with foreign currency and acquires home currency.

Theoretical frame work

As clearly observed in the Introduction part of this paper, the foreign exchange performance of banks can be directly related with the amount total capital that the banks have. The total capita of the bank shows how wider the bank can do business and operate widely; it can show the ability of the bank to engage in the international as well as domestic business. Which in turn can imply the extent to which the bank is dealing with the foreign currency. Secondly the number of branches of the bank can have a very important role for the bank to perform well or not in the Forex market, that means the more the bank has the branch its foreign exchange performance will probably increase. Thirty, in Ethiopian practical case and according to researches done, in average 60% of the total branches of the banks are found in the capital city, where most of the countries business deal is made. Therefore it will better to measure the relationship or impact of the branch distribution of each bank with that of its performance. And finally, while measuring the impact of a performance by any means it is very important to look in to the experience of these banks, through the years of their establishment.

As described in earlier portions of this paper, the researcher there fore can construct the following relationship of the variables.

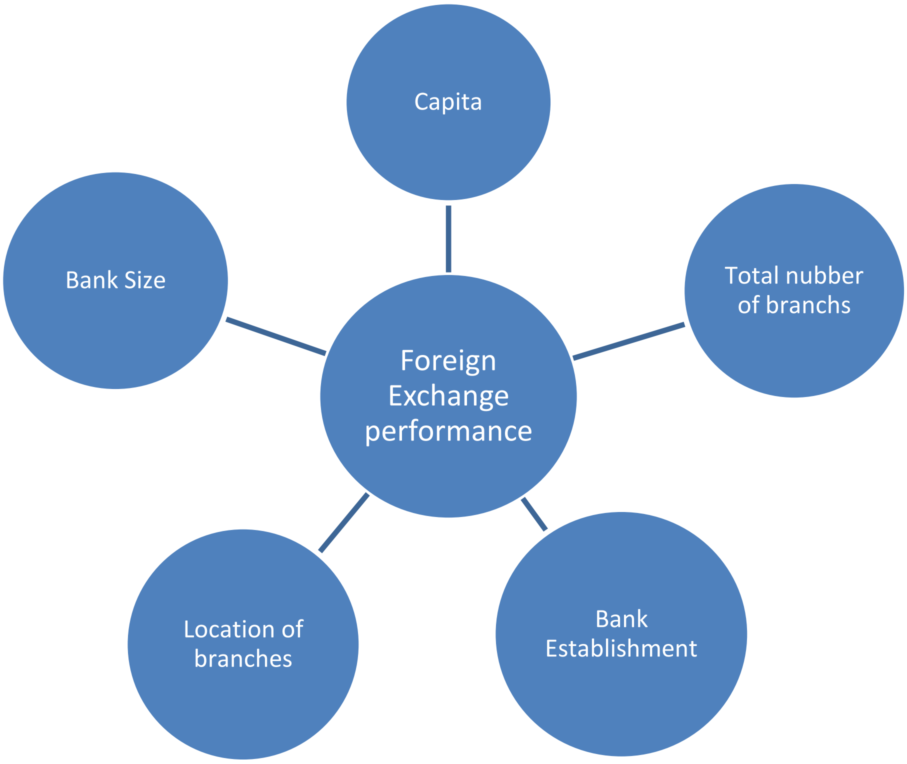

Diagram 1: Foreign exchange performance frame work

According to the Ethiopian national bank's guild line, in case the foreign exchange was acquired for travel abroad, the unspent foreign exchange should be surrendered within ninety days from the date of return to Ethiopia when the foreign exchange is in the form of foreign currency notes and coins and within 90 days in case of travellers cheques. Similarly, if a resident required foreign exchange for an approved purpose, he should obtain from and authorized dealer. Commercial Banks are the major players in the market. They buy and sell currencies for their clients. They may also operate on their own. When a bank enters a market to correct excess or sale or purchase position in a foreign currency arising from its various deals with its customers, it is said to do a cover operation. For transactions involving large volumes, banks may deal directly among themselves. For smaller transactions, the intermediation of foreign exchange bureau may be sought. Exchange bureau facilitate deal banks. In the absence of exchange bureau, banks have to contact each other for quotes. If there are 15 banks at a centre, for obtaining the best quote for a single currency, a dealer may have to contact 14 banks. Exchange bureau ensure that the most favourable quotation is obtained and at low cost in terms of time and money (Foreign Exchange Bureaux Directives No. Fxd/03/1996)

