

## Effect of Trade Openness on the Profitability Commercial Banks in Nigeria

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### Abstract

*The study examines the effect of trade openness on Commercial banks profitability in Nigeria using time series data for the period of 16 years (1990 to 2015). In view of the inconclusive findings on the determinants of bank profitability among researchers, the study specifically sought to determine the effect of trade openness (TRO), interest rate (INTR) and real exchange rate (RER) on bank profitability in Nigeria with Profit Before Tax (PBT) as proxy for dependent variable respectively. Data for the study was obtained from the various issues of CBN statistical bulletin and annual reports and financial statements. The study used autoregressive distributed lag production function transformed into natural logarithm. This study employed ARDL to establish the relationship between trade openness and bank profitability. The results indicated that trade openness (TRO), exchange rate and inflation rate) have insignificant effect on bank profitability in Nigeria with coefficient values of 71800289, 168734.9 and 940925.1 respectively. The study concluded that trade openness does not affect commercial banks profitability in Nigeria. In view of this, it is clear that internal factors which relate to bank management significantly determine bank profitability in Nigeria. The study recommends that commercial banks should adopt policies that enhance managerial efficiency for higher profits to be realized.*

**Keywords:** Trade Openness, Commercial Banks Profitability, Information Technology and International Migration

### 1.0 Introduction

Economic openness appears a multi-dimensional concept without a single definition of the process. This is due to an interrelated process that advocates improvement in the quantity and quality of transactions between countries of the world (Aigheyisi and Edore, 2014). Some of these dimensions are related to the mobilization of savings, credit granting, investments and risk management. Thus the degree of the development of the economic system in any country is measured by its ability to deliver these functions efficiently. An open economy interacts with other economies of the world through the channels of trade, finance, information technology and international migration. The degree of openness of an economy determines to a large extent the volume of trade between the country and the rest of the world (Dominte, 2006). It also determines the intensity of flow of capital and information between the countries and the outside world, and the rate of international migration. The effect of economic openness on commercial banks profitability has been the subject of intense debate in recent times. While the proponents of neo-liberal economic policies argue that openness is key to rapid financial sector development, and that more open economies tend to experience faster financial freedom than the less open economies, the opponents are of the view that economic openness has tended to retard the growth financial sector of most less developed countries since they embraced neo-liberal economic policies.

Economic openness has pervasive effect on the profitability of banks of a country's economy, as virtually all sectors (fully or partially liberalized and deregulated) are affected by it. The effect on any given sector is either beneficial, detrimental or insignificant, depending on the level of development, or the strength of the sector. This paper was undertaken to investigate the effect of trade openness on the profitability of banks in Nigeria, focusing on the commercial banks. Commercial banks are key players in the money market and by extension, the financial system of an economy. They are seen as engine of growth of all economies in view of their intermediation role (mobilizing funds from the surplus unit for the benefit of the deficit unit of the economy). They therefore play crucial roles in the financing of economic growth. Commercial banks perform numerous functions, all targeted toward economic progress and development. The ability of the commercial banks to perform their functions is affected (positively or negatively) by multiplicity of factors, some of which are bank-specific and others, non- bank specific. The bank specific factors include *inter alia* bank liquidity, capital base, bank size amongst others, while the non-bank factors affecting the performance of the commercial banks include the macroeconomic and microeconomic factors such as inflation, trade and financial openness, monetary and fiscal policies, demand for bank loans by firms.

The ability of commercial banks to play their ascribed roles in the process of nation building depends to a very large extent on their profitability, i.e., how well they are able to generate impressive returns on their assets, capital and

shareholders' equity investment. A commercial bank whose profit is downsizing may eventually become distressed, and an economy with many of such banks is bound to retrogress, whereas as observed by Athanasoglou, Brissimis and Delis (2005) cited in Alper and Anbar (2011), an economy with profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system as well as economic growth and development.

Though several empirical researches have been conducted to investigate the effect of various economic variables on commercial banks' profitability or performance, none have addressed the effect of trade openness on commercial banks' profitability in Nigeria. This paper represents the first attempt on the investigation of the effect of trade openness on commercial banks profitability in Nigeria, following the consolidation exercise that marked the recapitalization of the banks which was directed at stepping up banks capital base to minimum of N25 billion from minimum of N2 billion. This exercise left the country with 25 commercial banks, as against 89 pre-consolidation number of banks (Donwa and Odia, 2011).

