

Determinants of Commercial Bank Profitability from Prior- to Post-Hyperinflation: Evidence from Zimbabwe

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ABSTRACT The main objective of this study was to find out the relationship between liquid assets and profitability of commercial banks in Zimbabwe. Specific objectives were to ascertain how the level of risk associated with liquid assets relates to commercial bank profitability, to determine the impact of working capital on profitability and to find out the extent to which bank capitalisation influences commercial bank profits. A quantitative correlation approach was adopted for the study in which testable hypotheses were formulated based on literature review findings. Eight years historical financial statements data relating to two periods; 2005 to 2008 and 2009 to 2012 was collected from selected commercial banks in Zimbabwe. The study found that working capital was weakly related to profitability, while capitalisation strongly influenced commercial bank profitability. An inverse relationship was found between the ratio of loans to deposits and commercial bank profitability. It was therefore concluded that the composition of current assets strongly influences commercial bank profitability. This study recommends that RBZ should monitor the capitalisation levels of commercial banks and create policies to ensure growth and commercial banks should monitor the structure or composition of current assets in order to ensure profitability.