Empirical Review

Impact of Foreign Exchange and Remittances on Ethiopian development

For developing countries like Ethiopia the foreign exchange performance or market is play a vital role for the development according to Tom Keatinge, 2014, For any developing country, remittances can be a critical tool, assisting not only with local, grass-roots development but also contributing significantly to a country's entire economic health. In part, remittances can build foreign currency reserves, address balance of payments deficits, and enable investment in projects involving infrastructure, health, sanitation, and education. Ethiopia benefits tremendously from the support of its Diaspora, particularly from its rural population who have migrated in search of temporary employment in the Middle East.

Ethiopia's foreign reserve position is lower than it should be, with the country's foreign exchange control regime exacerbating this situation as reserves are drawn down to cover the widening current account deficit.

Ethiopia's Current Foreign Exchange Regime

Ethiopia maintains a number of foreign exchange restrictions on payments and transfers that are not consistent with international standards, as determined by the IMF. For example, the Ethiopian birr is not freely convertible because the exchange rates are set by the government. Additionally, Ethiopia limits foreign currency inflows and outflows and the amounts that local and foreign individuals and corporations can hold. These restrictions result in foreign exchange rate appreciation, leading to a widening of the current account deficit. This deficit is further driven upward by the significant imbalance between public capital inflows and moribund export growth, which has been stifled by the strength of the local currency and underdevelopment of private sector banking and manufacturing. In turn, this reduces real income for many workers, with a resulting negative effect on consumer spending. This lack of available foreign reserves is compounded by the government's rigorous control of foreign exchange movement into and out of the country. The government is pursuing a policy that artificially inflates the value of the birr and hinders investment, economic growth, and development. This is illustrated in comments made in June 2013 by **Donald Yamamoto,** acting assistant secretary of the U.S. Department of State's Bureau of African Affairs, when he noted that a shortage of foreign exchange 3 discourages U.S. firms and foreign investors from contributing to the Ethiopian economy.

Foreign Exchange Directives of Ethiopia

The micro management and operations function of foreign exchange transactions have been transferred from National Bank of Ethiopia to commercial banks via directive No. FXD/07/1998 issued on August 31, 1998.

Authority to Sell Foreign Exchange in Ethiopia

According to the national bank of Ethiopia operation of foreign exchange bureaux directives No. FXD/03/1996, The National Bank of Ethiopia shall empower in writing authorized commercial banks to effect through their Forex bureau sales of foreign currency for services specified. Holiday travel expense ,Business travel expense Medical Expense Payment for publications, advertisement and others A Forex bureau may sell foreign exchange to professionals, public organizations, exporters, importers, industrialists, mining, construction, and/or export-oriented agricultural activities required for: - purchase of publications, periodicals, journals etc and - payment for advertisement, examination fee etc. However, payment of same shall be made to institutions abroad through commercial Banks.

Methodology- Research design:

The researcher will try to implement the inferential statistics concepts. That means this paper resembles to the quantitative type of research. For that matter, I will use the SPSS to generate an out put the simple linear regression. The researcher took a simple arithmetic mean when comparing the performance of the two categories of banks, therefore I could not be able to use the ANOVA- the T test as the number of total public banks and total private banks in Ethiopia are not equal.

Population and sampling techniques'

The broader frame of the data the researcher used was from the data base of the National Bank of Ethiopia. A comprehensive and abundant data from there can provide the necessary data. For that matter the whole commercial banks in the country was taken as the population. There are 3 public commercial banks and 16 private commercial banks. But the researcher took only 2 public banks and all private commercial banks. The reason why1 bank was excluded was, the development bank of Ethiopia, which is the public bank does not have any foreign exchange transaction data.