## 2.0 Literature Review

International organizations such as the World Bank, International Monetary Fund (IMF), the World Trade Organization (WTO), advocate opening up of the economy of developing countries to pave way for entry of new competitors (foreign industries) to bring about lower transaction cost and strengthen the countries' financial system (Penido de Freitas and Prates, 2000; Stichele, 2004). This is particularly true in economies where there is credit crunch, and a large number of the commercial banks have to borrow from the central banks to boost their lending strength. The rates at which they lend depends on the bank rate, and in most cases where the bank rate is high, the lending rate will also be high *vice versa*. This is where foreign financial institutions which are independent on loans from the central bank of the countries in which they operate, come in. Since they are funded by the parent banks based in the highly industrialized countries, they are able to lend at rates lower than that of their local counterparts. Liu (2005) observes that the liberalization of trade in financial services under the WTO promotes bank loans to developing economies, though not evenly, depending on country characteristics. It has been predicted that under conditions of full openness, "financial sectors in developing countries which are relatively capital poor by global standards should be swamped by foreign capital" (Pepinsky 2009).

However, strong banks in developing countries could take advantage of trade openness (or trade globalization) to enhance their profitability by establishing offices or branches in other countries, particularly the fast growing market economies to provide innovative financial products and services where they are needed. Trade openness implies trade liberalization, and full liberalization of the industrial sector which connotes free movement of capital in and out of an economy without any restrictions. This suggests that a nation's industrial system is opened up to international competition when it is fully opened or liberalized. For an ill-prepared economy such as those of the underdeveloped or developing world, trade liberalization could have adverse effect on the financial sector and hence, on economic growth (Aigheyisi, 2003). The adverse effect of full scale liberalization of the capital account occurs through several channels or mechanisms. One of such channels is the channel of capital flight which could adversely affect the availability of investible funds, driving up lending interest rates or cost of capital, as the demand for capital exceeds its supply, creating disincentives for investors to borrow and reducing commercial banks profit as their net interest margins (NIM, calculated as the difference between interest income and interest expenses such as those paid on deposits divided by interest bearing asset, and multiplied by 100% to express the NIM in percentage), which is also a measure of profitability, nosedive. Another channel through which trade liberalization affect the financial sector is through direct investment of foreign banks headquartered in developed countries, in a developing or emerging market economy.

The parent bank based in the foreign (developed) country is responsible for a large percentage of the funding/financing of the operations of its branches or subsidiaries in the developing world. According to Classens *et al.*, (2001); Clarke *et al.*, (2001), as cited in Pepinsky, (2009), the foreign banks operating in developing countries are able to outcompete their domestic counterparts by offering lower interest rate on loans, higher deposit interest rate to depositors thereby mobilizing more fund from large depositors and earning more profits than their domestic counterparts, whose profit levels will likely decline. They are also able to outcompete their local counterparts and expand their customer deposits by introducing attractive new banking products which the domestic banks are unable to develop. A further mechanism is equity participation (through foreign portfolio investment, FPI) of foreign investors in local firms (banks and non-banks) which reduces their demand for commercial banks' loans and advances, consequently shrinking the banks interest income.

## 2.1 Empirical Review

Athanasoglou *et al* (2006) examined the profitability behaviour of bank-specific, industry related and macroeconomic determinants, using an unbalanced panel dataset of South Eastern European (SEE) credit institutions over the period 1998-2002. The estimation results indicated that the picture regarding the macroeconomic determinants was mixed. Inflation positively and significantly affects profitability. Ongore (2013) Studied moderating effect of ownership structure on bank performance by use of linear multiple regression model and Generalized Least Square on panel data of commercial banks in Kenya to estimate the parameters. The findings showed that GDP had an insignificant -0.046 correlation coefficient with ROA, inflation had significant negative relationship with financial performance of commercial banks in Kenya. It had - 0.055 coefficients of parameters with ROA.

Constantinos & Sofoklis (2009) investigated the effects of bank-specific and macroeconomic determinants of bank profitability, using a panel data approach of six Greek banks. The inflation rate appeared to have a positive but slight effect on bank profitability. Other macroeconomic variables investigated, such as GDP, were found to be highly insignificant. Otuori (2013) by investigating the Influence of exchange rate determinants on the performance of commercial banks in Kenya sought to determine the relationship between inflation rate and bank profitability in Kenya. The study found that inflation rate had a negative and significant effect on bank profitability. This effect was significant at 5% level of confidence. Ramadan et al, (2011) investigating the nature of the relationship between the profitability of banks and the characteristics of internal and external factors using a panel data set of banks in Jordan. For this purpose 100 observation of 10 banks over the period 2001-2010 were comprised. Results associated with the macro-economic determinants; inflation (INF) and economic growth (RGDP) showed a positive insignificant impact on return on assets.

