

THE PORTFOLIO BEHAVIOUR OF COMMERCIAL BANKS IN NIGERIA

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I. INTRODUCTION

An attempt is made in this paper to examine the portfolio behaviour of commercial banks in Nigeria. This study may be justified on two main grounds. First, it is generally accepted that the total money stock is the result of portfolio shifts of the commercial bank and the non-bank public in response to central bank action. In this type of portfolio framework, the Central bank's capability of altering the composition of its portfolio depends on the willingness of the other two sectors to absorb part or all of the released assets into their portfolios. The potency of the Central bank's power in affecting the money supply depends very crucially on the extent to and the mechanism by which the banks as well as the non-bank public absorb changes in securities into their portfolios. It is possible that the commercial banks may behave in a way that is inconsistent with the policies of the Central bank. An understanding of the dynamics of the portfolio behaviour of the banks is important since the speed at which they reach equilibrium (given the dynamic adjustment of the non-bank public) determines the length of time it takes monetary policy to affect the economy. An understanding of the response pattern of the commercial banks should increase not only the efficacy but also the social efficiency of monetary policy.

Secondly, only a limited number of assets are available to commercial banks in Nigeria as opposed to their counterparts in Britain, United States and Canada. An Analysis of the causes of variation in the composition of bank's portfolio is of great interest not only from an academic point of view but from the point of view of the operation of monetary policy.

The outline of the rest of the paper is as follows :

In Section II, we present the general framework of the stock adjustment model and the special features of the empirical work. The assets of the commercial banks are considered in Section III. Section IV is a summary of the asset demand regressions. The conclusions and implication of the work is the theme of Section V.

II. THE GENERAL FRAMEWORK

(1) In the formulations developed, we have allowed for the possibility that the actual holdings of an asset do not necessarily equal