

# **THE EFFECT OF EXCHANGE RATE FLUCTUATIONS ON BANK PROFITABILITY IN ZIMBABWE**

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## **Abstract**

The economic well-being of any economy is based on the effective functioning of the financial sector, however the profitability of banks is based mainly upon their intermediation duty in the financial system, which exposes banks to various risks. In Zimbabwe, banks are exposed to exchange rate risks due to the continual weakening of the Zimbabwean currency. The general objective of this study was to determine the effects of exchange rate fluctuations on banks' profitability. The study sample included 13 commercial banks and 1 savings bank in Zimbabwe for the period 2016 to 2021. Panel data was analyzed using E-views package. The research established a significant negative relationship between exchange rates and banks profitability that is the depreciation of the Zimbabwean currency has a negative significant relationship with bank profitability. The study further concluded that deposit to assets ratio has a negative significant relationship with bank profitability. Economic growth represented by (GDP) had a positive significant relationship whilst inflation had a negative significant relationship with bank profitability. These results were consistent with literature. Implementation of exchange rate risk hedging policies is recommended for the central bank and banks. Banks are recommended to employ robust liquidity management techniques and good corporate governance because diseconomies of the scale were found to exist.