Another study by Alexiou and Sofoklis (2009) identified bank-specific and macroeconomic factors explaining the bank profitability in Greek over the period 2000 – 2007. The paper suggested that bank-specific factors such as size, credit risk, bank productivity, efficiency and liquidity are the main factors affecting bank profitability, whereas macroeconomic variables such as GDP, private consumption and inflation have an ambiguous and weak influence on bank's profitability. Using Johansen-Juselius cointegration test, Acaravci and Çalim (2013) addressed the bank specific and macroeconomic factors that affect the profitability of Turkish commercial banks over the period 1998 to 2011. This study also confirmed that bank specific determinants seem to be more effective than macroeconomic factors on banks' profitability. On the other hand, Kosmidou *et al.*, (2007) reached to different results when they examined the determinants of profits of Greek banks operating abroad in 11 nations. Their results indicated that the profitability of the parent bank and the experience of branches of these banks in host countries have a robust and positive effect on the profitability of these branches, whereas domestic financial factors, bank-specific factors and market specific factors were all insignificant in explaining the profitability of these subsidiaries. Ćurak *et al.*, (2012) using a data set of 16 banks in the Macedonia showed that both internal and external factors have a significant role in determining bank profitability. They found that internal factors such as operating expense management, solvency risk and liquidity risk, as well as external factors such as economic growth, banking system reform and concentration explained the variation of bank profitability in Macedonia.

In an attempt to examine the effect of deposit dollarization as well as macroeconomic, financial and institutional variables on bank profitability, Kutan et al (2012) used a large sample of emerging market economies and illustrated that deposit dollarization has a negative impact on bank's profitability, whereas interest rate and economic growth seem to have a positive and significant effect on bank profitability. Findings of this paper also indicated that countries with strong institutions offset the negative impact of dollarization on profitability of their banks. Jasmine (2011) found out the profitability determinants of commercial banks in Malaysia after the 2008 financial crisis. 8 commercial banks were chosen to represent the commercial banks in Malaysia during the time line from 2004 till 2010. ROA was chosen as a dependent variable to estimate the commercial bank's profit, and 10 independent variables which are base lending rate, gross domestic production, inflation rate, capital adequacy ratio, total income, expenses management, interest coverage, total loans, total deposits, and bank size. It was found that base lending rate is a significant variable while inflation rate was insignificant in determining the profitability of commercial banks in Malaysia. Flamini *et al.*,(2009) in their study on the determinants of commercial bank profitability in Sub-Saharan Africa established that Macroeconomic variables significantly affect bank profitability in Africa. In particular, inflation had a positive effect on bank profits; output growth had a significant positive impact on bank profitability. Li (2009) investigated the impact bank's specific factors and macroeconomic factors on banks profitability, which is measured by return on average assets (ROAA) in the UK banking industry over the period

1999-2006. The results indicated that macroeconomic variables (real GDP and inflation) had insignificant effect which indicated that macroeconomic factors have little impact on profitability of banks.

Zhang and Dong (2011) analyzed the profitability of the U.S banking sector over the period from 2000 – 2008 using OLS. Their profitability determinants included bank-specific characteristic as well as macroeconomic factors. They found that the macroeconomic factors of GDP and interest rate change were significant in explain bank profits. Babazadeh & Farrokhnejad (2012) examined the effects of foreign exchange changes on Banks' operations and profits by applying Error Correction Model (ECM) on one of the commercial banks in Iran for the period of five years from 2006 to 2010. The results explain that exchange rate was significant determinant of Trade Openness and Commercial Banks' Profitability. The extent to which trade openness affects the profitability of commercial banks depends on the degree of openness of the economy, the volume of trade between the country and other countries, the extent to which international traders (importers and exporters) depend on, or make use of loan facilities from the commercial banks for trade finance, and the extent to which the commercial banks engage in merchant banking and trade finance, amongst others. Not much research has been conducted to investigate the effect of trade openness on commercial banks' profitability, and consequently the literature on the effect of trade openness on the profitability of commercial bank is still very lean. It is hoped that this research will contribute significantly to expanding the extant literature. However, in a study to investigate the role of openness in bank efficiency with respect to income levels of selected African countries, Asongu (2012), using the fixed effect panel data analysis of 29 low and middle income countries in the continent finds that trade and financial openness breeds less efficiency in low income countries. While financial openness has same effect in the middle income countries, the effect of trade openness on bank efficiency in the (middle income) countries is statistically insignificant.

