

A Flow-of-Funds Model of Portfolio Behaviour of Nigerian Commercial Banks.

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Abstract:

Commercial banks use funds at their disposal to finance cash holding in various forms and investments in various securities and to grant various loans and advances. The study investigates the factors that determine the amount of funds used in each of the above ways. Commercial banks also sometimes consciously borrow in order to expand their asset holdings. The study also investigates their borrowing behaviour.

A knowledge of the determinants of the sources-and uses-of-funds behaviour of commercial banks is very useful in formulating and executing monetary policy. Using a flow-of-funds framework of analysis employing quarterly data for Nigerian Commercial banks from the beginning of 1967 to the end of 1981, we find that the amount and the mix of deposit inflows and the inflow of other miscellaneous funds are used as substitutes to borrowing and in financing holdings of various assets except loans and advances which do not appear to be financed by deposit inflows.

We also find that commercial bank sources and uses-of-funds behaviour is sensitive to various credit guidelines issued by the Central Bank, that seasonal factors affect the mix of assets held and the mix of liabilities issued just as the rates of return on each asset type and the borrowing costs. In addition, uncertainty about deposit flows increase their cash holding while the actual holdings of each asset and liability are determined by the gap between the existing and desired holdings.

Keywords: Flow-of-funds model/ Commercial banks/ monetary policy/ portfolio behaviour

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