Data Type and Source

To study the factors those affects the foreign exchange performance of private banks in Ethiopia, the data I will take is all secondary. These secondary data will represent the capital amount; the number of branches and their distribution, the year of establishment to represent the experience that banks have and the bank size. Even though there were a 30 year data for old aged banks, at the web site, some banks were not established during those years, there for its good to use the data of banks of the previous 5 years so as to take the average of these five year data would be reasonably good.

The time serious data from the annual reports of the national banks of Ethiopia were taken, basically to summarize and determine average performance of the foreign exchange transaction. While determining the Forex transaction amount of each bank both the foreign exchange sold amount and the foreign exchange bought amounts were added.

Data Presentation, interpretation and Analysis

The data analysis of this research paper is presented by putting the output from the SPSS. The researcher tried to create a relationship between the dependent variable, foreign exchange transaction and the dependent variables of this research study Capital, branch network in Addis Ababa, branch network in the region, experience and bank size.

Data presentation

Performance comparison of public and private banks in Ethiopia

The data presented below showed the excel output in order to compare the aggregate performance of the two categories of banks in Ethiopia: Public banks and private banks. The total of public bank performance is the sum and average of capita, branches, experience, total assets and foreign exchange transaction volume of two banks. Whereas the private banks performance is the sum and average of 16 banks.

Table 1: Performance comparison of public and private banks in Ethiopia (In Millions)

Item	**Capital**	**Branch in A.A.**	**Branch in Regions**	**Experience**	**total Asset**	**Hard currency Performance**
Total of Public Banks	11447.6	243	1097	160	391.6	**97.88375**
Average of Public Banks	**5723.8**	**121.5**	**548.5**	**80**	**195.8**	48.94188

over all percentage	84%	72%	85%	87%	97%	36%
Total of private commercial banks	17822.9	773	1564	185	108.358	**171.1212**
Average of Private banks	**1113.931**	**48.3125**	**97.75**	**11.5625**	**6.772375**	10.69508
over all percentage	16%	28%	15%	13%	3%	64%

Source: Excel out put

As shown from the above table the average public banks performance of the hard currency (foreign exchange transaction) is USD 48,941,880 and USD 10,695,080 is the average foreign currency transaction of the private banks found in Ethiopia. Even though the overall foreign exchange transaction performance of the private banks share (64%) is greater than the public banks' share (34%), compared to the per bank performance of the foreign exchange transaction private banks perform 5 times lesser than the public banks.

Identifying the existence of deference in average foreign exchange transaction performance between two categories of banks in Ethiopia can be better lustrated and supported based on the data which is going to be presented and analysed using variables those may affect the Forex performance of banks. Therefore the next port of this research study presents the analysis part so as to determine or identify factors affecting the foreign exchange performance of banks in Ethiopia.

Factors Affecting the Foreign Exchange Performance

Table 2 . Secondary data of all banks in Ethiopia

			Branch Network				
S.No.	**Bank type**	Capital	Branch in A.A.	Branch in Regions	Experience	Bank Size	Hard currency Performance
1	**Commercial Bank of**	10,716.40	192	977	53	384	**93.44**
2	**Construction & Business bank**	731.2	51	120	63	7.6	**4.45**
3	**Development Bank of**	2,269.20	1	32	107	49.1	**0.00**

4	**Awash International Bank**	2,540.30	112	207	22	20.028	**19.07**
5	**Dashen Bank**	2,377.20	88	164	22	19.75	**44.07**
6	**Bank of Abyssinia**	1,594.30	72	136	20	10.16	**10.39**
7	**Wegagen Bank**	2,061.90	56	119	19	10.39	**12.65**
8	**United Bank**	1,475.00	66	128	18	9.97	**28.17**
9	**Nib International Bank**	1,925.30	65	115	17	9.14	**38.07**
10	**Cooperative Bank of**	1,058.70	35	141	11	6.53	**1.25**
11	**Lion International Bank**	601.6	38	88	10	2.94	**4.25**
12	**Oromia International Bank**	771.7	49	152	8	3.91	**3.43**
13	**Zemen Bank**	650	2	7	7	3.25	**2.98**
14	**Buna International Bank**	559.3	35	82	7	1.49	**1.22**
15	**Berhan International Bank**	622.3	39	71	6	2.2	**0.68**
16	**Abay Bank**	591	19	89	6	4.6	**1.84**
17	**Addis International Bank**	399.6	22	32	5	1.3	**1.35**
18	**Debub Global Bank**	202.6	9	22	4	0.5	**0.74**
19	**Enat Bank**	392.1	66	11	3	2.2	**0.97**

Source: compiled secondary data from attached Annexes.