## 2.2 Inflation and Commercial Banks' Profitability

While some empirical investigations observe positive relationship between the variables, others observe negative relationship, and yet others observe no significant relationship. Empirical work by Tan and Floros (2012) to investigate the effect of inflation on bank profitability in China using a panel of 101 banks comprising 5 state-owned banks, 12 joint stock commercial banks and 84 city commercial banks, and employing the two-steps generalized method of moments (GMM) reveals that in the period 2003 to 2009 inflation was positively related to bank profitability and cost efficiency. The study further finds a positive relationship between inflation and banking sector development as well as stock market development. Similarly, in a study to investigate the factors explaining low profitability of Chinese banks in the period 1997-2004, Garcia-Herrero, Gavila and Santabarbara (2009) find that inflation positively affects banks' profitability measured as pre-provision profit over assets and pre-tax return on asset (ROA). Empirical research by Flamini, McDonald and Schumacher (2009) employs the two-step Generalized Method of Moment to investigate the determinants of commercial bank profitability in sub-Saharan Africa (SSA) in mid 2000s using a sample of 389 banks in 41 SSA countries and finds amongst others that inflation has a positive effect on banks profit, suggesting that banks forecast future changes in inflation correctly and promptly enough to adjust interest rates and margins.

However, Munyambonera (2011) investigates some of the key determinants of commercial banks profitability in sub-Saharan Africa using an unbalance panel data set of 224 commercial banks from 42 countries for the period 1999 to 2006, and employing the random effect estimator. The analysis shows a negative, but statistically insignificant relationship between inflation and banks profitability. Naceur (2003) investigates the determinants of Tunisian banking industry profitability in the period 1980 to 2000 using the fixed effect panel data regression, and finds that inflation has no impact on banks interest margin and profitability. Similarly, Alper and Anbar (2011) examine the bank-specific and macroeconomic determinants of profitability of banks in Turkey in the period 2002 to 2010 using fixed effect panel data model selected based on the Hausman test on a balanced panel dataset of ten(10) commercial banks, and find *inter alia* that inflation (measured as percentage change in consumer price index) exhibits statistically insignificant effect on bank profitability measured as return on asset (ROA) and return on equity (ROE). However, Abdelaziz, Mouldi and Helmi (2011) find a significant negative effect of inflation on bank profitability in the country (Tunisia) from the random effect panel data analysis of a sample of nine Tunisian banks in the period 1980 to 2009.

Santoni (1986) observes that unanticipated inflation which is the difference between realized inflation and anticipated inflation) causes the real value of a bank to fall, and because banks are typically net creditors in nominal instruments, bank owners lose wealth when there is unanticipated inflation. He also observes that increase in anticipated inflation affects banks in a way that is quantitatively similar to unanticipated inflation because both represent a mis-guess about inflation. Boyd and Champ (2003) investigates the effect of inflation on financial

market performance, and find that inflation is negatively associated with banking industry size, real returns on financial assets and bank profitability. It is also observed that that a positive relationship exists between volatility of asset return and inflation.

### 2.3 Summary and Gap in Literature

From the studies reviewed, it is evident that several research works on the determinants of bank profitability in various parts of the world have been carried out. However, the short coming of these reviews is that most of them have relied on panel data set which gives generalized overview as opposed to bank specific characteristic. Further from the studies the effect of macroeconomic factors on bank profitability is inconclusive with some researchers finding insignificant effect while others establishing significant influence. This study bridges this gap by the use of annual (time series) data involving all the commercial Banks in Nigeria to establish commercial banks profitability determinants.

### 3.0 Methodology

Since this study is set to examine the effect of trade openness on the profitability of commercial banks in Nigeria, the suitable technique to adopt is *ex-post-facto* because the data for analysis was drawn from the secondary source. Consequently, the study employed the ARDL approach for the cointegration analysis and Representation Theorem for the error correction. This was however, preceded by the unit root test using the Augmented Dickey Fuller (ADF) Approach. The time series data used for the analysis comprising of profit before tax (PBT), trade openness (TRO), interest rate (INTR), and exchange rate, was extracted from various issues of the CBN statistical bulletin as well as the annual report. The estimation period covers a period 25 years from 1990 to 2015. 2015, has been selected as the cut off year because of availability of usable data.