Even though there are 19 banks in Ethiopia for the sake of this research paper three of them were one of them excluded, Development bank of Ethiopia. The reason is, it doesn't have any foreign exchange transaction. Therefore we took 18 banks and regress data.

Result Presentation interpretation

The data we collected were basically a time series data for the foreign exchange transaction, which is a five year data and these data were taken to their average. The researcher used to regress the Forex transaction data of each banks with the respective independent variables. But in order to measure the relationship there was a need to confirm the data was normal and homogenous.

The table under shows how the data was normally distributed Table

Data Homogeneity

Table 4 covariance

Model			Bank Size	Branch in AA	experience	Branch in region	Capital
	Co-variances	Bank Size	.279	-.003	-.059	.008	-.384
		Branch in AA	-.003	.085	.008	-.053	-.012
		Experience	-.059	.008	.107	-.034	.041
		Branch in region	.008	-.053	-.034	.112	-.057
		Capital	-.384	-.012	.041	-.057	.655

a. Dependent Variable: Forex transaction

The measure of homogeneity of the variance among the data in each variable the research output confirmed that as there is no significant difference in variance of the variables.

Variable Relationship

In measuring the relationship exists between variables selected SPSS out put provide the following figure;

Table 5 Correlations

		Forex Transaction	Capital	Branch in AA	Branch in region	experience	Bank Size
Pearson Correlation	Forex transaction	1.000					
	Capital	.890	1.000				
	Branch in AA	.585	.663	1.000			
	Branch in region	.659	.788	.776	1.000		
	experience	.722	.716	.534	.704	1.000	
	Bank Size	.849	.965	.647	.774	.755	1.000

As shown in the above table the highest correlation coefficient exists between capital of the bank and the bank size. But there was not a need to avoid the either of the variable because only the variable capital is statistically significant, while the bank size was not statistically significant to be a determining factor of the foreign exchange transaction.

Importance of variables

In order to well explaining the foreign exchange transaction capital of the banks has the most important role. The following table shows how much the five independent variables are so important in explaining the independent variable, is the foreign exchange transaction performance of the banks.

Table 7 Coefficients

Model		Un standardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-5.110	2.003		-2.551	.025
	Capital	2.029	.809	1.198	2.508	.028
	Branch in AA	.128	.291	.084	.441	.667
	Branch in region	-.361	.335	-.263	-1.079	.302
	Experience	.490	.327	.287	1.496	.161
	Bank Size	-.406	.528	-.375	-.770	.456

Dependent Variable: Forex transaction

As the it is observed in the table above Forex transaction is highly related with the capitals of the bank than branch distribution (network), experiences of the banks and the bank size (Total Asset of the Banks).

The result showed that branch network in Addis Ababa, Branch network in the regions and the bank size have a negative relationship with the foreign transaction of Ethiopian commercial banks. Whereas capital of the banks and experience the banks have a positive relationship with the performance of foreign exchange transactions.

Even though the experience of commercial banks of Ethiopia has a positive relationship with that of the foreign exchange performance or transaction of the banks, the result showed insignificant positive relationship. There for according to the output commercial banks' foreign exchange transaction is positively affected by the capitals of the banks and also it has a significant p value with 0.028.

Therefore based on the SPSS result, the relationship between variables can be established as model of the research paper.

$Fx_{t+1} = 2.029(Ca_t) + 0.128(BA_t) + 0.49(Exp_t) – 0.361(BR_t) – 0.406(BS_t)$

Where:-

Fx_{t+1} = the foreign exchange transaction performance of the year t+1.