Following that the objective of this study is to determine the effect of trade openness on commercial banks profitability in Nigerian economy, the study adopts the Solow growth model as specified below;

$$Y = AK_t^\alpha L_t^\beta \dots\dots\dots (1)$$

Where  $Y$  is commercial banks profitability measured by profit before tax,  $A$  is the total factor productivity or the Solow Residual,  $K$  is trade openness, and  $L$ , market force.  $\alpha$  and  $\beta$  are the elasticities. It is important to note that  $\alpha$  is not fixed, but varies with different production functions based on the factors being studied. This production function is widely used in the literature; including Fosu (1990), and Fosu and Aryeetey (2008). Apart from the traditional input of production, the model also assumes other conventional inputs. However, owing to the availability of data and following Omisakin (2008) and Abwaku, Omolara, Toyin and Fatima (2010), the study examined the following variables of interest resulting in:

$$PBT = F(TRO, INTR, RER,) \dots\dots\dots (2)$$

The econometric form of the equation above is stated thus:

$$\text{LogPBT} = \beta_0 + \beta_1 \text{logTRO}_t + \beta_2 \text{logINTR}_t + \beta_3 \text{logERE}_t + \mu_i \dots\dots\dots (3)$$

Where;

PBT = Profit before tax

TRO = Trade openness

INTR = Interest rate

RER = Real exchange rate

Log = Natural log

t = Time/period of study

$\beta_0, \beta_1, \beta_2, \beta_3, \dots \beta_n$  parameter estimate of the independent variables

$\mu$  = stochastic variable measuring unexplained variations.



#### 4.0 Results and Discussion

##### 4.1 Unit Root Test

The Dickey-Fuller test is used to determine if a variable is stationary. To remedy the problem of autocorrelation in the basic DF test, the test can be augmented by adding various lagged dependent variables. This would produce the following test:

$$\Delta y_t = (p-1)y_{t-1} + \alpha_i \sum_{k=0}^n \Delta y_{t-k} + \mu_t \dots\dots\dots (4)$$

The correct value for *n* (number of lags) can be determined by reference to a commonly produced information criteria such as the Akaike criteria or Schwarz-Bayesian criteria. The aim is to maximize the amount of information. The ADF test can also include a drift (constant) and time trend.

**Table 1**

Variable	ADF Values		Order of Acceptance
	Level I(0)	First difference I(1)	
Profit before tax.	1.311009	-6.188785	I(1)
Trade openness	-3.514400	-6.833009	I(1)
Real exchange rate	-0.895821	-4.214185	I(1)
Interest rate	-3.758914	-6.243243	I(0)
Critical values: 1%	-3.424070	-3.737853	
5%	-2.986225	-2.991878	
10%	-2.632604	-2.635542	

Source: E-views Output

While profit before tax, trade openness and real exchange rate were all stationary at I(1), lending interest rate was stationary at order zero (I(0)). The event of mixed order of integration in the unit root results necessitated the applications of the ARDL approach to cointegration.

##### 4.2 Pesaran ARDL Bounds Testing (Cointegration) Model

In contrast to the traditional Engle-Granger approach and Johansen cointegration approach which are widely applied in the empirical literature, the Pesaran *et al.* (2001) approach has gained researchers interest in recent times.

$$DY_t = \alpha_0 + \alpha_1 \text{time} + \sum_{j=1}^n b_j DY_{1t-j} + \sum_{j=1}^n d_j DX_{u-i} + g_1 Y_{1t-1} + g_2 X_{1t-1} + \mu \dots\dots\dots (5)$$

An unrestricted error correction model (UECM) is constructed to test for the existence of a long-run relationship in equation 5, where Y is the dependent variable (profit before tax), the X is the independent variable (trade openness) and all variables in logarithm, K is the number of lags, and D represents the differences. The intercept and time trend may be added based on the empirical results in equation 5.

**Table 2: Co-integration Test Results**

Variable	Cointegrating Form			
	Coefficient	Std. Error	t-Statistic	Prob.
D(TRO)	71800289.37	54191448.41	0.000000	0.0000
D(RER)	168734.9092	97055.962	1.738532	0.0975
D(INTR)	940925.116	1099761.44	0.000000	0.0000
<b>CoIntEq(-1)</b>	<b>-0.318884</b>	<b>0.185620</b>	<b>-1.717944</b>	<b>0.0013</b>
Variable	Long Run Coefficients			
	Coefficient	Std. Error	t-Statistic	Prob.
TRO	225160823.7	224252724.61	1.004049	0.3273
RER	529141.198	265138.019	1.995720	0.0598
INTR	2950677.16	4239924.0196	0.695927	0.4945
C	-125532792.2	178995270.41	-0.701319	0.4912

Following Stevenson (1988), commercial banks profitability is examined for the cointegration analysis. This is justified on the basis that the purpose of the cointegration analysis is to test for existence of a long-run relationship, and therefore it is legitimate to assume that actual and expected rates of changes in profit level are equal. The maximum number of lags is 2 due to the limited sample size. The ARDL cointegration results are consistent with Anari and Kolari (2002) but contradict to Zhou and Clementa (2010). Alternatively, if the causal relationship is assumed to run from trade openness to commercial banks profitability, the results of F- and t-statistics in Table 2 indicate the cointegration results are rather mixed. It indicates that trade openness and inflation rate are cointegrated with commercial banks profit before tax but the real exchange rate is not cointegrated with commercial banks profit before tax at the 95% level. The study moves further to present the regression result of the effect of trade openness on commercial banks profitability in table 3 below

**Table 3 Regression Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PBT(-1)	0.681116	0.185620	3.669412	0.0015***
TRO	71800289	54191448	1.324938	0.2001
RER	168734.9	97055.96	1.738532	0.0975*
INTR	940925.1	1099761.	0.855572	0.4024
C	-40030458	44388069	-0.901829	0.3779
R-squared	0.682894			
Adjusted R-squared	0.619473			
F-statistic	10.76761***			
Prob(F-statistic)	0.000080			
Durbin-Watson stat	1.595953			

Author's computation using E-view 9.0. \*\*\* and \* stand for 1% and 10% levels of significance respectively.

In order to answer the research objectives, the study employed multiple regression analysis using ARDL. The objective of this study was to determine the effect of trade openness on commercial banks profitability in Nigeria. The results in table 3 indicate that trade openness (TRO) has an insignificant positive effect on bank profitability. This study therefore does not reject the null hypothesis that trade openness (TRO) does not affect bank profitability in Nigeria with commercial banks in focus. our finding of insignificant positive relationship between bank profitability (PBT) and trade openness (TRO) in Nigeria is consistent with the findings of Rao & Lakew (2012), Ramadan *et al.*, (2011), Ongore (2013).

The coefficient of determination ( $R^2$ ) value of 0.682894 explains the proportion of variation in the dependent variable jointly accounted for by the explanatory variables included in the model while the unexplained variation (1-0.682894) was due to error term. F-Statistic of 10.76761 indicated that the macroeconomic variables jointly have an insignificant effect at 5% level of significance on bank profitability in Nigeria with commercial banks in focus. In summary, the regression and cointegration results suggest that the trade openness and inflation rate are providing a better short-term and long-term hedge than real exchange rate against profit before tax of commercial banks in Nigeria.

## 5.0 Summary and Conclusions

This study investigated the effect of trade openness on bank profitability in Nigeria with commercial banks in focus. In view of the inconclusive findings on the effect of trade openness on bank profitability among researchers, the study was to establish the effect of trade openness on bank profitability in Nigeria with commercial banks in focus. The study specifically sought to determine, establish and examine the effect of; trade openness (TRO), inflation and exchange rate on bank profitability in Nigeria respectively using annual data for the period of 16 years spanning from 1990 to 2015. The effect of trade openness on bank profitability in Nigeria with commercial banks in focus was examined using multiple regression analysis.

The ARDL (autoregressive distributed lag approach) results show that trade openness have insignificant effect on bank profitability in Nigeria with commercial banks in focus. Specifically; trade openness (TRO) and inflation have a positive insignificant effect whereas exchange rate has a positive significant effect at 5 % level. These results are consistent with the findings of Rao & Lakew (2012), Roman, & Tomuleasa (2013), Ongore (2013). It can therefore be concluded that internal factors which are basically influenced by the internal decisions of management and board determine the performance of banks in Nigeria. It is therefore prudent for the bank management as Ongore (2013) argued to enhance managerial efficiency that will lead to higher performance.

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