Ca_t = capital of the bank at year t.

BA_t = branch network distribution of the bank at year t.

Exp_t= experience of the bank at year t.

BR_t= branch network distribution of the bank at year t.

BS_t= bank size (total Asset of the bank) at year t.

Implication of the Relationship:

A 1 birr investment as a capital in the bank will result a 2.029 USD or a increasing the branch in Addis Ababa will increase the banks foreign currency amount by 0.128 times or a 1 year experience of the commercial banks in Ethiopia will increase the foreign exchange transaction amount by 0.49 on the other hand expanding the commercial banks branch in the region reduces the foreign exchange transaction performance of the banks by 0.361 or an increase in the total asset of the commercial banks in Ethiopia reduces the foreign exchange transaction amount by 0.406. But there was no statistically significant evidence found except for the variable capital.

But all variables except the capital are statistically insignificant meaning the p value of those variables remain greater than 0.05, therefore there was no need tp report these variables as a determinant factor of the foreign exchange transaction performance of banks commercial banks in Ethiopia.

So that, the final relationship that can be created using the variable capital is as follows;

$Fx_{t+1} = 2.029(Ca_t)$.

Where:-

Fx_{t+1} = the foreign exchange transaction performance of the year t+1.

Ca_t = capital of the bank at year t.

Result Interpretation

As presented in the result presentation section of this paper, the foreign exchange transaction performance of commercial banks in Ethiopia Has a direct relationship with **Capital of the banks, experience of the bank and branch network in Addis Ababa.** And the result also showed that there is a negative relationship between the foreign exchange transaction performance of Ethiopian commercial banks and **branch network in the regions and the bank size** with insignificant probability value greater than 0.05.

There for there is no evidence found in this research study that support commercial banks of Ethiopia Foreign exchange performance had been affected by four variables of the researcher, The branch network distribution in Addis Ababa, the branch distribution network of those banks in the region , the experience they acquired since the time of their establishment and the bank size

But from the SPSS output, the banks' capital is the only variable which has a positive relationship with foreign exchange transaction of banks with a significant probability value of 0.028. this result of the paper is also supported by researchers like Tibebe Mulugeta , 2015 on his paper Determinants of profitability of Banks in Ethiopia.

New entrants to the market should consider to enter the market with high capital and strategy to efficiency in management. It supports national banks earlier advice of commercial banks to increase their capital to above two billion birr for existing banks and proclamation to increase of the requirements of initial capital for new entrants. This study also recommend the existing banks to increase their capital.

Capital of the banks as the determinant factor of Forex Transaction

The reduction in the capital of commercial banks increment or reduction can be the determinant factor in Ethiopia, similar studies in developing country supports our finding. Eg Blaise Gadanecz, Aaron Mehrotra et'al 2014 while explaining the reduction of bank's capital reduction in the form of central banks order of deposit in the national reserve; deposits at the central bank has the first-order effect of reducing commercial bank deposits. Not only can such financing mitigate the expansionary effect of capital inflows, it will also obviate the need for the central bank to issue interest bearing liabilities and expose its balance sheet to potential losses.4 Part of the central bank's financing gap could also be met by increasing the required reserve ratio on banks. Depending on how required reserves are remunerated, however, this might weaken the banking system's profitability considerably. Some of the intervention could also take place off balance sheet, in the form of FX swaps, which can insulate domestic monetary variables – albeit temporarily – from FX intervention.

Blaise Gadanecz **(2014) highlighted the importance of the banks' capital position in affecting the relationship between securities holdings and lending, to explain the** sterilised FX intervention to resist exchange rate appreciation has on banks' balance sheets. It was started by reviewing the size and the composition of banking system balance sheets in **EMEs.** In the core part of the paper, the researchers empirically investigate the relationship between banks' holdings of liquid securities and their lending.

Capital for FX transactions

A research done by office of the supplement of financial institution in Canada; Internal Capital Adequacy Assessment Process and stress testing program, a bank should assess the potential for material loss arising from its exposure to FX settlement (or 'principal') risk. A bank's internal capital target should reflect this exposure, as appropriate.

Key Considerations

A bank's analysis of its Internal Capital Adequacy Assessment Process (ICAAP) and stress testing program should address all FX settlement-related risks, including those related to operational risk. FX settlement risk

As part of its ICAAP and stress testing program, a bank should assess the potential for material loss arising from its exposure to FX settlement risk – which is distinct from its exposure to pre-settlement counterparty credit risk.

More specifically, when considering its internal capital needs related to operational risk, a bank should assess its exposure to material loss arising from counterparty non-performance in the settlement of FX trades outside of payment-versus-payment settlement arrangements. A bank's assessment should reflect the accurate identification and measurement of its exposure to FX settlement risk, and should also consider the bank's existing risk mitigation practices and internal controls, and the risks inherent in payments systems used to settle FX trades. The assessment should be conditioned by the bank's own historical loss experience and, owing to the remoteness of such losses, by external loss data where practicable. Moreover, the assessment should incorporate stress-testing to the extent possible, as a means of estimating potential loss arising from non-PvP (payment versus payment) FX settlement under a variety of exceptional, yet plausible, risk scenarios.

Given the level of potential loss identified in the assessment, a bank would be expected to implement a plan of action to address this exposure as needed. To some extent, this exposure has been captured under Pillar 1. However, banks still need to assess this risk through their ICAAP and stress testing. If the residual risk (not covered in Pillar 1) is deemed material, OSFI expects banks to capitalize it under their ICAAP framework. Moreover, a bank is expected to review its FX settlement risk profile on a regular basis, including whether size of potential loss, use of risk mitigation techniques and internal control practices combine to produce a result that is consistent with its overall risk appetite, and whether further adjustments to its FX settlement risk management strategy are necessary.

Conclusion

Based on the observed results of the research study, the researcher could draw the following conclusion on the foreign exchange transactions of Ethiopian public and private and public banks. The research study took five dependent variables and one independent variable, namely capital of the banks, branch distribution of these banks throughout the country, the experience that these banks have, and the total assets of the banks as the explaining variable of the foreign exchange transaction performance of the banks as a dependent variable. As the first objective of the research study, it tried to compare the overall performance of foreign exchange performance of both categories of banks. While comparing there was a difference between individual private and individual public banks' performance of the foreign exchange transaction. A 1 birr investment as a capital in the bank will result a 2.029 USD or a increasing the branch in Addis Ababa will increase the banks foreign currency amount by 0.128 times or a 1 year experience of the commercial banks in Ethiopia will increase the foreign exchange transaction amount by 0.49 on the other hand expanding the commercial banks branch in the region reduces the foreign exchange transaction performance of the banks by 0.361 or an increase in the total asset of the commercial banks in Ethiopia reduces the foreign exchange transaction amount by 0.406. But there was no statistically significant evidence found except for the variable capital. The research found capital, bank distribution in Addis Ababa and experience of these banks remain important factors, in orderly manner, in determining the foreign exchange transactions of banks in Ethiopia The research study found bank branch distribution in the regions and bank size remain least important factors in determining or explaining the foreign exchange performance of commercial banks in Ethiopia. The study found that capital and experiences of the banks have appositive relationship with that of the foreign exchange performance of the banks in Ethiopia where as the other three determinant factors; bank branch distribution in Addis Ababa, bank branch distribution in the regions and bank size are negatively related to the foreign exchange performance of the banks in Ethiopia. The study found that only capita is statistically significant in the model and positively affect the foreign exchange transaction performance of Ethiopian banks

Recommendation

Based on the result found and the conclusion, the researcher recommends the following: Wither private or public banks in Ethiopia, in order to increase their foreign exchange transaction performance; they should increase their capital amount by attracting more investment towards their banks. The national bank of Ethiopia and the commercial banks need to bring about a change in compiling required information related with the foreign exchange performance through their bureaux of foreign exchange transaction. Further research can be done on what other external factors affect commercial banks foreign exchange transaction performance.

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